The Economist INTELLIGENCE UNIT

The future of public spending: responses to covid-19



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About this essay

The coronavirus crisis has exposed deep-rooted challenges to public procurement practices. In a follow-up essay to The Economist Intelligence Unit's January 2020 report on public spending and the Sustainable Development Goals, this briefing paper examines the implications of the current crisis, the opportunity it presents for rethinking procurement and the renewed importance of effective and sustainable public spending as countries re-open, recover and rebuild.

The EIU wishes to thank the following experts, who kindly agreed to participate in the interview programme for this essay:

Helena Fonseca, specialist in public management at the Organisation of American States and technical secretary of the Inter-American Network of Government Procurement

Gavin Hayman, executive director, Open Contracting Partnership

Connie Hedegaard, former European commissioner for climate action and chairperson, OECD Roundtable on Sustainable Development

Mark Hidson, deputy regional director, ICLEI Europe

Vinay Sharma, director of solutions and innovations in procurement, Governance Global Practice, World Bank

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Introduction

It is rare for public procurement to make the headlines. But as the covid-19 pandemic sent countries around the world scrambling to secure supplies of everything from ventilators and protective gloves to infrastructure such as makeshift hospitals, the ability of governments to source what they need—quickly, efficiently and responsibly—has become a hot topic.

"This has been public procurement's moment in the spotlight," says Gavin Hayman, executive director of the Open Contracting Partnership, a not-for-profit working to improve government contracting globally. "Something that was previously a back-office, relatively joyless compliance-based job has become absolutely vital to an emergency response across the whole of government."

One effect of the sudden demand for medical supplies and other equipment has been to expose global inequalities in access. As the balance of power has shifted from buyer to supplier, suppliers have been able to take advantage of the crisis by increasing their prices.

"Prices have gone up by 20 times—or 2,000%—for some items," says Vinay Sharma, global director of solutions and innovations in procurement in the World Bank's Governance Global Practice. "That makes it more difficult for low- and middle-income countries to have access to those supplies compared with richer countries. This has been the first casualty."

With some key supplies either too expensive or unavailable at any cost, necessity has prompted governments to update their procurement practices to speed up purchasing, enhance efficiency and open the door to alternative means of supply.

"We've seen procurement officials really step up," says Mr Hayman. "In three months we've seen three-to-five years' worth of innovation. Governments are enabling electronic



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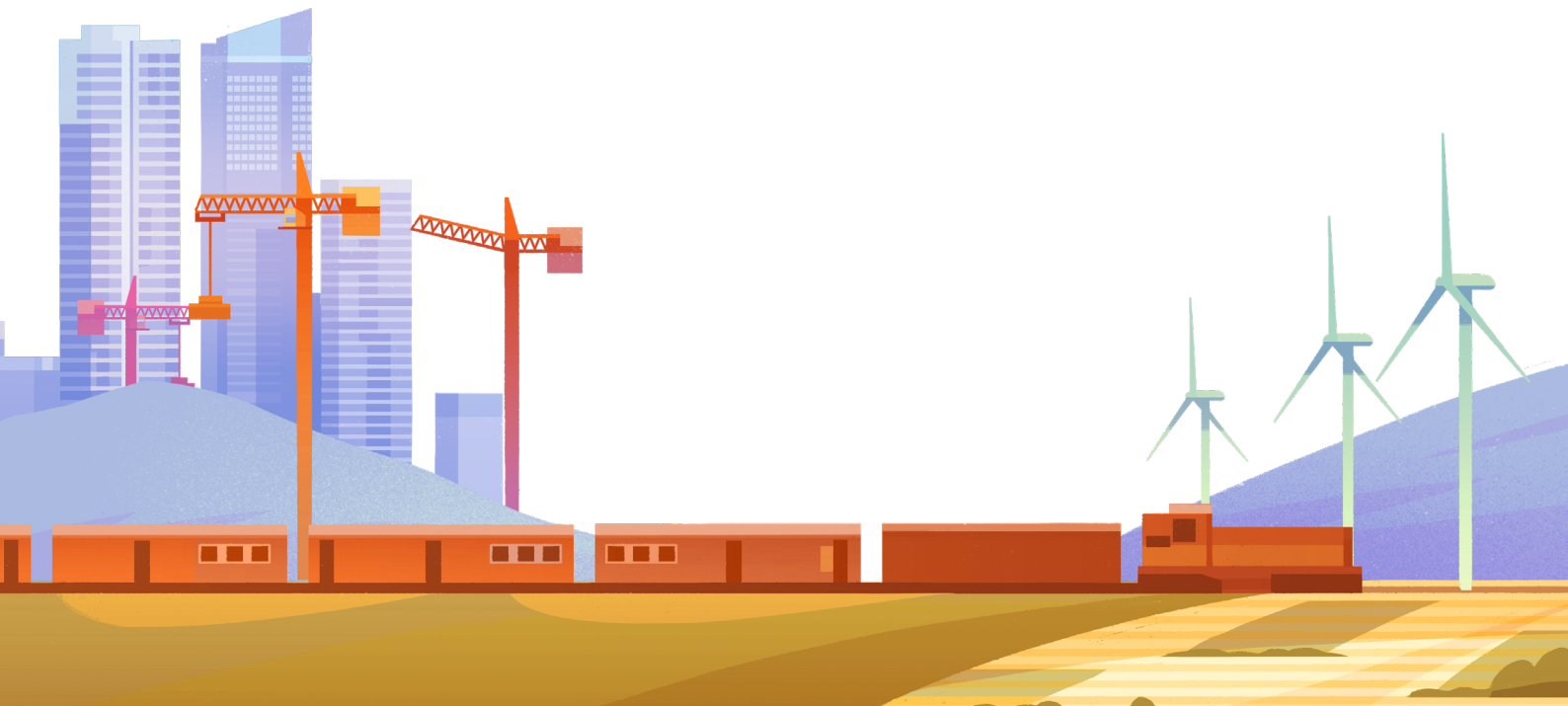
processes, accelerating and expanding data coverage to include information on products and product codes (including tagging contracts with covid-19), increasing data analytics and dashboards and linking up information on project planning to public contracts via standardised open data. We've also witnessed a jump to more innovation partnerships with the private sector."

Mr Hayman cites the example of Moldova where medical procurement had previously been opaque: a centralised purchasing body was unaccountable, he says, medicines were expensive and the country had the highest rates of HIV and tuberculosis in Europe. The pandemic brought together a coalition of 30 organisations that, in consultation with the Ministry of Health, had within a month created an open data platform where all covid-19 related procurement was made available via online dashboards.

Similar moves are being made in Latin American countries. For example, the Procurement National Service of Ecuador recently launched its Open Data Platform which makes it easy for suppliers and providers to access national emergency information. Real-time data on procurement purchases are available to anyone, including citizens and the media.

Meanwhile, to preserve jobs and support businesses, governments are ripping up the rulebook on public spending and implementing unprecedented furlough schemes, loans and bailouts. These measures will be necessary beyond the short term. As countries and states work to rebuild their economies, procurement strategies could be used alongside such stimulus packages to address the social inequalities exposed by the pandemic, to increase resilience ahead of the impending climate crisis and to lay the foundations for a cleaner, more sustainable world.

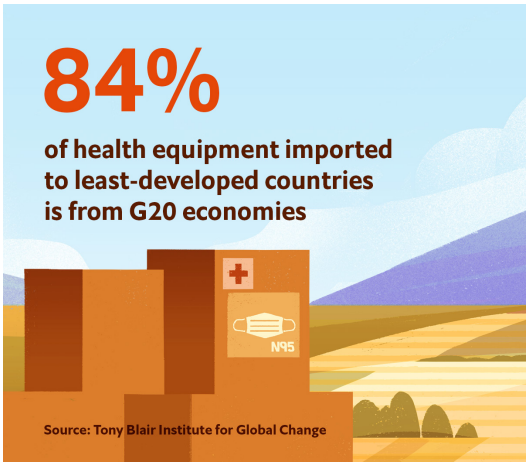
"Government has a powerful tool for influencing the economy and strengthening society—and that is public procurement," says Helena Fonseca, specialist in public management at the Organisation of American States and technical secretary of the Inter-American Network of Government Procurement. "Covid-19 could be an opportunity to reinvent or rethink what government buys, from whom and how."



Securing supplies in a crisis

In early March 2020, the World Health Organisation (WHO) warned that panic buying, hoarding and misuse of personal protective equipment (PPE) was causing severe disruption to the global supply chain and putting lives at risk. Such was the damage that frontline health workers were often left woefully ill-equipped to care for covid-19 patients.[1]

These practices have not only been seen at a local level. In their rush to acquire supplies, countries often acted unilaterally at the expense of others. For example, four out of the top five exporters of PPE responded to the crisis by introducing de facto export bans.[2]



In fact, the crisis has exposed the extreme competition among regional and national governments for scarce supplies. This has not just been seen between developed and emerging countries but also between economically advanced countries—and sometimes even within a single nation. "Governments have taken steps to protect their citizens and their economies and to that extent a globally co-ordinated response has been a bit of a problem," says Mr Sharma.

There are a few exceptions to this. For example, the health departments of the Republic of Ireland and Northern Ireland have signed a memorandum of understanding to strengthen North-South co-operation in the response to covid-19—including on the procurement of equipment.[3]

Regional co-operation among Caribbean countries has also helped to mitigate the shortage of goods and services during the crisis. "Acting as a regional bloc to establish strategic alliances with key multi-sectoral actors has made it possible to promote a pool of joint procurement processes that gives countries greater purchasing power," says Ms Fonseca.

For poorer countries, the biggest challenge is cost. Skyrocketing prices on the global

[1] World Health Organisation, 2020, https://www.who.int/news-room/detail/03-03-2020-shortage-of-personal-protective-equipment-endangering-health-workers-worldwide
[2] Tony Blair Institute for Global Change, "Global Coordination Requirements for Covid-19 and Future Pandemics", 2020, https://institute.global/sites/default/files/inline-files/Tony%20Blair%20Institute%2C%20Global%20Coordination%20Requirements%20for%20Covid-19%20and%20Future%20Pandemics%2C%20May%202020.pdf
[3] International Monetary Fund, "Policy Responses to Covid-19", 2020, https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19

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market—with a six-fold increase in the cost of surgical masks, a trebling of the cost of N95 respirators and a doubling of gown prices, according to the WHO—have left less developed nations unable to compete.[4]

Some have made moves to counter this price gouging. In outlining its measures for covid-19 emergency procurement, for example, the South African government has set out specifications for the health equipment it will buy and the maximum it will pay for PPE.[5] The prices reflect what the treasury considers to be "realistic current market prices". It has had to alter its price specifications: at the end of April the maximum spend on items such as hand sanitiser and gloves was doubled.[6]

Other challenges—which have affected both rich and poor nations—include ineffective communication between governments and suppliers. In some cases this has meant that firms willing to retool to help provide medical equipment, masks and other supplies have struggled to connect with public agencies or gain certainty on what those agencies are likely to procure.

Necessity prompts ingenuity

While the crisis has prompted undesirable practices it has also precipitated rapid and innovative responses—particularly in countries whose governments have found it hardest to break into the global medical supplies market.

For example, the Africa Centres for Disease Control and Prevention is leading the development of a digital platform to enable countries to order supplies collectively. This initiative would give them greater purchasing power through the ability to place large orders.[7]

Supply chain disruptions and procurement challenges present an opportunity to make another shift that could outlast the crisis: an accelerated move to electronic procurement which could lower transaction costs and increase the speed, efficiency and accuracy of contracting. Even before the pandemic, a number of countries in Latin America—including Chile, Colombia, Costa Rica, Ecuador and the Dominican Republic—were making



[4] World Health Organisation, 2020, https://www.who.int/news-room/detail/03-03-2020-shortage-of-personal-protective-equipment-endangering-health-workers-worldwide
[5] International Monetary Fund, "Policy Responses to Covid-19", 2020, https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19
[6] Business Insider, "The SA govt just doubled what it's willing to pay for sanitiser", 2020, https://www.businessinsider.co.za/government-price-increases-for-sanitiser-and-thermometers-2020-4
[7] Financial Times, "African nations join forces to procure medical equipment", 2020, https://www.ft.com/content/72edfd6a-8300-4944-893d-54d08954df6f

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this transition. Chile, for example, has been using electronic procurement since the late 1990s.

However, with global lockdowns forcing so much of the economy online, Mr Hayman urges countries to make more ambitious use of digital technology in public purchasing. "We've all got used to digitalisation," he says. "So we should be thinking about procurement not just in terms of taking documents online. It should be about the whole digital re-engineering of procurement."

Meanwhile, some countries have recognised that efficient public procurement is not only necessary for effective crisis response but can also help support businesses experiencing extreme difficulties. In Chile, for example, fiscal measures designed to support employment and company liquidity—and worth about 4.7% of GDP—include accelerated disbursements for public procurement contracts.[8]

Others are responding by easing the rules. The private-sector targeted fiscal measures being considered by the Central African Republic, for instance, include suspension or easing of public procurement procedures. Similarly, in Zimbabwe regulations have been relaxed to accelerate procurement of essential goods and services and Mexico's package of measures includes speeding up procurement processes.[9,10]

Yet many of these measures—from advanced payments for small and medium-sized enterprises (SMEs) to reducing the minimum turnover or insurance requirements to ensure non-traditional suppliers are able to participate—may only be applicable in an emergency situation. The challenge for public procurers is identifying which measures could enhance government purchasing once the crisis is over.

Moreover, the need for innovation to some extent reflects a lack of adequate public procurement frameworks which, if they are well designed, do not call for the introduction of special measures to meet emergency procurement needs. This emerged from a recent survey conducted by the Inter-American Network on Government Procurement on the level of preparedness of 18 American governments to manage covid-related procurement. It found that countries who had updated their regulatory frameworks and established clear emergency procedures and long-term agreements—including Ecuador, Peru, Costa Rica, Paraguay and Uruguay—were better positioned to deal with urgent supply requests. The pandemic has highlighted the importance of having strong frameworks in place well before a crisis hits.

Transparency as a safeguard

Tearing up the rulebook and taking a "permissionless" approach to procurement and spending has advantages such as speed, agility and an opening up of procurement contracts to new players. If they extend beyond the pandemic, such practices could

[8] International Monetary Fund, "Policy Responses to Covid-19", 2020, https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19
[9] Open Contracting Partnership, "5 procurement strategies for navigating the COVID-19 crisis from around the world", 2020, https://www.open-contracting.org/2020/04/08/5-procurement-strategies-for-navigating-the-covid-19-crisis-from-around-the-world/
[10] Inter-American Network on Government Procurement, "Mapping of LAC Procurement Agencies capacity in responding to COVID-19", 2020, https://secureservercdn.net/198.71.233.44/u1y.854.myftpupload.com/wp-content/uploads/2020/05/MAPEO-LAC_ENG-2.pdf

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bring welcome innovation. However, the rush to procure could exacerbate pre-existing problems afflicting procurement such as waste, cronyism and corruption.

Even before the crisis up to 25% of global health procurement spending was being lost to corruption, according to non-profit anti-corruption organisation Transparency International.[11] And even if procurement activities are legal, the crisis lends itself to cronyism. "The challenge has been that if you have non-transparent emergency procedures, a lot of those have been misused to do deals with the favoured suppliers at hugely inflated rates," says Mr Hayman.

Some organisations are working to combat this. For example, in an initiative launched by the Organised Crime and Corruption Reporting Project (an international consortium of investigative centres, media and journalists), incidences of corruption or wrongdoing related to the pandemic can be reported anonymously to a team of researchers.[12] And in April, Transparency International, Human Rights Watch and Global Witness wrote to the IMF Executive Board to demand that transparency and anti-corruption measures are included in coronavirus-related emergency relief programmes.[13]

In addressing corruption, technology is a powerful tool. In Ukraine, for example, emergency pandemic-driven procurements are exempt from the country's procurement law and can be concluded immediately. However, all procuring entities must submit a detailed report to the country's online procurement platform, ProZorro, within a day of the contract being concluded. A separate reporting dashboard displays all the data and immediately makes it publicly available.

For Mr Hayman, efforts to increase transparency should be part of a broader approach promoting open, comprehensive and high-quality data to improve public procurement, whether in crisis or in normal times.

In a survey of 150 procurement professionals conducted by the Open Contracting Partnership, respondents picked open data as the top solution to manage supply chains and address the crisis. Mr Hayman believes open approaches should inform all public procurement. "It's not just transparency," he says, "it's transformation".

[11] Transparency International, 2020, https://ti-health.org/content/covid-19-vaccine-countries-pledges-money-well-spent/
[12] Organised Crime and Corruption Reporting Project, https://www.occrp.org/en/coronavirus/
[13] Transparency International, "Urgent need for anti-corruption measures in IMF response to COVID-19 crisis", 2020, https://images.transparencycdn.org/images/TI_HRW_GW_Letter_IMF_COVID19_Emergency_Funding.pdf

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A sustainable, equitable recovery

With unemployment set to rise to unprecedented levels, the need to shape inclusive spending policies that actively enable greater and more diverse participation in public contracts has become more critical than ever. Joined-up thinking will be essential—such as linking procurement strategies to the small business loans in stimulus packages—to ensure that the economic impact of emergency investments extends beyond the crisis.

With social justice in the spotlight, governments will be under increased pressure to create a level playing field for diverse suppliers—such as those owned by women, young people, people with disabilities and ethnic minorities—many of which have been disproportionately affected by the pandemic and will take longer to recover.

Many of the measures responding to the short-term shock could be beneficial in the long term by helping to make procurement supply chains more inclusive. For example, the crisis has prompted public procurers in Europe to look beyond established networks to include SMEs and start-ups in the sourcing process, says Mark Hidson, deputy regional director of ICLEI Europe, part of a global network of local and regional governments committed to sustainable development.

"We've had a lot of 'meet the buyer' or 'market engagement' workshops, and there have been a lot of cities talking to SMEs about their needs," says Mr Hidson, who is also director of ICLEI's Sustainable Procurement Centre. "In the past that has been quite difficult but the crisis has woken them up to the fact that this is a good way forward."

In some cases, all it takes is a sharp increase in demand to stimulate economic activity. This is particularly true for emerging economies, some of which are now sourcing much of the less sophisticated equipment they need domestically.

"PPE can be manufactured locally," says Mr Sharma. "In Africa, many countries have started accessing local supplies at reasonable



Procurement can be used to pull innovative solutions into the market faster.

Connie Hedegaard

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prices, and in India PPE production went from next to nothing to about 450,000 [suits] per day. So to some extent it has been an economic boost for local and small-scale industry."

Thinking ahead

When procurement departments are struggling to secure emergency medical supplies, asking them to focus on environmental sustainability or to implement measures to accelerate progress towards meeting the Sustainable Development Goals (SDGs) might seem a stretch. "It adds a layer of complexity when, in these extraordinary circumstances, you have to factor in the green component," says Connie Hedegaard, former European commissioner for climate action.

However, Ms Hedegaard argues that since governments will eventually need to meet their climate goals, now is the time to start thinking about how to include sustainable procurement in response and recovery plans. The risk otherwise is "that you're paying to restore what we had yesterday, and then you have to invest yet again to get where we need to go tomorrow," she says. "Obviously, that's not the wisest way of spending money."

Moreover, Ms Hedegaard adds that governments could allow suppliers to focus on the crisis in the short term while establishing phased requirements for clean and sustainable goods and services in future. This would give companies both regulatory certainty and time to plan.

"You have a strong tool that you can use to create the innovation that we very much need right now," she says. "And as we've seen, when you use that procurement tool you can pull innovative solutions into the market faster."

In some cases, government spending can both boost local economies and promote environmental sustainability. Ms Hedegaard cites the Danish government's funding for the renovation of social housing which will create jobs and economic activity in the short term while also ensuring that retrofits include aspects such as insulation and energy efficiency.

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Often, however, old ways of thinking continue to present obstacles to sustainable procurement. One is the pressure to find the lowest immediate price. "There are sustainable products and services out there, but they struggle to get a market sometimes because there are cheaper alternatives," says Mr Hidson. "So the opportunity is to invest the recovery plans into those areas."

Ms Fonseca sees the same challenge in Latin America and the Caribbean. "The low cost of goods or services is the most important requirement for selecting an offer," she says. "But we have to think of quality and value for society."

As previous Economist Intelligence Unit research has found, part of this involves looking beyond monetary value to a "lifecycle costing" approach that considers the social and environmental value of goods and services over the long term. Mr Sharma has already seen this in infrastructure procurement. "It can be done in a way that takes into account the lifecycle costing and use of methods that are more environmentally friendly," he says.

A tech-led transformation

Whether pursuing job creation in the short term or a longer-term green recovery, governments need to implement the basic building blocks to enable public procurers to collaborate with the private sector and other agents of innovation.

One obstacle that has been exposed by the pandemic is the persistence of siloes. As the crisis unfolded, entrepreneurs and businesses—distilleries, clothing makers, industrial manufacturers and small laboratories—came forward with offers to shift and retool their operations to supply governments with medical equipment. However, in many cases a structural disconnect between the public and private sector prevented these companies from being able to participate.

To prevent these kinds of inefficiencies, some Latin American countries are centralising procurement or creating a dedicated pandemic response unit. In the Dominican Republic, the health ministry is taking the lead while in Honduras this role has been given to an emergency commission.[14]

Technologies such as video conferencing which have been used extensively to conduct business during the pandemic can also help break down communication barriers. Procurers can easily learn what suppliers have to offer and quickly foster trust between these partners. "Knowledge of the market becomes easier because through technology suppliers can get to know you," says Mr Sharma.

Even so, he adds, technology alone is not an answer if it simply replicates real-world siloes. "Countries are using electronic procurement but perhaps they could use it more smartly," he says. "There is a great deal of discussion on what a good e-procurement system should be and what elements it should have."

For Mr Hayman, technology and the shift to open, online, inclusive digital services will play a central role in enabling a wholesale transformation of procurement. "Countries that have been putting these building blocks in

[14] Open Contracting Partnership, 2020, https://www.open-contracting.org/2020/04/08/5-procurement-strategies-for-navigating-the-covid-19-crisis-from-around-the-world/

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place and rethinking public procurement have done much better in terms of procurement than lots of other countries," he says.

Nor is it the richest countries leading the way. Colombia, for example, has been working on using technology to increase the transparency of public procurement. This has included the creation of Colombia Compra Eficiente, an online portal that centralises government purchases and related data. The platform then grants universal access to electronic versions of government contracts for anyone to scrutinise.[15] During the crisis, this has helped the country to combine speed with transparency: while covid-19 contracts are awarded directly, all the data must be disclosed on the government's e-procurement platform.[16]

"In countries like the UK you still have a predominantly paper-based process with lots of different e-portals to submit the paperwork—which is then mostly processed by hand," says Mr Hayman. "Meanwhile, in Ukraine, I can call an active, real-time covid-19 procurement dashboard on my phone in under a minute with risk indicators and analytics attached. I know which system I would rather try to manage pandemic procurement with."

Of course, suppliers in some countries may not be ready or lack the skills to adapt to these new technologies. So while the digital transformation shows tremendous promise, public procurement institutions need to play a role in helping suppliers to benefit from the shift.

[15] Economist Intelligence Unit, 2020, https://unops.economist.com/blog/why-transparency-matters-and-how-we-made-colombian-procurement-more-accountable/
[16] Open Contracting Partnership, 2020, https://www.open-contracting.org/2020/04/08/5-procurement-strategies-for-navigating-the-covid-19-crisis-from-around-the-world/

Lessons for the long term

The old adage to "never let a good crisis go to waste" has been cited often since the novel coronavirus took hold. These words are particularly relevant to public procurement, a function that, despite recent advances, is still in need of professionalisation, digitalisation, the upgrading of legacy systems and a move away from a risk-averse, siloed culture—all of which will be essential in the pursuit of sustainability objectives.

The absence of supplier-purchaser partnerships has exacerbated sourcing difficulties during the pandemic response. Moving away from the mutual distrust between purchasers and suppliers will be vital to achieve better planning, investment and supply on both sides of the table—all of which will allow for better co-ordinated management of the next crisis.

Meanwhile, the fact that governments have had to look outside traditional supplier networks will no doubt prove beneficial in the future. "Knowledge of the market and supplier trust will increase," says Mr Sharma. "And that will help countries deal with these kinds of situations more effectively."

There are also lessons to be learned by looking at the pre-existing practices of governments whose response to covid-19 was timely and effective. "Countries that were able to move fast for the crisis were those that were reforming procurement and using good open data," says Mr Hayman. "They were able to pivot faster."

But whether the transformation started before or during the pandemic, the next step for governments is to look beyond the crisis and ensure that systems put in place today can be used to transform public procurement in the medium- to long term. Countries will need to review their performance during the pandemic, adopt practices that proved effective and learn from their mistakes to become better prepared for future crises.

Achieving efficiency and value for money now will ensure that more public funding is available to governments as they face their next big challenge: shifting to a low-carbon economy and accelerating progress towards meeting the SDGs.



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