



CAEL Series for Entrepreneurship and Leadership Development in Africa

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“Modern procurement techniques for rural development in a globalised world”

Executive Summary

Public procurement constitutes a very significant percentage of GDP in both developed and developing countries, but it is even more significant in developing countries, where some figures indicate that public procurement accounts for more than 30% of GDP. However, due to weak regulations and inadequate accountability frameworks, public spending also lends itself to mismanagement and corruption, exacerbated by low productivity in the public sector.

Public procurement processes in Nigeria, and other African countries, is severely under-developed, leaving a lot of room for poor management, misappropriation and other corrupt practices. There is therefore an urgent need for reform of public procurement laws and regulations, as well as mechanisms put in place to ensure conformance to these regulations in practice. There is also a need to invest resources in development and training of multi-disciplinary staff involved in managing and implementing public procurement, to promote smooth communication across disciplines and better outputs in terms of project executions.

Public procurement policy, if it is well designed and well executed, can be an effective instrument to stimulate the rural economy, as part of a wider strategy for national development. In many developing countries of the world, including Nigeria, the agricultural sector is the biggest employer of labour. In the light of recent government plans to introduce free lunch in Nigerian primary schools, and similar plans associated with procurement of agricultural outputs, there is an opportunity to inject significant capital into the agricultural sector, thereby raising farmers' income and creating more jobs.

This workshop featured topics on supplier relationships and tender readiness, project need identification, market analysis, financial evaluation, and project management, among others. Furthermore, the delegates were taken through a number of market analysis techniques, and how these fit into the wider scope of public procurement and project management.

Finally, recommendations were given on areas such as: design of public procurement to stimulate the rural economy, training of interdisciplinary staff involved in managing procurement, and the use of public procurement to promote innovation and efficiency among small and medium scale entrepreneurs.



CAEL Series for Entrepreneurship and Leadership Development in Africa

Introduction

This training workshop was held in October 2013 and was attended by top-level civil service personnel including state cabinet officials, legislators, local government chairmen and honourable commissioners of Bauchi State Government, Nigeria. The highly interactive but intensive sessions sensitised participants on best practice mechanisms for designing and managing modern procurement particularly in relation to commissioning of large-scale, rural based development projects e.g., electrification, sanitation, primary/secondary schools, irrigation/agribusiness projects, roads and dams.

This Knowledge Transfer Programme is part of CAEL's ongoing intervention in the areas of capacity building for entrepreneurship education and leadership development in Africa. Within the past five years, the centre has run training programmes focusing on entrepreneurship education and curriculum development, and leadership training workshops. More than 150 executives of higher institutions in Africa, including vice chancellors, provosts, and directors of centres, have participated in the training programmes. They represent more than 40 institutions of higher education, mostly from Nigeria.

Public procurement and rural development- global perspectives

Public procurement is the process by which public authorities such as local governments, state government and other public agencies purchase goods, products and services supplied by selected contractors, in furtherance of the government's public functions (Arrowsmith et al., 2011; Odhiambo and Kamau, 2003). Public procurement accounts for between 10 to 15% of GDP in developed countries and more than 30% of GDP in developing countries. This translates to trillions of dollars, constituting a significant proportion of the global economy (International Trade Centre, 2014).

The public procurement system consists of five core elements: i) policy making and management; ii) procurement regulation; iii) procurement authorisation and appropriation; iv) public procurement function in operations; and v) feedback (Thai, 2001). The second element, procurement regulation, provides the legal and operational framework within which public procurement activities are carried out. Public procurement process requires interdisciplinary skills and knowledge which are difficult to integrate into public procurement knowledge. Thus, effective communication among public procurement professionals is essential for the success and smooth running of public procurement operations.

Preuss (2009) study of local government procurement in England showed that public procurement systems can be structured to promote sustainable development on three key fronts: economic development, social issues, and environmental protection. Examples of



CAEL Series for Entrepreneurship and Leadership Development in Africa

procurement approaches associated with economic development are: procuring locally grown food for schools; increased engagement of local and regional suppliers; and improving capability of local firms to bid for public sector contracts. With respect to social issues, public procurement can encourage caterers to supply Fair-Trade certified produce; and capacity building for social enterprises and voluntary organisations. Finally, public procurement can promote environmental protection through the purchase of recycled paper; procurement of vehicles running on alternative fuels; stipulation of low energy consumption for IT equipment; and greener forms of energy provision, among others.

Governments can also use public procurement to stimulate entrepreneurial activities, especially among disadvantaged and marginalised groups in society. Some governments, including the United States, achieve this by setting a certain percentage of government contracts for small businesses owned by marginalised groups. Other approaches to stimulating entrepreneurial activities through public procurement include: subcontracting plans, preferences, and reservations (International Trade Centre, 2014).

The study of public procurement systems in Africa is hampered by conceptual as well as technical problems. The former relates to the problem of defining what is “public”, and the different ways the term “public” is conceived in different countries, whether it is restricted to national and local governments, or whether it includes government owned enterprises like telecommunications, water and energy companies. The latter refers to the lack of data, both in terms of quality and the manner in which available data is kept (Odhiambo and Kamau, 2003). However, based on the study of government expenditures and current public procurement practices in Africa, several scholars have highlighted the need to establish effective laws and regulations governing public procurement, as well as decentralise and devolve powers to various procurement organs, rather than leave it to individual discretion (Wittig, 1999; Odhiambo and Kamau, 2003).

With regard to rural development in particular, a well-planned public procurement framework can help stimulate rural economy by putting small and medium scale farmers at the heart of the supply chain for food and agricultural products. A recent plan set up by the UK government highlighted the fact that the public sector in England spends £1.2 billion annual on food and drink. Currently, food and farming is Britain’s largest manufacturing sector, with more than 3 million people employed in the sector. By setting up a plan for quality assurance and simpler buying process, schools, hospitals and other public sector bodies are able to purchase high quality, healthy food from local British producers. This will in turn inject up to £400 worth of investment into the rural economy, creating more jobs in the process (UK Department for Environment Food and Rural Affairs, 2014). Given that public procurement constitutes an even bigger proportion of GDP in African countries, there is even better



CAEL Series for Entrepreneurship and Leadership Development in Africa

prospects and opportunities for stimulation of the rural economy through a well-crafted public procurement plan.

Training review

The training highlighted key priorities in developing strategic approach to procurement:

- Ensure value for money for procured services and goods
- Ensure common standards of service across suppliers in order to deliver a consistent customer experience and journey
- Ensure full compliance with key legislation and regulation
- Deliver year on year savings through buying gains, demand management, internal efficiencies and contract management.
- Give adequate attention to quality

Overview of activities

Participants were also taken through a number of tested financial techniques for evaluating procurement proposals. These include: i) Payback; ii) return on capital employed (ROCE) or Return on Investment or Accounting Rate of Return ARR); iii) Net Present Value (NPV); and iv) Internal Rate of Return (IRR) (Coffie, 2013). The payback technique calculates the length of time the estimated cash flows takes to pay the original cost of the investment. It is often preferred for being simple to apply, and by organisations and agencies who want a quick payback. The NPV technique is the exact reverse of compound interest and is based on calculating the present value of any future receipts. It is relatively more complex, but it is advantageous for its recognition of time-value of money, facility for ranking of alternative proposals, and focus on the whole life of a project. In making investment decisions for projects, managers face a number of key challenges, which can be summed up as follows: a) all decisions are based on forecasts; b) all forecasts are subject to uncertainty; and iii) the uncertainty needs to be reflected in the financial evaluation (Coffie, 2013).

There were also sessions of various aspects of project management. Participants discussed various pitfalls associated with project management, and why some projects fail. Drawing from case studies of FBI, Victoria State Government and Sri Lanka Rural Electrification Project, one of the sessions highlighted the following causes of project failures: poor project definition, poor governance process; poorly trained personnel; poor understanding of the project environment; poor communication; and poor organisational culture (Hughes, 2013). Participants were therefore encouraged to give necessary priority to picking the right, adequately trained people to manage projects, adopt a well-defined project management approach, accept and learn from mistakes, and encourage innovation. They were provided



CAEL Series for Entrepreneurship and Leadership Development in Africa

procurement templates for management of key supplier relationships, and employment/contract relationships, as well as a template for establishment of micro-finance schemes.

Finally, the delegates were taken through the key stages and main methods of market analysis, and how those techniques can fit well into the wider scope of public procurement and project management. The first step is to research supply and demand markets, including size, trends and dynamics. This is typically followed by Supply Chain Cost Analysis and SWOT analysis to identify opportunities to deliver desired outcomes and improved performance (Sheldon, 2013).

Recommendations

Based on the training, the following recommendations were made to the delegates from Bauchi State Nigeria:

1. Design public procurement of food and agricultural products to benefit rural small holder farmers. This will boost income of poor farmers and stimulate the rural economy.
2. Establish, in partnership with stakeholders in the private sector, quality control agencies to promote better quality of food and agro-allied products, in consonance with public procurement policies.
3. Provide adequate training for staff working across disciplines to coordinate and oversee public procurement processes.
4. Invest in necessary equipment and facilities to promote improved and smooth communication amongst team responsible for public procurement.
5. Promote transparency and accountability by making publically available information about procurement plans and implementations.
6. Engage a minimum percentage of local artisans and skilled workers in the execution of large-scale infrastructural projects- roads, electricity, dams- in the rural areas. This will help generate new jobs and increase income.
7. Use public procurement plans to promote innovation and efficiency among small and medium scale enterprises in the state.
8. Set aside dedicated fund to provide ongoing training and support for managers to keep up to date with global best practices in Project Management.
9. Engage with the public and other stakeholders in government to enact relevant laws on public procurement and review existing ones to ensure they are up-to-date and fit for purpose.
10. Set in place well defined processes and requirements to ensure and monitor compliance with legislation and regulation on procurement.



CAEL Series for Entrepreneurship and Leadership Development in Africa

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