

PUBLIC PROCUREMENT IN THE CARIBBEAN: CONFRONTING THE CHALLENGES AND OPPORTUNITIES

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ABSTRACT

This paper explores the growth and development of procurement processes as it relates to small dependent Caribbean economies. The paper focuses primarily on procurement structures, policies, accountability, and ethical standards in these countries. Public procurement opportunities are discussed in light of development stages of these countries and current procurement trends. Issues such as integrity, fairness, public trust, effectiveness and efficiency are discussed from the perspectives of the various public sector development policies. The paper addresses several challenges facing government procurement in developing countries and suggests possible solutions to some of the challenges faced.

INTRODUCTION

Most economists including Joseph Stiglitz (2003) believe that individuals' lives are affected in countless ways by activities of the government. For developing countries, this is especially true since apart from the usual influence from taxes imposed on income, goods, and services, the public sector is the largest employer of labor. The activities of government also include the redistribution of income and the procurement of public goods and or services (education, healthcare, sanitation, roads, police, and defense).

Government procurement is one of those subjects that has catapulted into the spotlight in recent times, perhaps because of high levels of public corruption and the vast amount of money involved in these activities. As Basheka (2009) further contends "public procurement has increasingly become one of the dominant fertile grounds for corruption". Today, procurement is considered a 'core component' of not only the public sector economy but just about any organization and is

treated with far more importance than it was a century ago (Tassabehji and Moorhouse 2008; Paulraj et al, 2006).

Research on public procurement in developing countries is not new; however, research on public procurement as it relates to the Caribbean is virtually non-existent. With regards to public procurement in developing countries, a paper by Quick (1982) uses management science techniques to review procurement patterns in selected public supply programs and compares alternative procurement patterns in terms of inventory costs and shortages. Using drug cost and quantity estimates from two countries, the paper concludes that procurement patterns with more frequent purchasing or delivery of high usage drugs could reduce average inventories more than the commonly observed annual purchasing pattern. This occurs because more frequent deliveries tend to cause closer supplier monitoring and better forecasting.

A more recent paper by Geng and Doberstein (2008) focuses on “green” government procurement in developing countries due to very limited resources in developing and the potentially greater impact of “green” procurement in developing countries than in developed countries. This paper is really a case study on China that traces the development of the green government procurement in Asian economies. The paper concludes that other factors including environmental protection and sustainable development should also be considered through the process of government procurement especially in developing countries where environmental issues are becoming increasingly important. Green government procurement is one of several policy instruments to improve the environmental performance of products and services.

In developing countries the procurement process is often criticized as inept, corrupt, and inefficient, and there are a number of factors that could actually contribute to this characterization. This paper focuses primarily on developing Caribbean economies as there is a dearth of procurement information in these societies. The data on procurement practices in most Caribbean countries are rather sketchy and in some cases non-existent and this is sometimes the result of poor data collection technologies, systems, and management. It is therefore the author’s contention that exploration of this important topic presents an opportunity to further study various procurement practices as they occur in developing countries such as those in the Caribbean regions as well as to offer potential solutions to the myriads of challenges faced.

It is with this in mind, that this paper explores the following topics/areas as they relate to procurement in developing countries. The

first half of the paper takes a cursory look at the general growth and development of the procurement process, then an examination of procurement structures, policies, and accountability is followed by a discussion of procurement opportunities in developing countries. The second half of the paper addresses some of the various challenges facing government procurement in Caribbean economies and concludes with a discussion of some possible solutions to improve public procurement in developing countries.

GROWTH AND DEVELOPMENT OF PROCUREMENT PROCESSES

Public procurement or government procurement refers to the acquisition of goods, equipment, supplies, and or services on behalf of a government entity. According to the World Trade Organization “The procurement of goods and services by government agencies for their own purposes is a core element of the operation of governments” since it “secures the inputs that enable governments to fulfill their tasks” (World Trade Organization, 2010).

Public procurement dates back to the early civilizations of Mesopotamia and Greece. In the United States the continental congress was the first to appoint procurement commissaries from as early as 1778 and by the first quarter of the twentieth century several cities had established formalized procurement departments (Pitzer and Thai, 2009). By the turn of the twenty-first century, the significance of public procurement as an important government function had grown immensely. Public procurement became not only an important economic tool but also a very essential tool that could be used to influence certain public policy goals/agendas as well.

As noted by Tassabehji and Moorhouse (2008), procurement is of strategic importance and may be considered a core component of many organizations. Governments throughout the world have more or less become active partners in the market economy as a result of their involvement not only as regulators but as consumers and major purchasers with the power to influence market decisions. Today, governments in both developed and developing countries may be considered the largest buyer/procurer of goods and or services. Public procurement provides vast economic opportunities for developing countries through its enormous employment generating activities. More and more developing countries have embraced public procurement as a vital part of their economic strategy and trade agreements. For these countries, government procurement represents an important aspect of the

economic market. It is estimated that the financial activities of public procurement officials worldwide accounts for between 10% – 30% of GNP (Calender and Mathews, 2000). Furthermore, as noted by Pitzer and Thai (2009) the Organization for Economic Cooperation and Development reported that the total expenditure for 24 industrialized nations in 2006 ranged from 29.8 % to 55.9% of GDP. The World Bank estimates that expenditure on public procurement is likely to account for approximately 15-20% of the GDP in developing countries (Global Trade Negotiation Homepage).

Given the magnitude of the statistics above, it has become abundantly clear that public procurement is an important aspect of management within the public sector. In fact, the impact of procurement activities on national businesses and the economies of developing countries is often extremely significant and ought not to be taken lightly. Several developing countries are now cognizant of the importance of procurement and recognize that it is an area that is often vulnerable to mismanagement and corruption, many of these countries have therefore instituted programs and policies aimed at streamlining procurement efforts alongside government goals (OECD, 2007).

According to Van Weele and Rietveld (1998), the procurement function must develop through stages; from transaction and commercial orientation, to internal and external integration and finally the purchasing strategy which deals with the delivery of value. In many developing countries procurement activities are often decentralized and authority devolved/delegated to respective ministries and departments, statutory bodies, local government authorities, public enterprises and specified government agencies that are responsible for the various activities within these stages.

Although procurement structures may differ across government systems, the main branches of the government have the same important role of ensuring the success of the procurement system in place. The head of the government – president or prime minister also has an important role to play in shaping and directing public procurement activities. The executive branch of the government must take responsibility for managing procurement personnel, developing appropriate procurement policies and procedures and for choosing between in-house services and contracting out (Pitzer and Thai, 2009). There is also a role to be played by the legislative branch of the government, and in some cases these government officials may assist the executive branch or head of state to formulate policies and make important procurement decisions. Often, the legislators in developing

countries establish oversight or audit organizations that can be extremely helpful in enhancing accountability. These organizations and their responsibilities ought to be considered an integral part of the procurement structure in developing countries. The judiciary on the other hand functions as a support mechanism for the executive and the legislative branch through its ability to enforce procurement rules and regulations as well as to settle possible disputes.

Developing countries are more or less forced to embrace some procurement standards that are influenced by international organizations such as the World Bank, World Trade Organizations, Free Trade Area of the Americas (FTAA) and other important donor organizations (Abeillé 2003). Although these organizations tend to present a myriad of opportunities for growth, transformation and transparency in the procurement process they also tend to be the major beneficiaries of some of the implemented policies.

With regards to public spending in the Caribbean, a recent paper by Gafar (2006) shows that public spending on basic services that includes education, basic health care and infrastructure (e.g. electricity, water and sanitation) services in the Caribbean is usually justified on efficiency and equity grounds, and as an instrument for income distribution and poverty reduction. However, expenditures on infrastructure spending in the Caribbean tend to benefit the non-poor disproportionately more than the poor. This has implications for public procurement regarding the resources purchased for the different groups. If we make the reasonable assumption that educational needs differ for “poor” and “non-poor”, we can make the allegation that the procurement process is not based on the principles of reducing inequality but caught in the middle of a “principal-agent” problem. The agent in this case is the public procurement specialist who buys goods for selfish reasons.

THE STRUCTURE OF CARIBBEAN ECONOMIES

The Caribbean region consists of all the islands and mainland countries that have a coastline on the Caribbean Sea, between latitudes 8⁰ N and 26⁰N, and longitude 59⁰W and 85⁰W. The region includes sixteen nations whose primary language is English (Anguilla, Antigua and Barbuda, the Bahamas, Barbados, Belize, the British Virgin Islands, the Cayman Islands, Dominica, Grenada, Guyana, Jamaica, Montserrat, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Trinidad and Tobago, Turks and Caicos Islands, and the U.S. Virgin Islands); the Spanish speaking nations (Cuba, the Dominican Republic, and Puerto Rico); the French speaking nations (Guadeloupe, Haiti, and Martinique);

and Guyana in the north east corner of South America. These nations were once colonies of Spain, France, and Britain, but today are operating as independent nation states. With the exception of Cuba, the independent nations have some form of democracy.

Caribbean economies are described as 'open economies' as the ratio of the sum of exports and imports to GDP (the usual measure of openness) is very large. Capital goods and intermediate inputs accounts for a very large share of imports, and primary products accounting for the largest share of exports. For many of the smaller economies, their link to the global economy is based on services that accounts for over 50% employment (World Development Report, 2008). With beautiful beaches and year round sunshine, tourism has become an import source of economic growth and employment.

Because of their historical experiences, geography, and economic history, Caribbean countries are considered to be very diverse. The region today is characterized by different stages of political development with leaders focusing on different paths to economic development, different combinations of natural resources, and sometimes differences in views regarding regional development.

Caribbean economies differ in term of their size as defined by either land area or population. For example, Guyana is relatively large with an area of 214,970 square kilometers and in contrast Anguilla, Antigua and Barbuda, Aruba, and Turks and Caicos Islands, each with less than 500 square kilometers. In terms of population, Cuba's population in 2005 was 11.275 million, followed by the Dominican Republic with 8.862 million, and Haiti with 8.288 million. At the other end of the spectrum, British Virgin Islands, the Cayman Islands, Dominica, Grenada, Guadeloupe, and Martinique each has a population of less than 0.5 million.

The mainstay of Caribbean economics is agriculture, tourism, and mining. Agriculture is declining in most of these economies, forcing them to develop other areas like light manufacturing and assembly. In recent years, free-zones have also grown in importance in the Dominican Republic, Jamaica, and Haiti. Caribbean nations also have a diverse mineral resource base (bauxite, nickel, gold, silver, copper, calcium carbonate, cobalt, copper, nickel, gold, marble, salt, diamond, manganese, and silica) that has led to the development of the mining industry.

Even with their diversity, there are several common problems facing Caribbean economies, the most serious of which is a high rate of unemployment. A consequence of high unemployment rate in Caribbean

nations is an overburdened public sector that often compromises equity and efficiency. Furthermore, with widespread poverty in the Caribbean and selection to public office based on the popular vote, the ingredients for public corruptions are present in these nations. Information obtained from transparency international for the year 2009 shows a corruption perception index for Haiti (1.8) close to the bottom of the list with Jamaica and Dominican Republic slightly above with a rating of 3 (Corruption, Country by Country, 2010).

PROCUREMENT STRUCTURES, POLICIES, ACCOUNTABILITY, AND ETHICAL STANDARDS IN THE CARIBBEAN

In most countries, whether federal or unitary, developed or developing, citizens are concerned with the efficient and effective delivery of goods and or services. In developing economies like those found in the Caribbean, imperfect markets, high rates of unemployment and a tendency towards escalating inflation rates require the public sector to provide the institutional framework that enforces rules and property rights, encourages production and exchange, and facilitates competition while at the same time reduces corruption and negative externalities or third party costs. In these types of economies the issue of public procurement takes on new meaning and (given its nature and the amount of money involved) is generally managed in an atmosphere of complex political, social, economic and technological challenges.

In the Caribbean, like most other developing countries, the government has assumed primary responsibility for education up to the secondary or high school level. For example, “approximately 95 per cent of the primary and secondary school students in the Anglophone Caribbean countries attend publicly funded schools” (Gafar, 2006: 450). Although the allocation to education is similar for Caribbean nations, ‘the bulk of the recurrent education budgets of Caribbean countries goes to pay wages and salaries (ex. salaries and other allowances account for nearly 95 percent of the government’s budget for primary education), and very little is allocated for maintaining facilities and procuring supplies’ (Swaroop, 1997: 48). Information obtained from the World Bank (2003c) confirms the above allocation for Jamaica in 2001/02 was similar, and that 78 percent of its recurrent expenditure was allocated to wages (World Bank, 2003c).

Factors that could explain the procurement process for education in the Caribbean are parental pressure, teachers’ unions, civil service workers’ unions, and advocates of spending priorities outside who are

often vocal, organized, and connected the education sector. In fact, Gafar (2006) notes, that spending on tertiary education in developing countries is ‘driven exclusively by elite politics’ and not by efficiency and equity considerations. This would imply that for the Caribbean, the urban middle class and upper class strata of the population, because of their connection to the ruling elites, shape procurement policies in their favor.

Like other developing countries, there is decentralization in government in Caribbean economies. With this comes decentralized procurement whereby “procurement and contracting authority is delegated to several functional areas within the organization” (NIGP, 2008). Although there are advantages to proceeding in this manner, it carries with it enormous overhead cost and not much in terms of accountability. This again is where the procurement process may prove inefficient in the Caribbean. Today, many Caribbean regions continue to experience some of the traits of an ‘unreformed procurement system’. According to Agaba and Shipman (2006), some of these include; limited professional knowledge and expertise, the absence of effective institutional coordination, inadequate financial planning, lengthy delays experienced by suppliers in receiving payment for goods and services supplied, high incidence of malpractice combined with unethical conduct such as interference and insider dealings.

The relatively small size of the procurement budgets for Caribbean territories further poses a real challenge for these economies. What it means is that unlike developed countries they are not in a position to negotiate huge trade discounts or even purchase supplies in bulk at a cheaper rate, especially when they are trading on the world market. These countries tend to suffer from diseconomies of scale when compare to the developed countries. Caribbean nations are not considered major players since they are not in a position to influence rules or policies in their favor. The procurement process in the Caribbean faces other major challenges of buying on the international market, including limited foreign currency reserves and a fixed exchange rate system that often drives up the price of their imports overnight.

SOLUTIONS TO SOME OF THE CHALLENGES FACED IN THE CARIBBEAN

The solutions to procurements problems in the Caribbean are applicable to other similar developing countries. They range from restructuring the process to changing the resource mix. These are outlined below.

a. *Executive agency to centralize the process*

One viable option for structuring procurement activities in developing countries comes in the form of the establishment of an executive agency (centralized procurement) solely responsible for dealing with procurement issues. Such an organization would take its directives from the members of the government headed by the Prime Minister. The agency should be headed and staffed by trained procurement professionals. The use of trained professionals in the procurement process should serve to reduce the level of corruption often encountered in government procurement. In fact, it is generally believed that this type of procurement structure saves money and encourages far greater levels of ethical behavior, integrity and accountability on the parts of the various actors (McCue & Pitzer 2000; NASPO, 2008). Despite the appeal of centralized procurement, governments in the Caribbean must also be mindful of the ills of extreme centralization. Whether centralized or decentralized procurement, governments must be sure to include an ethical component as part of their procurement standards and personnel ought to be trained in the importance of embracing values and ethics.

Although it is generally believed that increased competition/competitive bids tend to reduce the level of corruption in public procurement, this is not always the case. In fact, as noted by Celentani and Ganuza (2002) more competition could actually result in either higher or lower levels of corruption. The study went even a step further to state that one possible cost associated with greater competition may be higher levels of corruption, hence it may not be unreasonable to expect that corruption and competition will grow hand in hand in certain markets (Celentani and Ganuza, 2002). Given this conclusion, it is obvious that Caribbean economies must do much more than encourage competition if they wish to improve procurement standards.

b. *Focus more on productivity*

With limited resources, efficient provision of public goods and services should be a major objective of developing countries including Caribbean economies. Focusing on productivity in the public sector could have significant practical and policy significance especially if it results in a reduction in delivery cost for public services and as a consequence, a reduction in the tax rate. Economic theory posits that generally, a reduction in tax rate increases the incentive to work and save, and this causes a higher rate of economic growth. With the two key objectives of improving efficiency in the public sector being to identify

opportunities for improvements in the ways resources are converted into outputs, and improvement in the mix of production factors, Lonti and Woods (2008) points out that this could be a daunting task for the public sector that is constrained by politics and legal requirements. For example, citizens have a legal right to a number of public services such as hospitals, courts, and schools especially at elementary level in developing countries, and reducing them is usually difficult.

c. *Improvement in data collection*

A major problem in the Caribbean as in other developing countries is the lack or unavailability of accurate data for policy making. Although there have been numerous studies on education, health, economic development and growth in the Caribbean, the conclusions have often been different not because of dissimilar models but because of the inadequacy of data and the proxies that are often used to represent the variables under review. In fact, even when data is available from international bodies such as the IMF, World Bank, and the United Nations, the series are often riddled with large gaps.

Measuring public spending efficiency requires both the use of non-parametric and parametric methods. However, the lack of adequate data often forces assessment to be based on non-parametric methods that could be quite subjective. Furthermore, although non-parametric methods are simpler than parametric assessment, their application in small sample settings (which is where they are most suitable for and are often used) could result in small sample bias. To improve public procurement in the Caribbean, a regional approach should be taken with regards to data collection.

d. *Modernization and Skill Upgrade*

It is also believed that the proper management of public expenditures goes hand in hand with modernizing their procurement systems. Whereas for the most part, central governments in Caribbean nations have achieved some level of modernization, local government offices with mayors and parish council members have not modernized. This is because, with the exception of most major capital cities, local government offices are rural based. Buying in all public offices should seek to use new information and communication technologies throughout the procurement process. Large books to store data as is used in many public offices in the Caribbean should be discarded. There should also be a drive to train and upgrade the staff to use the new technology. In the past in many of these countries, individuals were given jobs not based on their ability but based on who they knew that had employment influence.

With this type of employment, there is the need to repay the favor. It should be pointed out however, that the push towards modernizing the procurement systems in the Caribbean will depend on “the need to satisfy the demands of a more enlightened citizenry for more efficient and transparent systems of service delivery by government and for greater accountability in the management of public expenditures” (Hunja, 2003; 2).

CONCLUSION

Robert Hunja (2003) notes that competition and transparency are necessary for any efficient procurement process. Caribbean economies must therefore re-examine their current procurement processes and make deliberate efforts to achieve true efficiency. Agaba and Shipman (2006) further contend that “procurement reform is likely to produce the most beneficial outcomes when it is approached as an integral part of a broader programme of reform”. Such program they believe should include further development of the rule of law, improvement of the general investment climate, serious efforts to reduce the level of corruption and the implementation of modern procurement practices including the use of e-government. In addition, developing countries like those in the Caribbean region must pay attention to the overall management of the financial system in order to achieve optimally and ultimately move beyond the developing stage.

Although the above-mentioned recommendations are useful for any developing country, much more is needed for success in Caribbean societies due to their small size, limited resource base and openness. For example, governments in Caribbean countries may need to band together to create more buying power or use integrative mechanisms such as the Caribbean Common Market (CARICOM) when buying goods, services or resources on the world market. This may not be easily achieved as there is still some degree of insularity within the region. This paper adds to the debate on procurement issues in the Caribbean. Hopefully in years to come, some of these suggestions will be extended and or implemented.

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