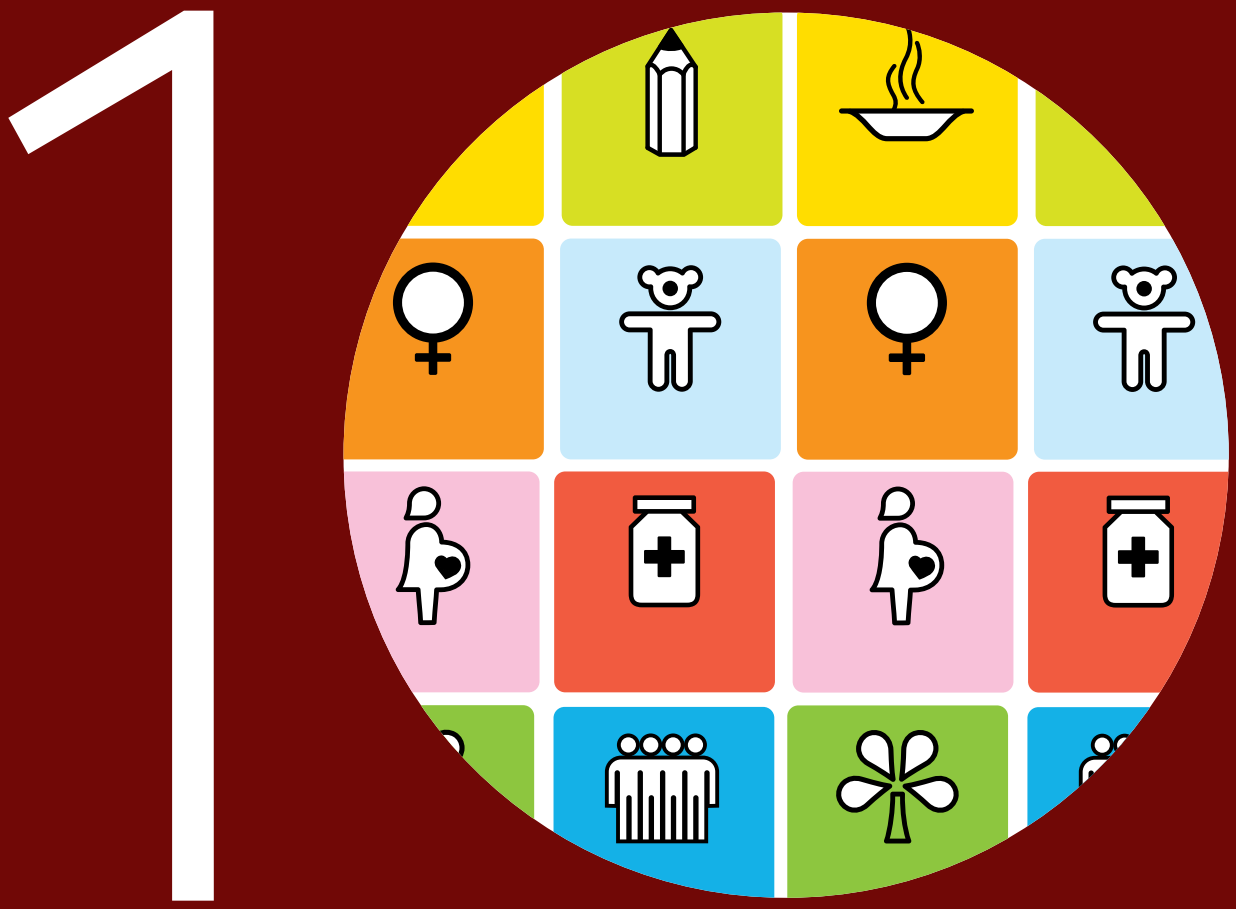
Supplement to the 2010 Annual Statistical Report on United Nations Procurement

Procurement and the Millennium Development Goals



- A collection of articles on using procurement to advance the Millennium Development Goals with a lead article by Professor Jeffrey Sachs
- An overview of current debates on procurement and development
- Case studies, theories and best practice from Afghanistan, Brazil, China and Madagascar

Supplement to the 2010 Annual Statistical Report on United Nations Procurement

UNOPS would like to acknowledge the contribution of the various authors to the Supplement to the 2010 Annual Statistical Report on United Nations Procurement. The views expressed in this publication are not necessarily shared by each of the authors. Furthermore, the views expressed in this publication are those of the authors and do not necessarily reflect those of the United Nations.

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The Millennium Development Goal icons are courtesy of UNDP.

Foreword

The United Nations has a founding mission to raise living standards and promote development worldwide. The preamble of the United Nations Charter calls for the Organization "to employ international machinery for the promotion of the economic and social advancement of all peoples."

This timeless duty has taken concrete shape in recent years in the form of the Millennium Development Goals (MDGs), our collective pledge to meet the needs of the world's poorest and most vulnerable people.

While there has been great progress toward reaching the MDGs, millions of people still suffer from poverty, hunger and disease. They urgently need our help.

Our responsibility to promote development must be an element of all of our core activities.

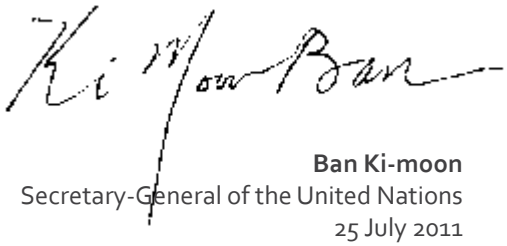
This includes procurement, which can harness the power of the supply chain to improve people's lives.

Through well-designed procurement systems, governments and the international community can deliver life-saving medicines, foster economic development and uplift individuals and families.

The United Nations bought $14.5 billion worth of goods and services last year. This enormous purchasing power can exert a positive influence on economic systems to the benefit of people.

This publication describes a wealth of initiatives that can spur deeper thinking on the role of procurement in meeting development goals. I commend readers to use this volume as a launching point for future action.

Secretary-General Ban Ki-moon speaks at the first meeting of the Millennium Development Goals (MDG) Advocacy Group in Madrid, Spain. ***Photo:*** UN Photo/Jean-Marc Ferré



Ban Ki-moon
Secretary-General of the United Nations
25 July 2011

Table of contents

Lead article by Jeffrey Sachs
Public administration and the challenge of sustainable development 2

Background: Millennium Development Goals 5

Goal 1
Market alternatives for smallholder farmers in food security initiatives:
lessons from the Brazilian food acquisition programme
(UNDP) 7

Goal 2
Logistics under pressure:
UNICEF's Back to School programme in Afghanistan
(UNICEF) 10

Goal 3
Empowering women through procurement when implementing aid projects
(UNOPS) 13

Goal 4
Non-profit organizations shaping the market of supplies
(Lund University/Hanken School of Economics) 16

Goal 5
Analysis of the operational barriers related to financing and procuring contraceptives in Madagascar
(USAID) 19

Goal 6
The Global Drug Facility:
a unique, holistic and pioneering approach to drug procurement and management
(WHO) 22

Goal 7
China's green public procurement programme:
issues and challenges in its implementation
(Missouri State University/Renmin University) 25

Goal 8 — Two views on the Agreement on Government Procurement
Examining discriminatory procurement practices in developing countries
(Kyambogo University) 28

Public procurement as an industrial policy tool:
an option for developing countries?
(Tallinn University of Technology) 31

Lead article by Jeffrey Sachs

Public administration and the challenge of sustainable development

Professor Jeffrey D. Sachs is Director of the Earth Institute at Columbia University and Special Advisor to United Nations Secretary General Ban Ki-Moon on the Millennium Development Goals.

From 2002 to 2006, he was Director of the UN Millennium Project and Special Advisor to United Nations Secretary-General Kofi Annan. Sachs is also President and Co-Founder of Millennium Promise Alliance, a non-profit organization aimed at ending extreme global poverty.

He is widely considered to be the leading international economic advisor of his generation. For more than 20 years Professor Sachs has been in the forefront of the challenges of economic development, poverty alleviation, and enlightened globalization, promoting policies to help all parts of the world to benefit from expanding economic opportunities and well-being. ***Photo:*** Wade Martzall

This is an exciting time for public administration. With regard to one great global challenge after another – the control of diseases such as AIDS, TB, and malaria; the increase of food production by smallholders; environmental protection through sustainable ('green') technologies – rapid technological advances are making possible dramatic breakthroughs that could not be envisioned just a few years ago.

When highly effective technologies are available, the focus shifts to delivery systems. We need effective public administration, including public procurement, to ensure that the new technologies are scaled up rapidly, transparently and fairly, so that they reach all who need them, including the poorest of the poor.

Achieving the Millennium Development Goals can be described as a massive public investment effort backed by effective public administration. This is not to say that the fight against poverty, hunger, and disease is the work of the public sector alone. The private sector is a critical partner, even a critical leader, at every juncture. It is to say, however, that when it comes to the challenges of sustainable development – fighting poverty, disease, and hunger while protecting the environment – market forces alone will never be sufficient. The public sector is needed to mobilize financial and human resources, protect the commons, and address the needs of the poorest of the poor, the segment of society that markets tend to overlook and underserve.

Since the adoption of the Millennium Development Goals in 2000, the cutting-edge technologies at our disposal have multiplied beyond expectation. AIDS medicines are less costly and more effective than ever. Rapid diagnostic tests (RDTs) allow for the diagnosis and treatment of malaria in the community rather than at overstretched clinics, while long-lasting insecticide treated bed nets (LLINs) offer effective, low-cost prevention against transmission of the disease. Wireless broadband networks are spreading everywhere, even in the poorest regions, enabling real-time internet connectivity with markets, loved ones and government. Solar and wind power, often in abundance in poor regions, have continued to fall in price, bringing electrification in reach of more and more of the world's population.

Consider, for example, the great challenge of saving the 8 million or so children worldwide that die each year under the age of five. Almost all of these deaths are preventable or treatable given current diagnostic, preventative, and therapeutic technologies, such as bed nets, vaccines and antibiotics. Yet these public health services do not reach

Jeffrey Sachs is internationally renowned for his work with international agencies on problems of poverty reduction, debt cancellation for the poorest countries and disease control.
Photo: The Earth Institute, Columbia University

enough of the poor, and children continue to die in large numbers. Public administration is essential, to finance, procure and deliver these life-saving services. The key question becomes how governments can mobilize resources, partner with non-governmental organizations, manage procurement and logistics operations, and interact with local communities?

These are daunting challenges for public administration, yet the excellent news is that public administration itself is enjoying a dramatic advance in technology. Governments and multilateral agencies are learning new methods for public planning, procurement, and monitoring and evaluation; exchanging best practices more rapidly; and especially, building upon the revolutions in information and communications technologies (ICTs). A public agency with the right leadership, staffing, financing and strategies, can accomplish complex tasks more rapidly and comprehensively than ever before – and the information and results of programmes can be online and publicly available to assure maximum legitimacy and accountability to the citizenry.

The evidence of such improved public systems is widespread, though it is often overlooked by the cynics who have come to assume that all governments are hopelessly slow, bureaucratic, corrupt and behind the technology curve. Such pessimism or cynicism about the public sector is unwarranted in an age in which dozens of the world's poorest countries have successfully distributed hundreds of millions of anti-malaria bed nets, brought millions of poor, HIV-infected people on to anti-retroviral treatment, and scaled up access to improved seed varieties for improved agricultural productivity of impoverished smallholder farmers. The list of recent public-sector accomplishments is long and also includes: the eradication of rinderpest; the near elimination of polio, measles, and leprosy; the improvement of the genetics of pastoralist livestock through advanced breeding and artificial insemination programmes; the development of new drought-resistant and flood-resistant crop varieties and more. These advances are too little known. Because of budgetary limitations of poor countries and insufficient global foreign assistance, they are also far too little applied in the poorest countries of the world.

It is also true that too many government bureaucracies and international agencies are yet to modernize their systems of procurement, logistics, information dissemination, monitoring and evaluation. The advances in information technology allow governments to do things with remarkable speed, efficiency and transparency, but many governments are overlooking those possibilities, or are even resisting them to protect vested interests. With broadband networks, geographic information systems, satellite data and global positioning systems, smart phones, and other tools of the ICT revolution, it is now possible to provide far better early warning systems; more rapid responses to natural disasters; rapid and comprehensive mapping of public facilities such as clinics and schools; emergency response services for health emergencies; online public access to government services (such as land titles, birth certificates and the like); and the rapid scale-up of public services such as distance learning, telemedicine, phone-empowered community health workers; soil management advice for smallholder farmers and much more.

In this regard, I would like to mention one exemplary new programme in Nigeria in which the Earth Institute at Columbia University is excited and honoured to play a part. With Nigeria's return to democracy in the past decade, Nigeria's Federal Government has sought ways to empower local governments to provide effective public services in health, education, infrastructure and agriculture. The Office of the Senior Special Advisor to the President of Nigeria, led by the highly respected Ms Amina Az-Zubair, has pioneered a conditional grant scheme to local government areas (LGAs), to support the LGAs to achieve the Millennium Development Goals.

The public administration challenge of the programme is to support hundreds of local governments with federal funding in a manner that actually delivers public services effectively and accountably, in a country with a long history of weak public administration and pervasive corruption. The answer of course involves strong leadership and effective

Secretary-General Ban Ki-moon and his wife, Yoo Soon-taek, test a communal water pump at Mwandama Millennium Village, Malawi. The Millennium Villages are based on a single powerful idea: impoverished villages can transform themselves and meet the Millennium Development Goals if they are empowered with proven, powerful, practical technologies. ***Photo:*** UN Photo/Evan Schneider

programme design, but also involves the mobilization of cutting-edge ICT technology, which is being used for rapid mapping of the LGAs, identifying their priority needs, estimating their budget gaps, monitoring the flow of budget allocations from the federal to the local governments, and measuring the programme outcomes. This scale of programming would simply not have been possible in the era before Internet, satellite data and the public's widespread access to mobile phones and broadband.

Many of the case studies in this volume similarly exemplify creative strategies of public administration, and especially of public procurement systems, supported by more effective information systems. The Brazilian Zero Hunger programme has effectively combined food assistance to poor households with improved incentives for smallholder farmers. The Madagascar system for contraceptive delivery has achieved a rapid scale up and improved logistics, though further progress is expected. China has begun to use public procurement to speed the transition to sustainable energy systems.

These are fascinating case studies of the innovations in public service delivery to be found throughout the world. They will help to inform and inspire a new generation of young public managers to take up the challenges of sustainable development using the new advanced tools of this generation. The tasks of planning, budgeting, logistics, procurement, and monitoring and evaluation, may be the traditional challenges of public administration, but they are also at the cutting edge of solving the world's most urgent and daunting problems of sustainable development. I salute UNOPS for its long and effective leadership in international public management and for bringing together such an outstanding group of case studies.

Millennium Development Goals

The eight Millennium Development Goals (MDGs) – which range from halving extreme poverty to halting the spread of HIV/AIDS and providing universal primary education, all by the target date of 2015 – form a blueprint agreed to by all the world's countries and all the world's leading development institutions.

Eradicate extreme poverty and hunger

Targets

1. Halve, between 1990 and 2015, the proportion of people whose income is less than $1 a day
2. Achieve full and productive employment and decent work for all, including women and young people
3. Halve, between 1990 and 2015, the proportion of people who suffer from hunger

Achieve universal primary education

Target

1. Ensure that, by 2015, children everywhere, boys and girls alike, will be able to complete a full course of primary schooling

Promote gender equality and empower women

Target

1. Eliminate gender disparity in primary and secondary education, preferably by 2005, and in all levels of education, no later than 2015 (indicators include the share of women in wage employment in the non-agricultural sector)

Reduce child mortality

Target

1. Reduce by two thirds, between 1990 and 2015, the mortality rate of children under five

Improve maternal health

Targets

1. Reduce by three quarters, between 1990 and 2015, the maternal mortality ratio
2. Achieve, by 2015, universal access to reproductive health

Combat HIV/AIDS, malaria and other diseases

Targets

1. Halt and begin to reverse, by 2015, the spread of HIV/AIDS
2. Achieve, by 2010, universal access to treatment for HIV/AIDS for all those who need it
3. Halt and begin to reverse, by 2015, the incidence of malaria and other major diseases

Ensure environmental sustainability

Targets

1. Integrate the principles of sustainable development into country policies and programmes and reverse the loss of environmental resources
2. Reduce biodiversity loss, achieving, by 2010, a significant reduction in the rate of loss
3. Halve, by 2015, the proportion of the population without sustainable access to safe drinking water and basic sanitation
4. Achieve, by 2020, a significant improvement in the lives of at least 100 million slum dwellers

Develop a global partnership for development

Targets

1. Develop further an open, rule-based, predictable, non-discriminatory trading and financial system
2. Address the special needs of least developed countries, landlocked countries and small island developing states
3. Deal comprehensively with developing countries' debt
4. In cooperation with pharmaceutical companies, provide access to affordable, essential drugs in developing countries
5. In cooperation with the private sector, make available benefits of new technologies, especially information and communication technologies.

Market alternatives for smallholder farmers in food security initiatives:

lessons from the Brazilian food acquisition programme

The International Policy Centre for Inclusive Growth (IPC-IG) is the United Nations Development Programme's global forum for policy dialogue and South-South learning on development innovations, with a central focus on applied policy research to achieve and sustain inclusive growth.

Danuta Chmielewska's (pictured left) core professional experience is with rural development and food security, focusing on local circuits of food production and consumption.

Darana Souza's core professional experience is with rural development and food security in diverse developing countries. They both work within the Rural and Sustainable Development team of IPC-IG, with the mission of identifying successful and scalable strategies for maximizing sustainability and equity in the context of inclusive growth.

Farmers and food security

Policies that support the livelihoods of smallholder farmers are crucial in efforts to tackle poverty and hunger. Smallholdings are typically operated by the poor and can play a significant role in improving local food availability and access.

Improved market access is important not only for better-off producers but is equally essential for smallholder farmers given their diversified livelihood strategies.

For instance, many smallholders are unable to interact directly with markets. This becomes a major constraint on the improvement of farmers' living standards in many parts of the developing world. Consequently, policies that support smallholders' livelihoods, particularly through market access, can play a vital role in reducing poverty and enhancing food security. Initiatives of this kind are being implemented in several developing countries.

The Brazilian Food Acquisition Programme

In Brazil, the Food Acquisition Programme (Programa de Aquisição de Alimentos or PAA) was created in 2003 to allow for the state purchase of food items from targeted family farmers, without a competitive bidding process, for distribution in the social assistance network and to build a strategic food reserve.

The programme focuses on two basic conditions for food security: food availability and food access. Between 2003 and 2008, the federal government spent more than $1 billion through the scheme to buy nearly 2 million tons of food, supporting around 25 percent of the population facing food insecurity in Brazil. The PAA is a complex programme with various components that have different procedures. Its grants support the creation and consolidation of local production, marketing and consumption networks, since the purchased goods are distributed in neighbouring institutions (such as schools, day-care centres, community associations, and hospitals) free of charge to a population suffering from food insecurity. The purchase price is based on the local retail price as defined after three price surveys, or on the basis of local wholesale prices.

The PAA provides clear market opportunities and alternatives for smallholders, who otherwise are likely to be excluded from public procurement because of administrative requirements for mandatory bidding processes and because of their inadequate size or capacity to deliver.

A woman plants maize in Poco Verde in the Brazilian state of Sergipe. Policies that improve producers' access to markets are crucial in efforts to tackle poverty and hunger. ***Photo:*** ©IFAD/Giuseppe Bizzarri

Changes in farmers' production-related practices

A case study of one component of the PAA, ('Purchase for Simultaneous Donation' or Compra para Doação Simultânea) demonstrated that it has resulted in an increase in the cultivated area and in the variety of available products. In particular, there has been an expansion and diversification of the production of fruits and vegetables. With greater resources available and a guaranteed market, farmers experimented with new crops and reintroduced old ones that had been abandoned.

Aside from increased employment for rural farm workers, participation in the PAA has also led to a vast increase in the use of agricultural inputs such as the use of fertilizers and pesticides, the purchase of seeds, the renting of tractors, investment in infrastructure and irrigation systems, and acquisition of protective equipment and material for fumigation in beekeeping.

The prices offered by the PAA are generally profitable for producers, and better than those that the producers can command through other channels due to their limited bargaining capacity and market access. The programme offers farmers a guaranteed income and a secure market, enabling them to manage risk better and be largely protected from unfavourable fluctuations in market price and demand. These conditions encourage farmers to reinvest in their production.

Changes in marketing and in farmers' organizations

The existing sales channels for the crop producers, such as local street fairs and middlemen, continue to be limited and involve considerable risk. As a result, the PAA not only emerges as their best market possibility but also favourably impacts farmers' existing market links. For instance, prices offered by the PAA enable farmers to negotiate higher prices with middlemen. In addition, the supply of products in local street fairs has fallen because of sales to the PAA, which has led to an increase in the price of fruits and vegetables in particular. While this clearly stands to benefit both beneficiary and non-beneficiary producers, it is important to check the price rise to prevent posing risks to local consumers.

Challenges for the development of market-oriented practices

Small farmers often face difficulties in maintaining the delivery of the quantity and quality of the items originally proposed. This reflects limited planning capacities as well

A variety of locally produced fruit for sale at a Brazilian market. The diversity of produce that smallholders can grow has been increased by the Food Acquisition Programme (PAA). ***Photo:*** UN Photo/Eskinder Debebe

as matters beyond their control, such as weather-related damage to their crops.

In addition, payment delays emerge as one of the programme's key weaknesses. Sending incorrect documentation, such as an incorrectly completed invoice, directly results in payment delays which can prevent farmers from covering costs for basic production inputs such as water and maintenance fees, and potentially result in debt. In these cases, the resources received from the programme might be spent on paying off debt rather than for reinvestment.

Furthermore, finding new commercial partners is still a challenge for the farmers. Although the observed changes in their production and organization are essential to bring about their participation in agricultural markets, they are not naturally leading to further market access. This is because in the studied case the PAA has become the main market for its beneficiaries, given its advantages and the limits that producers face in their other commercial options.

Conclusions

This analysis of the PAA programme indicates that initiatives which jointly support food production and food access through agricultural market options for smallholder farmers simultaneously offer an important commercial possibility for producers and play a significant role in improving their access to markets.

The PAA has provided a crucial market access opportunity for its beneficiary farmers, and has been an important instrument for capacity building. The programme promotes various changes in farmers' productive and organizational processes, mainly the result of an optimized use of resources, further investments and greater involvement of beneficiary farmers in these processes. These changes, however, are hampered by specific operational challenges faced by the programme, such as payment delays and a lack of capacity to deliver promised agricultural produce.

The Brazilian case suggests that increasing commercial opportunities should be complemented by additional support, such as improving the farmers' planning and management skills. It is also important to consider the risk that any short-term interruption in procurement support may pose to the beneficiaries' capacity building, and complementary actions should be taken to facilitate farmers' access to other commercial channels where additional long-term and profitable relationships can be established.

Logistics under pressure:

UNICEF's Back to School programme in Afghanistan

Paul Molinaro (pictured left) has been with the United Nations Children's Fund (UNICEF) since 2001, first as Logistics Coordinator for Afghanistan, then as Emergency Logistics Manager in the Supply Division where he is now Senior Manager. He is responsible for coordinating a number of change management projects designed to transform UNICEF's supply function. Paul has over 15 years experience with emergency logistics operations.

Sandie Blanchet has worked for UNICEF for 17 years in programmes dedicated to children, knowledge management, communication and advocacy. Currently, she is Deputy Representative in Moldova but was responsible for communication and knowledge management in the UNICEF Supply Division at the time of contributing to this article.

The first stage of UNICEF's Back to School programme in Afghanistan enabled 1.78 million children to return to school in the war-ravaged country by the end of March 2002. Since then, an additional two campaigns have been undertaken, reaching 1 million children in September 2002 and 4.5 million in March 2003. The evolution of these operations has had three main effects:

- It has raised the profile of the logistics profession within UNICEF.
- It represents a new approach to supply and logistics operations in general, by recognizing that such operations can be an important and useful vehicle for building local capacity and assisting national institutions in making the transition from emergency to development.
- It has shown that large-scale education interventions can be an immediate element of an emergency response, and not be limited to post-crisis reconstruction.

Genesis of the Back to School operation and early errors

Initial planning began in early December 2001 and was inevitably a challenging experience: at this time the war in Afghanistan had only just ended, and the first UNICEF logistics staff arrived in Pakistan in December to be confronted by the more pressing issues of providing nutritional, health and winter supplies, and establishing logistics systems to move and monitor them. Critical elements of the procurement section, the education section and the nascent logistics sections were all operating separately.

The UNICEF Supply Division had to identify, procure, assemble, pack and distribute thousands of educational kits for children living in a country where the human and financial resources and the infrastructure had been seriously weakened by years of war. It was one of the most daunting challenges UNICEF had ever faced.

Ten thousand boxes, providing teaching and learning materials for 800,000 children, were flown in from the UNICEF warehouse in Copenhagen. But it was far from enough. It was also apparent that the supplies being ordered from Pakistani suppliers would not be sufficient. Uncertainties about the number of Afghan schoolchildren did not help.

Distribution planning and Nowshera logistics base

In January the country office had only two logistics personnel in place. But UNICEF made a public commitment to provide the necessary supplies before March 2001, and immediately deployed senior staff to the field. The first priority was to develop a distribution plan that, though complex, was still coherent and easily understood.

The first key element in the distribution plan was the establishment of a major logistics centre where bulk supplies could be received, packed into kits and dispatched. A packing centre was established in the town of Nowshera in the North-West Frontier Province. Workers were employed on two shifts, the shop floor supervised by warehouse staff flown in from Copenhagen. In less than two months, the Nowshera warehouse produced 50,000 educational kits, a rate of two boxes per minute. In addition, smaller warehouses in Tajikistan and Uzbekistan produced over 10,000 educational kits, 400 recreational kits and 600 school tents.

Kit design and distribution

UNICEF's education section provided the original list of items that were to be given to students, teachers and schools. The logistics section translated these lists to kit form: a generic school grades 1-6 kit was designed so that this could be prioritized in order to meet the deadline. It was decided that any specialist component would follow later. The distribution hubs were Kabul, Herat, Mazar-e-Sharif, Jalalabad and Kandahar, locations with UNICEF offices, logisticians and warehouses. Each hub covered a number of provinces and received all the kits for the combined provinces. In general, UNICEF supplied transport from hubs to distribution points or 'drop zones' but in some instances, like in Kabul, peacekeeping personnel from the International Security Assistance Force transported kits to drop zones and to individual schools. In each case, the logistics officer at the hub chose the transport mode given the geographical diversity of Afghanistan. See the diagram below for how the distribution chain was designed.

Problems encountered

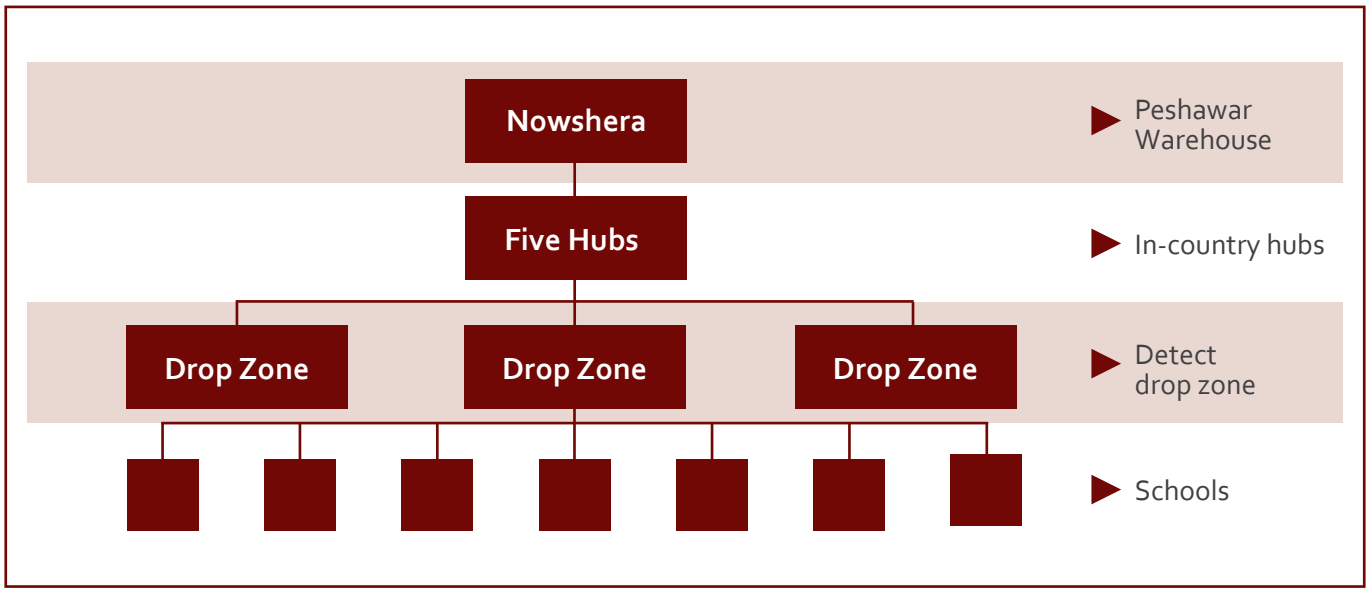
Procurement:

1. Issues arose over the quality of some supplies procured locally, due to the time pressure and the high volumes being requested.
2. Local suppliers were often overly optimistic about delivery dates, causing frequent 'stock-outs' on the packing lines.
3. Supply lead times (time from the supplier receiving an order to the customer receiving the item) were underestimated on some occasions.

Distribution:

Afghanistan was still in an emergency phase, it was the end of winter and the country's infrastructure had been destroyed by years of war. The logistics involved in distributing the kits varied from aircraft and helicopters to taxis, wheelbarrows, donkeys and porters. UNICEF staff were in daily contact with almost 100 suppliers and

Table 1:
Basic distribution chain design



Afghan school children attending class with the support of the United Nations Children's Fund, which in 2008 enrolled nearly 340, 000 girls in grade one. There are 6.2 million children today studying in primary and secondary schools across the country. ***Photo:*** UN Photo/Fardin Waezi

manufacturers to track progress and identify problems. Countless obstacles were encountered: obtaining exemption certificates; getting custom clearance on time; negotiating port charges; flooded roads; identifying local focal points and ensuring they were ready to receive the supplies and more.

Capacity building

One of the objectives of the programme was to help build capacity in Afghanistan's Ministry of Education. UNICEF spent $50,000 on rehabilitating what is now called the Ministry of Education Logistics Centre. In addition, six UNICEF warehouses were handed over to the Ministry and a new workforce – all Afghans, was trained in warehouse management, the use of databases and basic health and safety.

One sensitive issue was the employment of women in the warehouse. UNICEF wanted to ensure that at least some of the 200 new jobs would be accessible to women. According to local custom, women could not work in the same room as men so the warehouses were divided with simple plastic sheets, so that women could work on the production line with the required level of privacy.

Conclusion

Lessons have been learned, sometimes the hard way. The supply operation for education in Afghanistan, especially the logistics centre in Kabul, represents a new approach to emergency logistics. The objective is to assist countries in transition to bridge the gap between emergency and development by building national capacity so that a country becomes self-sufficient in the planning, production and distribution of educational or other supplies.

Empowering women through procurement when implementing aid projects

UNOPS is a central resource for procurement and project management for the United Nations and other development partners. Every year it implements around 1,000 humanitarian, development and peacebuilding projects for these partners in some of the world's most challenging environments.

Working in over 80 countries UNOPS provides support by building schools, roads and police stations, procuring medicines and equipment, managing grants, providing training and more.

Alongside the development of national capacity and the promotion of environmental sustainability UNOPS tries to include elements to empower women across all operations – from buying school equipment to improving health services to building roads. www.unops.org

In many of the countries where UNOPS works women are not fully represented in the labour market and have limited opportunities to develop sustainable livelihoods. As a buyer of over one billion dollars worth of goods and services every year, the organization has considerable purchasing power to affect change in these economies.

UNOPS is able to help empower women when implementing a development, peace building or humanitarian project by buying goods and services from women and for women.

Aid projects should always consider women during procurement, such as by purchasing adequate gym equipment for female cadets when constructing police training facilities, or by taking into account the needs of women and families when procuring goods to reintegrate ex-combatants.

This article will however focus on procuring from women in order to boost their incomes, skills and influence.

Procuring services – recruiting women

A direct way to positively affect women's quality of life is through employment. Project managers can insist sub-contractors employ a certain percentage of women. Another possibility is to directly recruit women to provide labour during project implementation, as UNOPS did when building the Ouanaminthe road in Haiti on behalf of the Food and Agriculture Organization, in a project funded by the European Union. A key requirement for success in these cases is community outreach to provide information and dispel concerns.

Procuring goods – helping women fill a production niche

Aid projects often face difficulty procuring the goods they need when working in post-crisis or underdeveloped areas. One way of solving this problem is to train local producers to provide the needed goods at an acceptable quality and price. This can be time consuming but is ultimately worthwhile as it offers an opportunity to support vulnerable social groups, from ex-combatants to ethnic minorities to women.

Case study: Building roads in Afghanistan

When implementing the Swedish International Development Cooperation Agency (Sida)-funded Rural Access Improvement Project in Afghanistan, UNOPS project

Women preparing wire baskets known as gabions as part of the Rural Access Improvement Project funded by Sida in northern Afghanistan. The gabions will be filled with stone and used to rehabilitate roads in the Sar-e-pul and Samangan provinces. ***Photo:*** UNOPS

managers faced difficulties buying the necessary goods to construct the 113 kilometres of roads needed to link certain isolated communities. In particular, it was a challenge to find the hundreds of high quality gabion boxes (wire cages which are later filled with stone blocks) needed to create retaining walls. As they had already experienced success training local widows to provide the screened gravel necessary for construction, project managers decided to adopt a similar approach, which would also fulfil the project's cross-cutting aim to promote gender equity.

A simple grant payment was not feasible in this situation as no banking facilities were available and locals often lacked the required papers to open an account. Using a contract to conduct the procurement allowed locals to be paid in cash for goods or services.

Procurement process

The procurement modality used began with the identification of products required to build the road, followed by the dispatching of a Community Development Officer (CDO) and engineers to locate a community willing to produce them. After a series of meetings the community would appoint a group of at least six women to apply for the contract.

This application was then sent to be endorsed by the Provincial Public Works Department, the Department of Women's Affairs and the District Governor. In the meantime project engineers would complete the survey, design and cost estimation for the project.

As there are no other communities for kilometres on either side of the road, competition was not possible. Similarly the contract's size, remoteness and security considerations deter professional contractors from competing for the work. However if the local community is unwilling to take up the work, the project would group several such works together to form a package attractive enough for competitive bidding by professionals.

Cultural challenges and community involvement

Initially, the local men did not allow the CDO to even talk to the women, let alone engage them in activities outside the home. Many community and religious leaders considered the raising of equality issues a threat to their authority. Consequently, the UNOPS standard procurement practices could not work without additional support.

Therefore the first step was to hold lengthy discussions with the leaders and the men in the community. The most successful arguments were those that emphasized the

A women's group set up a bakery with the support of the Sida-funded project in order to sell bread to workers and bus passengers.
Photo: UNOPS

advantages of bringing money into the community and providing women with new skills, as well as promoting the idea that women can be key economic players in society.

The next hurdle was getting permission for the women to be trained in weaving gabion baskets by a male instructor. Initially the men insisted that the instructor should train them first and they in turn would train the women in their households. This scepticism was handled by inviting the men to watch a class. This allayed the men's fears and the instructor was allowed to have direct unsupervised contact with the women.

Seizing opportunities

The wages brought home from these businesses have brought a new financial freedom for many women. In addition, changing the mindsets in these remote communities has had a number of knock-on effects, including a new eye for business opportunities among the women.

For example, during the road works many labourers complained of a lack of local shops to buy food at lunchtime. In response, one of the women's groups set up a bakery with support from the project, and began supplying bread to local workers and bus passengers. It was such a success that five groups of women are now being trained to start similar ventures.

Recently, a group of women have also been engaged to produce protective clothing for the project's snow clearing crew. The quality of the products has led other UN agencies to enquire about procuring winter wear from the same group.

Working as a group also led to the creation of an informal social forum where the women could discuss positive and negative aspects of their lives and exchange ideas for possible improvements.

Conclusion

Although difficult, it is possible to engage unskilled women from traditional communities to be successful part-owners of a small business providing goods and services necessary to implement an aid project.

In order to be successful, project managers must first win over local community and religious leaders and the men in the village. A skilled and supportive Community Development Officer can assist with these efforts. It is also worth incorporating literacy classes to enable the women to control more of the business, such as dealing with suppliers.

The benefits of empowering women through procurement when implementing aid projects are clear. The project gets the goods and services required, at a good price and at the right location. Money is injected into the local community. The community feels ownership of the project and skills are developed for future maintenance. Women also gain skills for future employment possibilities, income for their family, and independence and increased respect from men.

"A neighbouring village has now asked our women's group if we can weave gabions for them in return for payment. With the training I got I was able to contribute to the wall project in my own village and to the family income."

– Khadija,
a woman who received training in gabion weaving in a similar project to build a retaining wall to prevent flooding in Afghanistan, as part of the Enhancing Disaster Preparedness and Emergency Response programme funded by Italy.

Millennium Development Goal 4
Reduce child mortality

Non-profit organizations shaping the market of supplies

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In the humanitarian aid context, the availability of essential commodities in the right quantities and at the right time and place is crucial for the survival of beneficiaries. In order to avoid the risks associated with a limited supplier base, non-profit organizations are increasingly becoming aware of the need to diversify their supply base and to include the for profit, or corporate sector. Simultaneously, corporations are realizing the benefits of working with non-profits as their customers and shareholders expect them to act like responsible 'citizens'.

Non-profit buyers have traditionally been considered the weaker player in this relationship. However, several initiatives undertaken by them in influencing their supply market suggests a stronger influence of non-profits on the global supply chain than previously perceived. This article is going to look specifically at the influence of non-profits on the market for vaccines.

Humanitarian health aid: essentiality of vaccine resources

Though we currently have the lowest mortality rate in world history for children under five, a study by the World Health Organization (WHO) indicates that in low-income countries more than a third of all deaths are still among children under 14. Achieving Millennium Development Goal 4 to reduce the under-five mortality rate by two-thirds between 1990 and 2015, means reaching the 24 million children who are currently not being vaccinated.

Vaccines are recognized as vital aid supplies which prevent several key causes of death among children under five. Non-profits adopt various market shaping initiatives to ensure availability and favourable pricing of supply, and to create sustainable local markets to support countries buying the vaccines on their own. The United Nations Children's Fund (UNICEF), WHO , the Pan American Health Organization (PAHO), and the Global Alliance for Vaccines and Immunization (GAVI) are among the dominant providers of vaccines.

Vaccine supply market in the humanitarian chain

The supply chain of vaccines for developing countries is typically characterized by local governments and beneficiaries at one end, with limited supply chain insight and buying capacities, and a small supplier base at the other, with donors and humanitarian organizations intervening within the chain to secure supply and meet demand. The supplier base is regulated by high start-up and fixed costs due to stringent production regulations, resulting in an 'oligopolistic' market, dominated by a small number of multinational firms, according to WHO statistics.

Cuban doctors administer diphtheria and tetanus vaccinations provided by the World Health Organization (WHO) to children at Delmas 33 IDP camp in Port-au-Prince for Haitians displaced by the earthquake.
Photo: UN Photo/Sophia Paris

In terms of revenue, these firms have seen their share of the vaccine market rise from approximately 50 percent in 1988 to about 70 percent in 2005. Small to medium-sized companies in Korea, India and Indonesia account for an additional 10 percent of the market share, with the remaining revenues going to small industrialized and developing country producers.

The vaccine market is also characterized by inefficiencies. As they are global public goods, vaccines are often undervalued by the market. In addition, people in developing regions are often more willing to pay for treatment than for prevention. The world needs new institutions that encourage pharmaceutical development and provide the poor with access to these new drugs. There is clearly a need for humanitarian organizations who ensure the supply of vital vaccines.

Market shaping initiatives: vaccine supply chains in humanitarian networks

Non-profits have taken several initiatives to shape the vaccine market as we can see in Table 1. For instance, PAHO and UNICEF take advantage of economies of scale while buying in high volumes to receive noticeable discounts, allowing them to offer the product at an affordable price to the buying country.

By securing long-term funding and aggregating demand, GAVI has managed to scale up production capacity in the industry and attract new suppliers to the market. This builds up competition, which in turn reduces prices. Such an increase in the number of suppliers, including new manufacturers from developing economies, has resulted in a more secure supply and lower prices for developing countries.

In 1993, as a result of a resolution by WHO, all partners in health development were encouraged to work closer together. This deepened the relationship between the private sector and the NGOs in the health care sector, resulting in numerous benefits, such as developing industry incentives for healthier markets by providing better forecasting and a boost to corporate reputations. Likewise, the International AIDS Vaccine Initiative (IAVI) brings together a range of public and private interests to share the risks, costs and benefits of developing an effective vaccine against HIV.

Power distribution in the market of vaccines for developing countries

In developing countries, while the limited number of suppliers in the vaccine market partly gives them leverage, the buyer organizations can have lower or higher relative power in the market based on their intangible resources such as brand and reputation. Non-profits seek to change the existing power imbalance by negotiating extensive agreements with suppliers, persuading companies to guarantee the lowest possible price. Simultaneously, as intangible resources become increasingly important in our knowledge-based world economy, companies seek to formalize their relationship with non-profits in order to achieve a spill-over of important intangible assets such as legitimacy. Thus, a formalized agreement meets both the suppliers and the non-profit buyer's interest even though the motives differ.

Conclusions

Bigger non-profits, unlike governments from developing countries, not only benefit from a strong global reputation and brand, but also influence their market of strategic aid supplies by taking advantage of bulk purchase orders by aggregating demand. Research data indicates that such reshaping of relations has been positive, contributing to an increase in the number of suppliers, better product development, improved research and development, an increase in production, and better availability of vaccines, resulting in greater competition and lower prices. Hence, non-profit organizations must continue to intervene in the supply markets in different ways to secure a supply of affordable products and increase the buying capacity of governments in order to achieve Millennium Development Goal 4.

Table 2:
Summary of selected initiatives by non-profit organizations to shape their market of supplies

INITIATOR	INITIATIVE	INITIATIVE OBJECTIVE	RESULT IN THE MARKET
PAHO &UNICEF	Aggregating demand in high volume purchase	Achieving noticeable discounts	Lower prices, development of product in the market
GAVI	Securing long term funding	Increase production capacity	New suppliers to the market
GAVI, UNICEF & PAHO	Aggregating demand	Economies of scale, attract new suppliers	Increase production capacity, new suppliers, build up competition, reduce prices
WHO, GAVI, UNICEF	Enabling manufacturers from developing countries	Securing supply, enabling developing countries	Better availability, lower prices
WHO	National strategies for all	Deeper relationships and collaboration between all players including NGOs and business sector	Developed industry incentives, healthier markets
WHO	Providing better forecast on a national level	Improve corporate image and industry incentives	Healthier markets
GAVI	Collaboration with business sector	Bringing a fresh view to the board	Increase production, better availability
IAVI	International collaboration between public and private sector	Share risks, cost and benefits, develop research and product development	New resources in the market
UNICEF	Long term agreements with current and potential suppliers	Introduce and develop new suppliers in the market	New suppliers, better availability, lower prices, higher quality products

Analysis of the operational barriers related to financing and procuring contraceptives in Madagascar

This summary is based on the report *Analysis of the operational policy barriers to financing and procuring contraceptives in Madagascar*. The study was conducted in 2008 by the USAID | Health Policy Initiative and the USAID | DELIVER Project.

Through generous support from the American people, the United States Agency for International Development (USAID) fosters economic growth, agriculture, global health, democracy and humanitarian assistance. USAID supports reproductive health and HIV policy work with the Health Policy Project, implemented by the Futures Group and partners. The DELIVER project, which helps countries strengthen supply chains for health commodities, is implemented by John Snow Inc. and partners.

Ensuring access to contraceptives is an essential component of efforts to improve maternal health. Family planning promotes the healthy timing and spacing of pregnancies, thus reducing the number of high-risk pregnancies (e.g. too many, too frequent, occurring in women who may be too young or too old) and improving health outcomes for both mothers and babies.

Contraceptive security exists when every person can choose, obtain, and use high-quality contraceptives whenever they need them. Two of the most important factors in achieving contraceptive security are adequate financing and efficient contraceptive procurement mechanisms.

In 1955, the population of Madagascar was 4.8 million people. By 2005, it had reached 18.5 million. Despite a fertility level of 5.2 children per woman, Madagascar's family planning programme has made considerable progress —as the population would have grown even faster over the last 10 years without it.

In 2002, the Government of Madagascar began to place a high priority on family planning to help address population growth. In 2007, the Government declared that all contraceptives would be provided free of charge in the public sector. With a decentralized health system women were now able to obtain contraceptives for free at the district pharmacy or local health centres.

Public sector sources of contraceptives

The United Nations Population Fund (UNFPA), USAID and the World Bank (through UNFPA's procurement system) are the major providers of contraceptive commodities in Madagascar. Since 2006, however, the Government of Madagascar has purchased a small quantity of injectable contraceptives from its own budget. Although the Government plans to continue to increase this contribution in the coming years, Madagascar remains highly reliant on donor provision of contraceptives.

Madagascar's central medical store for the public sector is a semi-autonomous not-for-profit organization called SALAMA. SALAMA is considered quasi-governmental as its primary client is the Government, and it relies on an annual influx of capital from the state to purchase essential medicines. As SALAMA is not fully capitalized and receives a lump sum from the Government of Madagascar only once a year, the organization typically only pays a portion of the cost of a purchase before delivery or pays 100 percent on delivery.

The Government of Madagascar's family planning programme, which uses a semi-autonomous not-for-profit organization for contraceptive procurement, is working to improve maternal health. ***Photo:*** USAID/ADRA /Jules Bosco

Product availability and quality

Contraceptives are widely available throughout Madagascar. One of the indicators used to measure availability is the six-month stock-out rate, which is the percentage of facilities experiencing a stock-out of a particular product for any duration over a defined six-month period. From a sample of 96 family planning sites, the Ministry of Health and Family Planning reported six-month stock-out rates of 0 and 1 percent for two of the most popular contraceptives in the first half of 2008. In terms of product quality, USAID and UNFPA have their own pre-shipment quality-control procedures and procedures for addressing complaints and problems post-shipment.

The contraceptives procurement process

The tasks of forecasting the required number of contraceptives as well as the development of procurement plans are the responsibility of the Division of Family Planning (DFP), which also engages development partners such as USAID and UNFPA, as well as SALAMA and other Malagasy agencies.

SALAMA operates under a 10-year agreement with the Government of Madagascar. It works with approximately 30 international suppliers, as well as 20 local suppliers to provide about 360 different generic medicines, more than 200 non-drug consumables, and more. Responses to requests for quotes are evaluated by a committee and in the case of reproductive health programme goods, the DFP. Developing and issuing contracts with suppliers is also the responsibility of SALAMA.

In addition to the contraceptives purchased for the government by SALAMA, contraceptives continue to be donated by bilateral partners such as USAID and UNFPA. In terms of procurement, SALAMA and these donor agencies are independent — although SALAMA does store and distribute donated contraceptives on the Government of Madagascar's behalf.

SALAMA can offer annual contracts to vendors, but these contracts are for fixed quantities and delivery schedules. SALAMA does not currently have multi-year contracts with vendors and does not use more flexible framework contracts for procuring goods.

Procurement challenges and recommendations

SALAMA faces four key challenges in ensuring the timely and effective procurement of contraceptives. Firstly, it

Mothers and their babies at a primary health centre ante-natal care site with voluntary counselling and testing, family planning and reproductive health in downtown Antananarivo, Madagascar. ***Photo:*** UN Photo/Eskinder Debebe

is difficult for it to plan for customer demand, given that quantification for contraceptives is managed by the DFP. The data available to SALAMA come in the form of orders placed by its customers, and some customers are irregular in their ordering practices. Accordingly, SALAMA has to deal with a substantial number of emergency orders during the course of a year.

Secondly, SALAMA is required to solicit bids on generic products. In the case of contraceptives that have only one supplier, it needs to develop a clear process for sole-source justification.

Thirdly, SALAMA's purchases are relatively small and do not elicit many respondents to its requests for quotes. A limited supplier choice results in higher unit prices for goods. Occasionally, SALAMA also has difficulty obtaining three quotes on international tenders, especially when the quantities that it purchases are modest.

Lastly, SALAMA does not receive funds from the government until approximately two months after delivery, creating an operational challenge in its procurement process. Given that most suppliers require a 40 percent advance, particularly on smaller purchases of products such as the injectable contraceptives, this can cause cash flow problems for the agency.

To address these challenges, it is recommended that SALAMA should track orders as well as issues, taking advantage of the information that it does receive to monitor stock status and forecast future needs. If it has not already done so, SALAMA should articulate clear inventory and supply policies that will strengthen its management of all of its goods, including contraceptives.

In addition, SALAMA should make itself a more attractive customer to increase its supplier base by consolidating purchases, offering better payment terms, networking with other African medicine procurement institutions, and tracking supplier performance for timeliness, accuracy and quality. Moreover, SALAMA requires adequate capital in order to finance its procurement.

Finally, changes in overall procurement policies and procedures, which may be beyond the control of SALAMA, are needed to ensure sustainability and effective functioning of the family planning programme, especially as demand for family planning increases.

The Global Drug Facility:

a unique, holistic and pioneering approach to drug procurement and management

Robert Matiru (pictured left) is project manager for the World Health Organization's (WHO) programme of reform. Prior to this assignment, Robert spent the last 10 years working at WHO on a variety of public health initiatives, including directing the Organization's Global Forum on Urbanization and Health in Kobe, Japan, the Global Drug Facility and the Pandemic Vaccines Donation Initiative.

Timothy Ryan is the founder and Managing Director of Solve, a global public health consulting firm based in Southeast Asia. Before that, Tim was an independent consultant conducting disease prevention and control programmes worldwide. He began his career at the National Institute of Public Health (Mexico) before joining WHO, where he spent several years as a leader within the Stop TB Partnership's Global Drug Facility.

The Global Drug Facility for tuberculosis (TB) was launched on World TB Day 2001. The aim was to build new international approaches towards ensuring universal access to anti-TB drugs, and support the development of efficient national systems for their procurement and distribution. The Global Drug Facility (GDF) is housed and administered by WHO.

It was established with a mandate to:

- ensure uninterrupted access by national TB control programmes to high-quality anti-TB drugs
- be a catalyst for the expansion of recommended treatment strategies to achieve WHO's global targets for TB control
- stimulate political and public support for public funding of anti-TB drug supplies
- secure sustainable global control and eventual elimination of the disease

Through its Grant Services and Direct Procurement Services the GDF uses unique and innovative approaches, setting it apart from traditional grant and procurement mechanisms, as it:

- ensures that any grants made by the GDF are given in addition to already existing resources
- competitively outsources all services to partners who have demonstrated a technical or financial advantage in a specific competency
- uses product standardization and packaging to simplify drug management
- links grants to the performance of anti-TB programmes
- combines international public sector policy and practice with cutting-edge private-sector technologies and operating procedures to ensure efficiency

Through its Grant Services and Direct Procurement Services, the GDF has provided nine million life-saving anti-TB drug treatments in 78 countries to cover the shortfalls in drug supply in national TB programmes.

Competition and cost-effectiveness

Since its launch six years ago, the GDF has secured competitive prices for high-quality anti-TB drugs through the use of international tendering mechanisms, pooled demand and systematic forecasting. The GDF's prices for anti-TB drugs are, on average, one-third less than before. The GDF is able to offer a six-month course of treatment for a newly diagnosed smear-positive TB patient for approximately $20. Moreover, by publishing its prices in the public domain, the GDF builds transparency and global awareness of the pricing of anti-TB drugs.

CHALLENGE	GLOBAL DRUG FACILITY'S RESPONSE
Lack of financial resources for anti-TB drugs	A Grant Service was implemented whereby anti-TB drugs are given freely to eligible and approved countries that are otherwise dependent on donors to meet their need for these drugs
Inefficient procurement systems	A Direct Procurement Service was developed to aid governments, donors and nongovernmental organizations in purchasing drugs in countries that have sufficient finances but lack adequate procurement capacity; this service includes a quality assurance system
Inadequate quality assurance procedures Non-specific international recommendations and non-adherence to international recommendations Lack of standardization of anti-TB drugs available Inadequate in-country management and monitoring of drug distribution and use	The GDF's Technical Support Service combines Grant and Direct Procurement Services with technical assistance for: • in-country management and monitoring of anti-TB drugs • support of global efforts to improve the quality of anti-TB drugs, primarily via WHO's prequalification programme

However, the GDF's yardstick for competitiveness does not measure only price: the efficiency and effectiveness of services delivered to countries is paramount. The GDF relies on a lean operational team and many functions are outsourced to agents. During the past five years, the GDF's operational turnover has consistently seen more than 80 percent of funds from donors spent on drugs and related costs, and less than 5 percent on staffing.

The GDF does not sacrifice quality for efficiency; it uses an internal quality management system that complies with standards set by the International Organization for Standardization (ISO) for the "provision of quality-assured anti-TB drugs and related services to eligible national TB control programmes".

Equity of access

The GDF has promoted access to treatment for underprivileged communities by restricting its grants to countries where the annual per capita gross national income (GNI) is less than $ 3000, and priority is given to countries with a per capita GNI below $ 1000. The GDF also requires that all drugs it supplies are provided free of charge to ensure that poor patients have access to treatment.

A model for other diseases

The GDF has developed a model that has proven to be replicable for other diseases. Aspects of the model have been emulated by the Global Fund to Fight AIDS, Tuberculosis and Malaria, the International Union against Tuberculosis and Lung Disease, and UNITAID.

Drawbacks of the GDF model

One fundamental disadvantage of offering grants for free drugs to countries is that it is an unsustainable mechanism and does not promote long-term self-sufficiency. The GDF routinely encourages grant recipients to use the procurement service as a cost-sharing exercise, typically with part of their needs covered by the GDF's in-kind donations and the remainder financed by the countries themselves. A key limitation of the procurement service, however, is that many of the countries that buy anti-TB drugs through the GDF do so by engaging in donor substitution – that is, transitioning from the GDF's grant to a new donor's funds, rather than by establishing and using more sustainable national resources.

Building capacity to manage drug supplies

Shortages of anti-TB drugs frequently result from insufficient capacities within a country to plan, fund, procure or manage its drug supply. Since 2001, the GDF has sent more than 200 teams of drug management and TB experts to various countries. Mission teams monitor the use of existing drug supplies while working with national programmes to address bottlenecks and weaknesses in their supply chains and help programmes plan for their future drug needs.

"The Global Drug Facility has secured competitive prices for high-quality anti-TB drugs through the use of international tendering mechanisms, pooled demand and systematic forecasting."

Expanded product catalogue and manufacturing capacity

The expansion of manufacturing capacity is also a strategic objective. When a larger number of prequalified products are available from a wider geographical spectrum of manufacturers, the GDF will define strategies for supporting diversification of the drug supply through the use of regional tenders. Incentives are necessary to stimulate development of anti-TB drug manufacturing industries in countries like China and South Africa, and to increase competition and capacity.

Conclusion

The Global Drug Facility has laid a solid foundation on which progress can be based in the face of the challenges posed by ensuring access to anti-TB drugs. With an innovative Global Plan, assistance from the Stop TB Partnership, and new partners such as the Global Fund and UNITAID, the landscape is rich with potential for gains in the fight against TB.

A health worker examining a TB patient. The Global Drug Facility helps drive universal access to anti-TB drugs, and supports the development of efficient national systems for their procurement and distribution.
Photo: © The Global Fund/John Rae

China's green public procurement programme:

issues and challenges in its implementation

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Public procurement has always served as a policy tool and is now being used as an instrument to protect the environment. While countries in the developed world have been the leading users of green public procurement (GPP) programmes, many developing countries such as China have also started using this tool. In this article, we will examine how China set up its legal framework, what obstacles, similar or unique, China is facing in its implementation, and what lessons China can learn from the experiences of the developed countries.

China's green public procurement programme

China has a relatively short history of running a public procurement system, starting in the 1990s. However, the period 2004 – 2007 already saw the enactment of legislation promoting green public procurement. The Clean Production Promotion Law of 2002 and the Government Procurement Law, implemented in 2003, stipulate that the government can neither procure products whose producing environment does not meet set environmental standards, nor procure products that do not meet environment protection standards. These laws include specific policy measures such as an energy-saving product list and an environmental labelling product list.

Energy-saving list

The energy-saving list covers both energy-efficient products (e.g. energy-efficient air conditioners, refrigerators, florescent lamps, electric water heaters and printers, etc.) and products with the potential to save water (e.g. water-efficient faucets, toilet flush valves and tank fittings, etc.). The Chinese Finance Ministry and the National Development and Reform Committee released guidelines covering government procurement of certified energy-efficient products. These clarify how the procurement of energy-saving products serves to reduce government energy costs, promote the development of new energy-efficient technologies, expand the energy efficiency market, protect the environment and promote sustainable development. The guidelines also require government agencies to procure certified energy-efficient products where possible. The list of energy-efficient products contains eight categories and over 100 energy efficient products and has been updated several times.

Environmental labelling list

Products carrying environmental symbols have to meet quality requirements and environmental protection requirements in their production, use and recycling. China's environmental labelling programme stipulates that government-funded agencies should give preference to

As the largest developing country with the fastest growing economy, China is facing environmental pollution and the danger of depleting some of its natural resources. The Government is using public procurement as an instrument to persuade producers, such as this rice farmer, to be as environmentally conscious as possible. ***Photo:*** UN Photo/John Isaac

products with an environmental label, and not procure any products that are harmful to the environment or human health.

Despite the legal framework described above, the actual implementation of the green public procurement programme is only in the initial stage, and mainly in large urban centres. Qingdao was the first city to issue a green procurement list and the first city to actually operate green public procurement in China. The 2008 Beijing Olympic Games was referred to as the Green Olympics due to its implementation of green procurement in acquiring construction materials, designing the facilities and providing services.

Challenges

China's green public procurement programme faces various challenges. Firstly, the programme has received little publicity and media promotion. More effort needs to be made to promote the importance of green procurement and to inform the public about green procurement.

Secondly, although China has passed laws to set up a green procurement system, these laws only outline general requirements, and rules and regulations have not been laid out. For instance, the Government Procurement Method states that priority should be given to high-tech and eco-friendly products, but it does not define them.

Thirdly, as China has just started green production, the structure is not well developed in comparison to developed countries. China has not yet set up any programmes to subsidize green production, making it difficult for green products to enter the market. For example, businesses still have to go through a complicated procedure when applying for environmental food production certification.

Fourthly, China does not have a single agency designated to implement its green procurement programme. A number of ministries and offices issue regulations – either jointly or on their own, causing policy overlaps, management duplication and conflicts. This can be seen in the inconsistent definition of green products which confuses both industry and government procurement personnel. Industries have to spend more time and energy to meet the different types of labels. Government procurement personnel have to learn about the variety of green product symbols. In addition, the current procurement system needs enhanced funding to develop its information infrastructure, to budget for green product procurement and to monitor and control the implementation of green procurement.

Policy recommendations

While both developed countries and China have encountered challenges in implementing GPP, China has unique problems due to its social, cultural and political environment. As members of the Organisation for Economic Co-operation and Development (OECD) have a longer history implementing GPP, their experiences can provide meaningful insights to China in various areas.

First of all, the Chinese government should issue specific green procurement regulations under the current Government Procurement Laws and should direct government agencies to fulfil their green procurement obligations.

In addition, the law should avoid multiple definitions by integrating energy-saving products with other green products. Secondly, China should promote the green procurement concept and advocate green consumption among the public. Government agencies should serve as role models for citizens to foster a keen public awareness about conserving natural resources and protecting the environment. Thirdly, the government should improve the market for green goods and encourage technological innovation.

The Chinese government also needs to build the organizational capacity to implement GPP by establishing a designated national committee to lead and oversee GPP implementation. This committee should have diverse representation from green product experts and makers, relevant government officials and even consumers and civic group members. The government should promote the interaction between environment protection agencies and procurement agencies. In addition, China should speed up the construction of the environment labelling certification system and design an effective green procurement personnel management strategy.

Finally, the government should consider providing subsidies to allow the procurement of green products at a higher price than the market. The government can also offer tax breaks to encourage green production and consumption and levy higher taxes on products that cause pollution and over-consumption.

Workers inside the egg processing plant at the Beijing Deqingyuan Agriculture Technology Company in Beijing, China. The company is home to a project supported by the UN Development Programme (UNDP) and the Global Environment Fund which uses manure and water waste from some 3 million chickens to produce biogas for electricity. ***Photo:*** UN Photo/Mark Garten

Examining discriminatory procurement practices in developing countries

Francis Ssennoga, PhD is a lecturer at Kyambogo University, Uganda. He is an expert on procurement management and has conducted considerable research in this area especially within developing economies. His research focuses on how developing countries can overcome their structural and production constraints to join the global procurement framework and benefit from it as equal partners with their counterparts from developed economies. This article is a summary of his paper: *Examining Discriminatory Procurement Practices in Developing Countries, Journal of Public Procurement*, 6(4), 285-316.

In all countries, governments are significant buyers of goods and services. However while recognizing the importance of a clear procurement process, guided by public tendering, the publication of the winning bidder and a mechanism for appeal for aggrieved parties, various countries insert provisions in their laws to protect their national sovereignty. Such provisions usually take into account the country's industrial policy, social policy or the protection of strategic economic objectives such as regional integration.

These provisions may be desirable, especially for developing countries, but include discriminatory tendencies which have serious connotations as far as promoting free trade is concerned.

Global efforts towards opening up public procurement markets

The recognition of these discriminatory procurement policies as protectionist tools led the World Trade Organization (WTO) to gather support for a multilateral agreement to eliminate preferential treatment to national suppliers in procurement deals. The Agreement on Government Procurement (GPA) has so far been the most successful mechanism to open up government procurement markets. Currently the GPA has 13 members, plus the European Union with its 27 member states. Most GPA members are developed countries and none are from Africa.

Discriminatory practices and international trade

One of the fundamental principles of the GPA is non-discrimination. It is based on the general presumption that discriminatory procurement adversely affects trade and that banning it creates welfare benefits similar to those arising from trade liberalization.

However, governments tend to discriminate in their purchasing policies in favour of their own industries in order to achieve benefits beyond the immediate aim of purchasing goods and services at the best possible terms. Public procurement has been often used as a tool to promote a government's economic, social or environmental objectives. Preferential procurement policies are sometimes directed at promoting the development of certain groups within the economy, such as women and people with disabilities. When making procurement decisions, many public organizations give preference to local business to nurture small and medium enterprises (SME) with the underlying rationale that SMEs drive economic development.

A small food processing business in Peru. When making procurement decisions, many public organizations give preference to local business to nurture small and medium enterprises (SMEs) with the underlying rationale that SMEs drive economic development. ***Photo:*** UNOPS/Aida Ariño-Fernández

Are discriminatory public procurement practices necessary?

Showing continuous favouritism for domestic suppliers constitutes a non-tariff barrier to international trade. Elimination of these barriers will lead to a more efficient allocation of resources through increased competition, higher quality procurement and budgetary savings for governments. If domestic firms were encouraged to become competitive, they would not only be able to sell to the government at competitive prices but also export to foreign markets. For instance, in Sub-Saharan Africa, the problem of faltering socio-economic progress is especially acute. Poverty is widespread and severe, with more than half of the population living on less than $1 a day. In such a scenario, it would not be beneficial for a country to buy products at a sub-optimal level. Why would a country engrossed in such problems decide to discriminate against foreign suppliers, which would provide the much needed budgetary savings for use in solving these inherent social problems?

Challenges of opening up public procurement markets

The integration of developing countries into the global economy can be a powerful force for economic growth and poverty reduction. Empirical studies indicate that countries which have integrated into the global economy have enjoyed increased growth and their per capita income has improved. Countries that have limited their participation in the global economy have seen their economies decline. There is therefore a strong case for opening up government procurement markets.

However, free trade between countries with very different endowments and capabilities, presumably with asymmetrical commercial power, is illusory. Trade among non-equals can lead to adverse outcomes such as the decimation of entire industries in some developing countries. Similarly simply expanding the realms of free trade has, in many cases, resulted in an actual increase in poverty and environmental degradation. Furthermore, developing countries are frequently characterized by large public procurement sectors. Therefore liberalizing the procurement market has a much bigger impact on their economies.

Consequently, the unfettered advocacy of global market integration that has been so passionately pursued by major industrialized countries may be injudicious. There is a need to consider an integrated approach towards the public procurement and social obligations of a country. Emphasis

should therefore be on developing strategies that could enhance both social and economic objectives.

Sector-specific approach

There is a need for developing countries to take a pragmatic approach to liberalization and to be selective in choosing how, when and in which sectors and to what extent to integrate their domestic economies with the global economy in all crucial areas.

The approach of selective integration should replace the dominant approach of 'big bang' integration carried out inappropriately in a one size fits all manner.

The services sector has been seen as a major driving force in economic growth. Those services that are critical should be protected from foreign competition so that they continue to provide employment and improve the welfare of the population. A blanket overall service sector protection will not enhance its productivity, hence it is important to determine exactly which service sectors to protect and the mechanism for such protection.

Creating competitiveness on the supply side of the market

Developing countries' economies are made up of small and medium sized firms without sufficient capacity to compete in the world markets. To derive greater benefit from increased market access, countries need competitive enterprises that are able to produce products at a reasonable cost.

Increased access to finance, business development services, managerial and technical skills and access to global supply chains are critical for these firms, as well as the creation of supportive domestic and international policy and regulatory environments. Furthermore, research and development efforts will be required to ensure that current technologies and quality programmes are updated.

Phased approach through regionalization

The lowering of trade barriers within the Free Trade Areas is contributing positively to global trade liberalization. Indeed, when developing countries join Free Trade Areas they will develop internal competitiveness. Once competitiveness has been achieved within the Free Trade Areas, they would want to expand and merge with other Free Trade Areas. The eventual result would be a global market. This would be a welcome alternative rather than a blanket opening up of procurement markets where small firms from developing countries would be confronted with mega multinationals while competing for government tenders.

"Increased access to finance, business development services, managerial and technical skills and access to global supply chains are critical for small and medium sized firms in developing economies."

Conclusion

Discriminatory procurement policies shift profits to domestic firms, but these benefits are ultimately offset by increasing costs. Developing countries can be integrated into a global procurement framework by adopting a sector-specific approach, creating competitiveness on the supply side of the market and through a phased approach through regional liberalization. Regardless of which one of these approaches suits developing countries better, they have to realize that discriminating against foreign suppliers in favour of domestic suppliers is not a long term approach in achieving their social and economic objectives.

Public procurement as an industrial policy tool:
an option for developing countries?

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The full-length version of this paper won the best research paper award of the 2010 International Public Procurement Conference in Seoul, Korea.

Introduction

Innovation is increasingly seen as the main source of economic growth and development. Conventional thought assumes that free markets and tight competition are the primary source of innovation, but it is not competition per se that is important, but how it is capable of supporting economic development.

In some cases, particularly in the developing world, competition must be mixed with cooperation for the best results. The use of public procurement to grow innovative industries and companies manages this and as such is one of the most promising industrial policy tools of our time.

Using public procurement for developmental goals such as innovation is a way for governments to generate new markets for companies in order to develop new technological solutions. Such initiatives can be used to solve challenges in health, energy, education, transport, the environment and more. This can be seen in the history of East Asian industrial policy, a prolonged process of successful public procurement activity.

But according to many economists, current World Trade Organization (WTO) rules which govern investment, trade, intellectual property rights, and public procurement globally are preventing developing countries from fully taking advantage of this tool.

Public procurement and the Agreement on Government Procurement

Currently only 40 countries have joined the WTO's Agreement on Government Procurement (GPA). From the developing world this includes three East Asian economies (Hong Kong, South Korea and Singapore) and ten Eastern European economies through membership in the European Union.

The GPA is based on the comparative advantage theory, arguing that so-called discriminatory government procurement, or protectionism, makes states worse-off in the long run because it leads to the inefficient allocation of resources and limits the benefits of free trade. However, in spite of these claims, most developing countries still oppose the GPA, for many reasons.

From the political perspective, the rationale is to be found in protectionism and nationalism. Technically, joining the GPA poses several challenges for developing countries, from the provision of reliable statistics to fulfilling transparency

A number of developing countries, such as Timor-Leste, have decided to opt out of the GPA, in order to better protect key domestic industries such as coffee. ***Photo:*** UN Photo/Martine Perre

requirements. Furthermore, joining the GPA makes it harder to introduce and execute secondary policies through public procurement such as supporting minority businesses or environmental protection.

Most importantly, there are also economic counter arguments to joining the GPA. If developing countries with small domestic markets join the GPA, their governments lose the ability to remedy any negative effects when exposing their markets to international competition. In spite of theories supporting global free trade in government procurement, the majority of the developing countries have considered the counter arguments strong enough to opt out of the GPA.

The pro-liberalization arguments tend to ignore the recent development experience of the East Asian countries as well as the historic lessons from the now developed countries in the North, where the traditional industrial policy measures (including high-level demand created through public procurement) played a central role in economic development and catching-up strategies.

Above all, the pro-liberalization arguments fail to differentiate between discriminatory procurement and public procurement aimed at promoting innovation.

Public procurement for innovation

There are several ways that public agencies can support innovation through procurement, namely:

- the creation of demand by expressing their needs to the industry
- the provision of a testing ground for innovative products
- the creation of new markets for products and systems
- the provision of a 'lead market' for new technologies/ solutions
- the absorption risks for socially/ecologically demanding products
- the promotion of learning

In addition to direct technological or product innovations, quality and other standards, such as environmental, set by public agencies also play a key role. In this way, procurement for innovation differs conceptually from discriminatory 'off-the-shelf' public procurement.

The development paradox

Public procurement for innovation was used extensively by developed countries in the past, to gain power in world markets. Recent initiatives in the European Union and China

also show that it has been rediscovered as an economic development mechanism.

It can be claimed that the GPA would pose serious limits to developing countries if they were to join the treaty: it would make it much more complicated to implement the public procurement for innovation policy in areas critical to national competitiveness and growth.

At the same time, implementing public procurement for innovation without proper policy capacity is likely to produce zero or negative results.

"Using public procurement for developmental goals such as innovation is a way for governments to generate new markets for companies in order to develop new technological solutions."

Developing countries face four options:

1. Public procurement as a level playing field – supported by WTO and GPA membership. This builds on the assumption of comparative advantage. It can be argued that this approach falls short of setting in motion those demand-side innovation and industrial policy tools that developed countries have used for centuries, and may deepen the development challenges.

2. Discriminatory public procurement – an option for governments that are members of WTO but not the GPA. This is based on protectionism ideas and is often used to make the case for or against industrial policies. The problem with the discriminatory approach is that it minimizes the effect of competition and that it is rarely used in accordance with actual industrial or innovation policy needs.

3. Public procurement for innovation. This is about promoting innovation, competitive advantage and a diversified economy. Here developing countries are advised to gradually adopt the GPA. However, here the competition effect is highly dependent on existing market competitiveness, which is not always the case in developing countries. It is also highly problematic to create the necessary policy and administrative capacity within a limited period of time.

4. Indirect or 'soft' public procurement measures. This builds on the same grounds as the previous option, but here the focus is on obstacles posed by the general WTO principles and agreements. A lack of policy capacity is the main deficiency developing countries may face, but governments can more easily start the learning-by-doing process that is inevitable for this kind of policymaking. As a result, the use of more indirect public procurement for innovation measures is suggested as an alternative for developing countries. Enhancing policy capacity under WTO rules and employing soft procurement measures – setting priority activities/products/technologies with detailed action plans, quality standards, etc. – can be viewed as a step-by-step approach towards building capacity for public procurement for innovation.

Conclusion

Public procurement as part of industrial policy has a lot more to offer for developing countries than currently thought. However, in order to employ public procurement for the sake of innovation and thus economic development, developing countries should first obtain more freedom for manoeuvre within other WTO agreements, develop more robust innovation policy skills and competencies within the current WTO policy space and then gradually move towards specific public procurement for innovation policy-making.

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