

# Public procurement integrity: OECD principles and good practices

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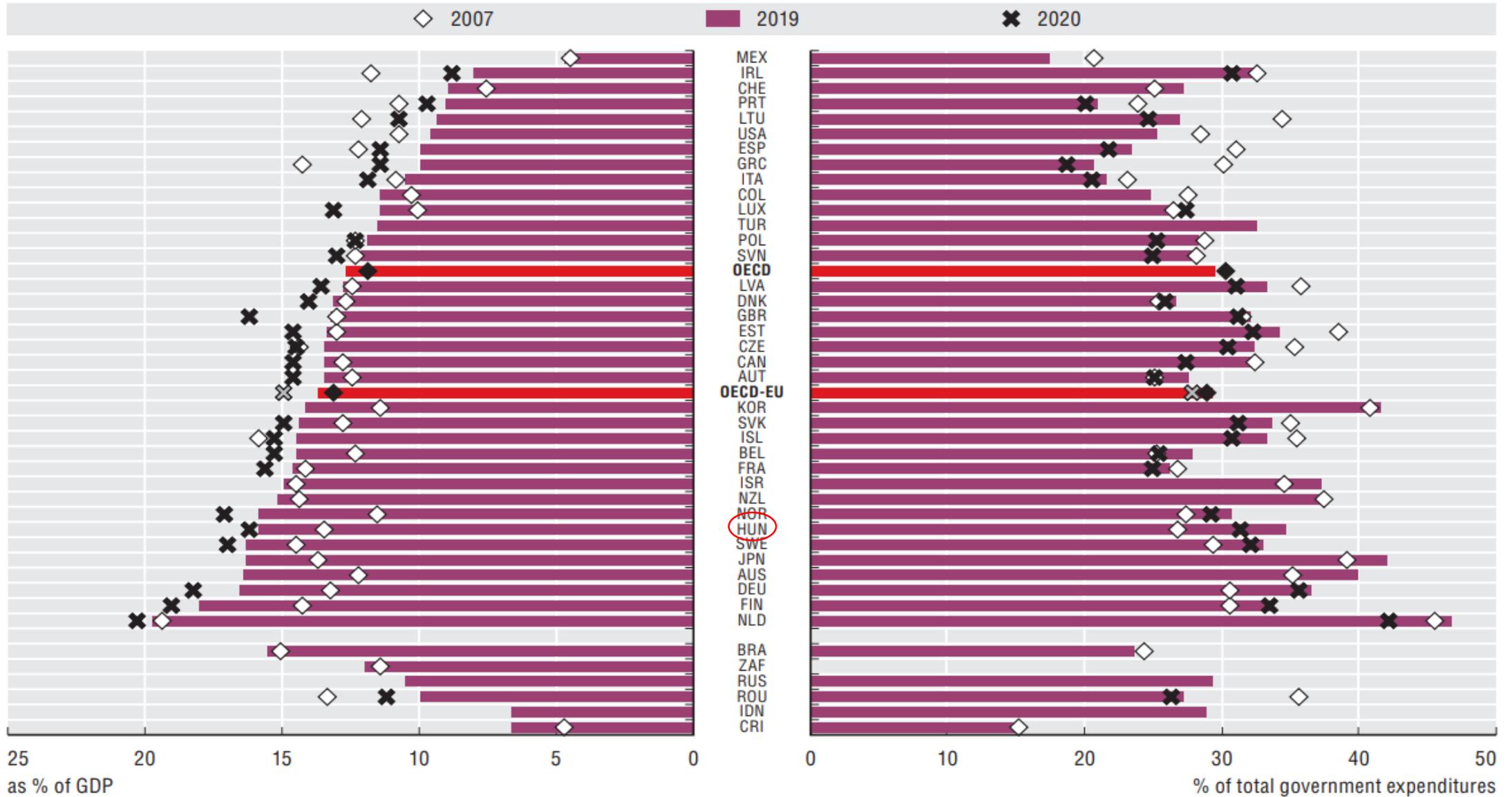


**Why integrity in public procurement matters so much?**



# Because of its size...

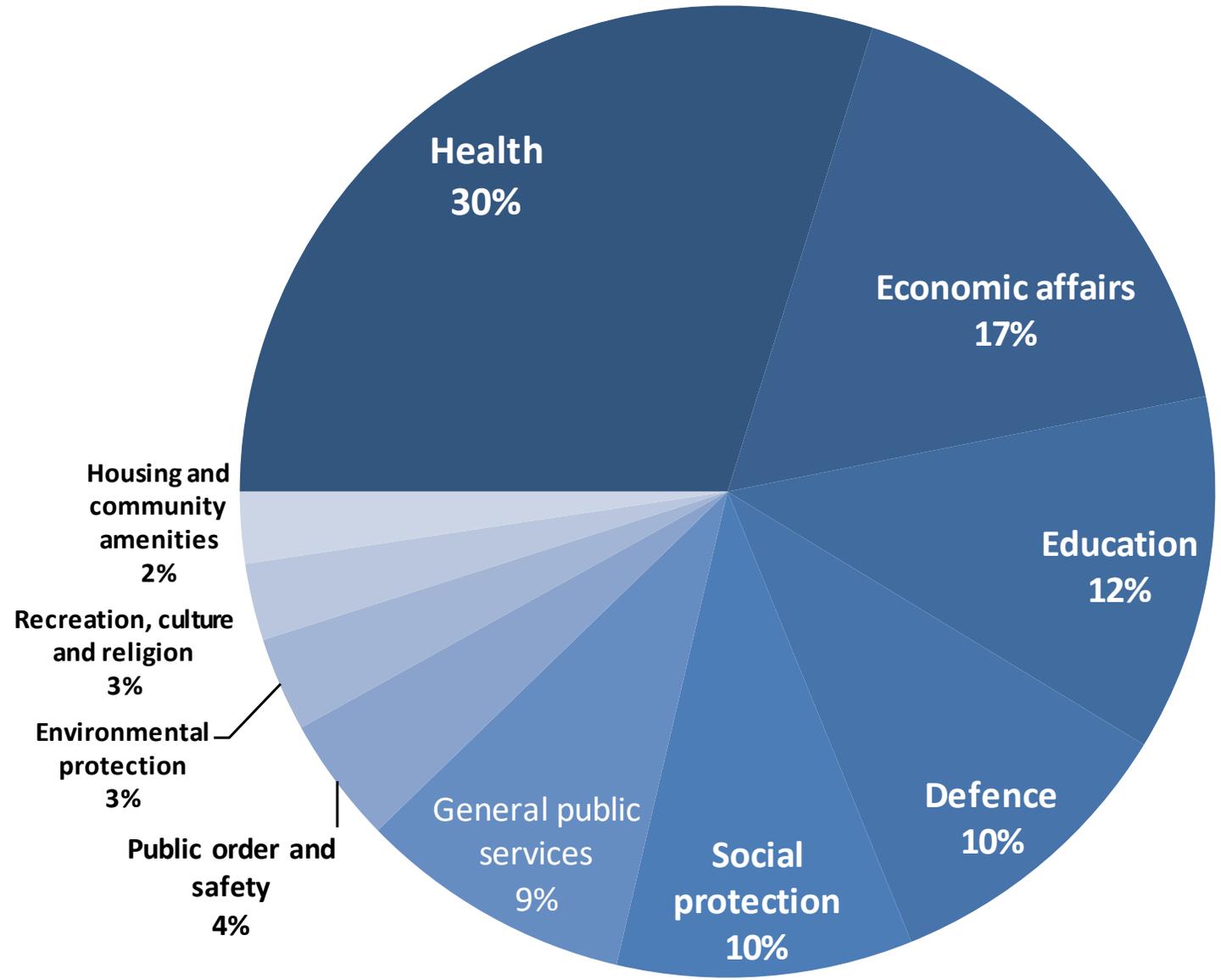
General government procurement spending as a percentage of GDP and total government expenditures 2007, 2019, 2020





# Because of its implications for public service delivery...

## Structure of general government procurement spending in OECD countries



Hungary	
Health	18.3%
Economic affairs	29.5%
Education	8.7%
Defence	3.9%
Social protection	4.1%
General public services	18.2%
Public order and safety	3.9%
Environmental protection	2.4%
Recreation, culture, and religion	8.7%
Housing and community amenities	2.2%



# Because of the inherent high risks in procurement activities...

Procurement problems	Potential Behaviours					
	Collusion	Bribery or gifts	Misuse of information	Fraud	Bias or favouritism	Poor contract management
Expertise of Staff		✓	✓	✓	✓	✓
Relationships	✓	✓	✓	✓	✓	✓
Management of staff		✓	✓	✓	✓	✓
Public/private sector differences		✓	✓		✓	
Information about procurement policy		✓	✓		✓	✓
Tight timeframes					✓	✓
Direct negotiations	✓	✓			✓	
Use of subcontractors	✓			✓		✓
Lack of genuine markets	✓	✓			✓	
Outsourcing					✓	✓
Bypassing the DSTA			✓			✓
Discretion	✓	✓	✓		✓	✓



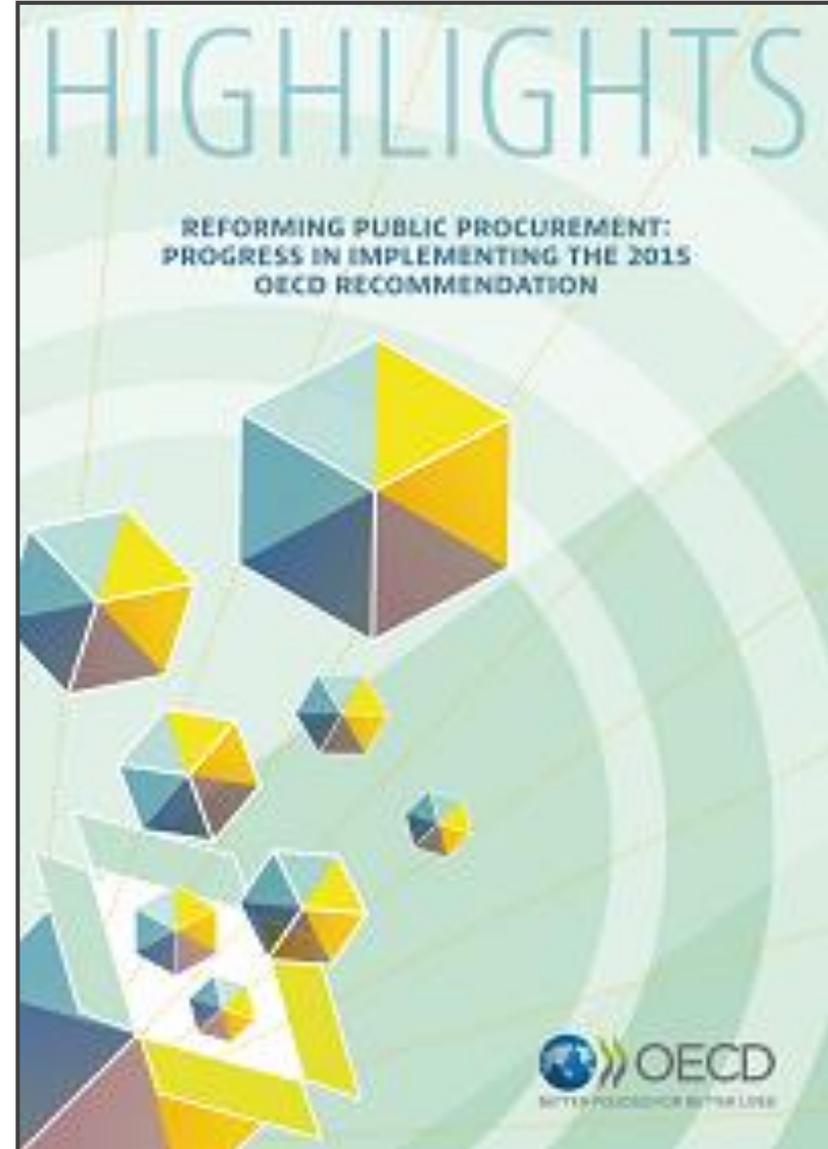
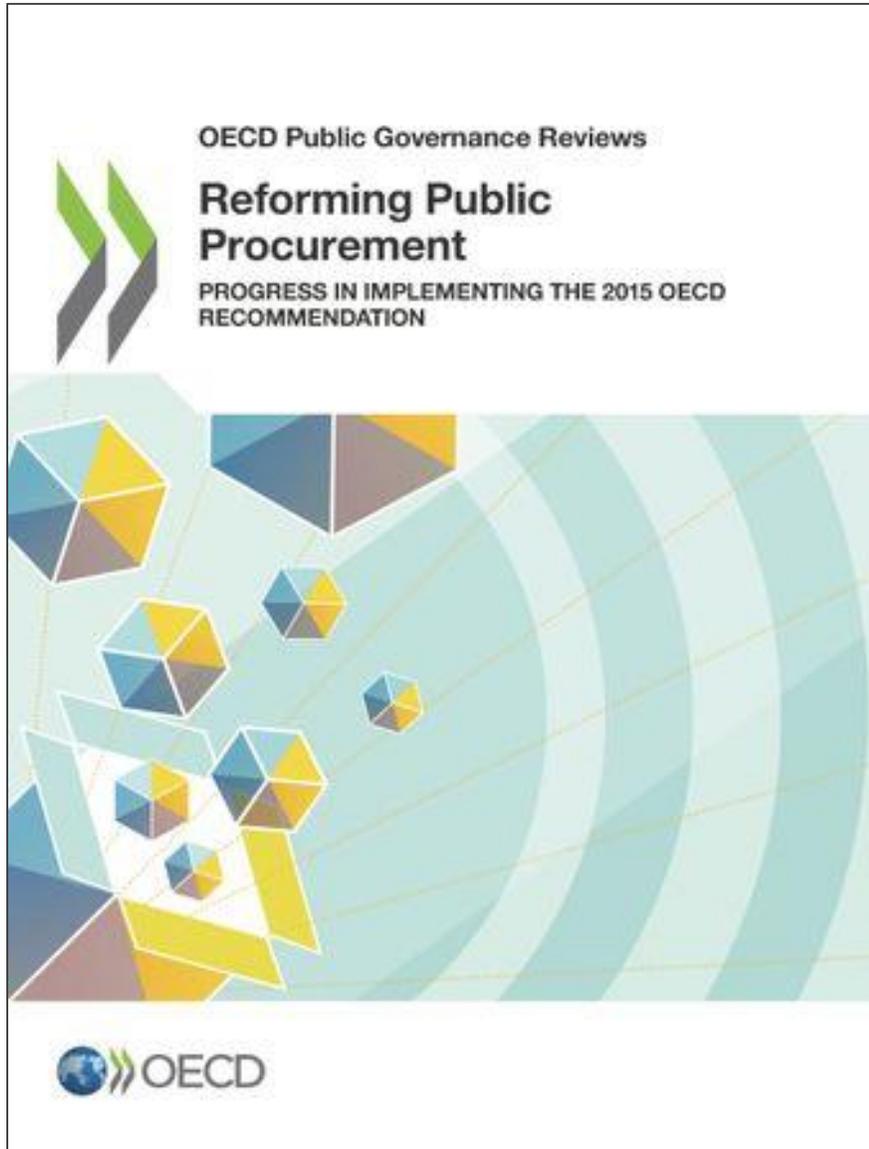
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## OECD Standards



# The OECD Recommendation on Public Procurement







# The OECD Recommendation on Public Integrity

**Public integrity** refers to the consistent alignment of, and adherence to, shared ethical values, principles and norms for upholding and prioritising the **public interest over private interests** in the public sector

The perspective shifts the focus from ad hoc integrity policies to a **context** dependent, **behavioural, risk-based** approach with an emphasis on cultivating a **culture** of integrity across the **whole of society**





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## State of play in Hungary



## State of play in Hungary

- > Ongoing implementation of the National Anti-corruption Programme
- > E-procurement is mandatory and functionalities have been improved with new modules and connections to registers.
- > The Public Procurement Council brings together different stakeholders, including the supreme audit institution, the Government Control Office, business, and professional associations.
- > The institutions carrying out control of public procurement set up a Professional Negotiation Forum to exchange their experiences and coordinate their activities.
- > ARACHNE system used by authorities managing EU funds for the purpose of risk scoring, data mining, and data enrichment.
- > In September 2020, the Public Procurement Authority launched an anonymous information channel to allow sharing information concerning suspected public procurement infringements.



## Remaining challenges

- > The European Commission's 2020 Country Report highlighted that “systemic factors recurrently hinder fair competition and risk undermining the efficiency of the selection process”.
- > Eurobarometer 2019 survey data shows that 48% of businesses consider corruption to be a serious problem in Hungary (higher than the EU average of 37% and Hungary's own score in 2015).
- > TI's Global Corruption Barometer for the EU 2021 found that:
  - > 54% of answers agreed that the government is run by a few big interests looking out for themselves (vs 53% EU average)
  - > 40% of surveyed thought corruption increased in the previous 12 months in Hungary (vs 32% EU average)
  - > 17% of surveyed paid a bribe for public service in the previous 12 months in Hungary



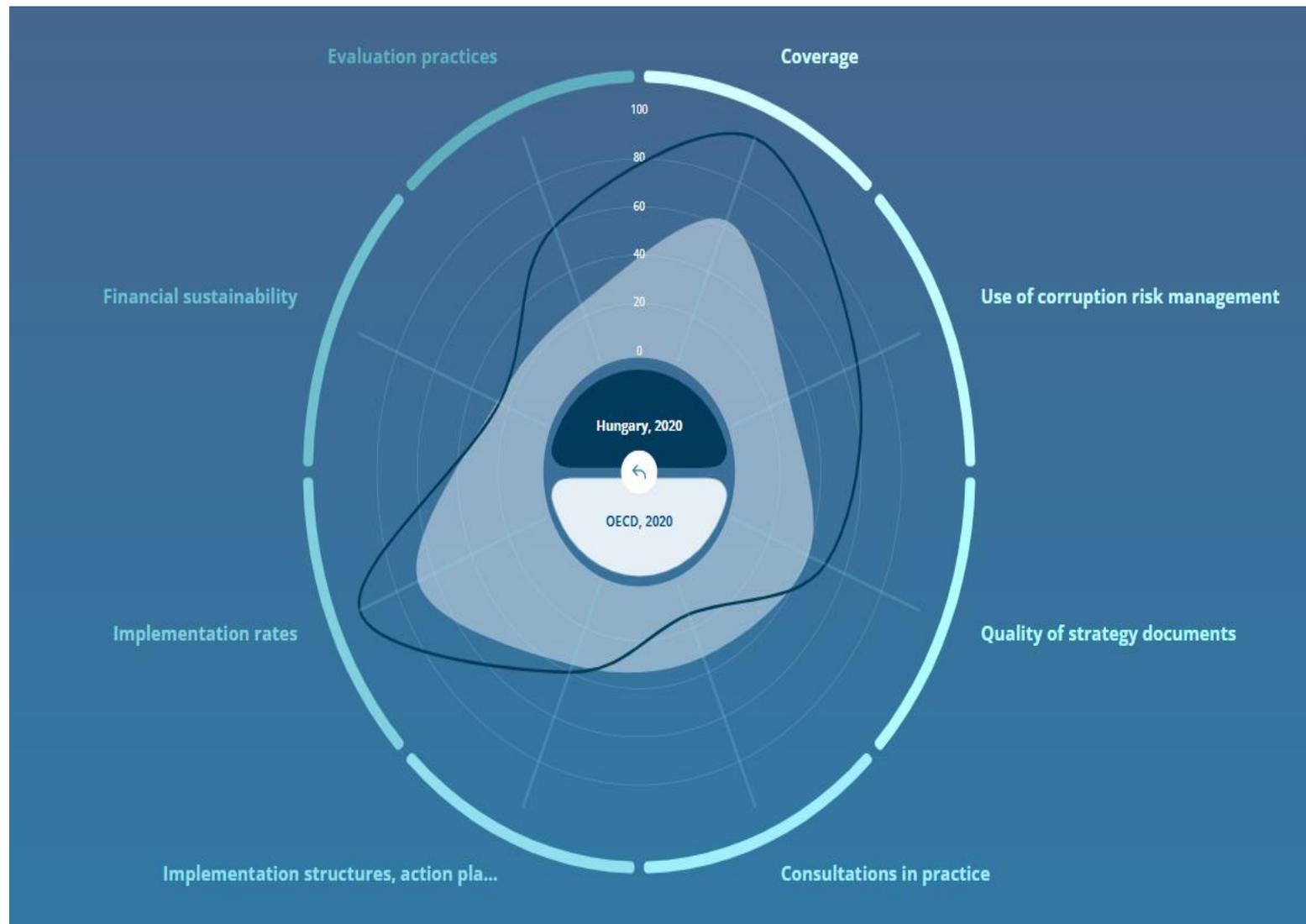
# Opportunities for improvement: Quality of strategic framework

## Principle 3 of the Recommendation on Public Integrity: Strategy

Quality of public integrity and anti-corruption strategies.

### Key findings:

- Hungary is aligned with or above the OECD average for all sub-indicators, except *consultations in practice*.
- Hungary is top performer in:
  - *Coverage*
  - *Implementation rates*
- More resources could be allocated to strengthen *consultation and evaluation practices*.





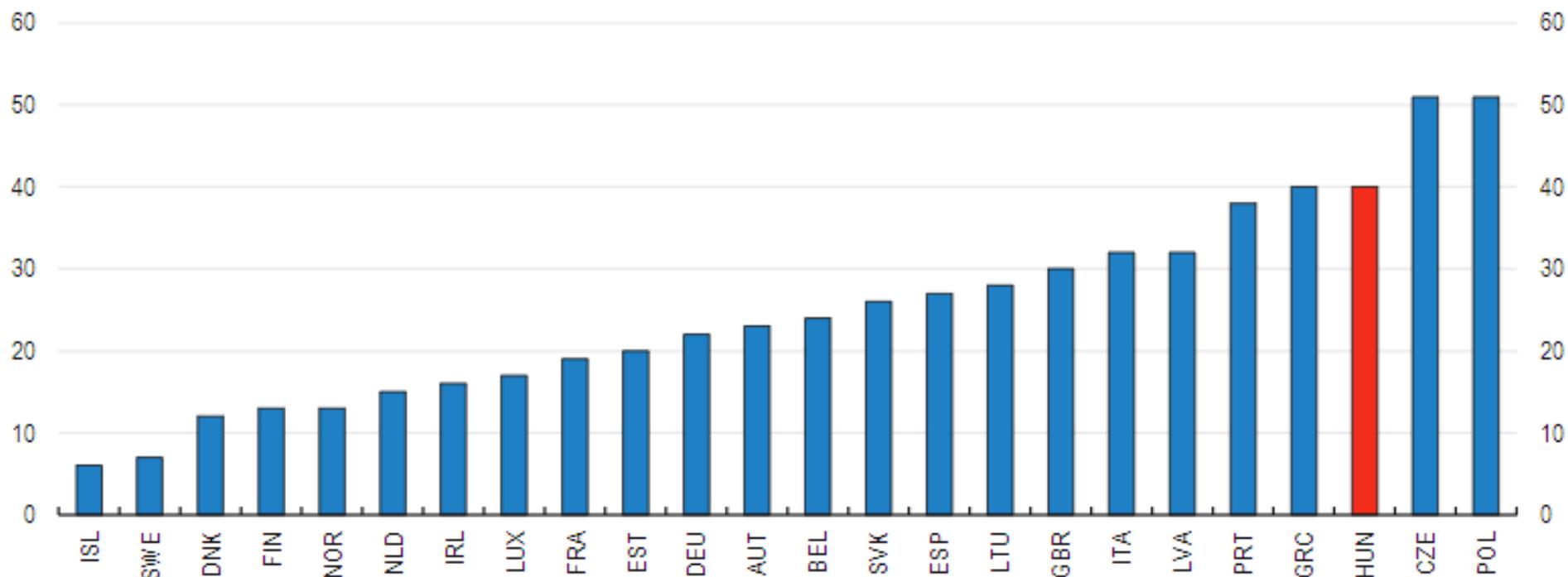
## Opportunities for improvement

- > Although there have been improvements, further efforts needed for making public procurement data accessible and re-useable (downloadable/searchable, including contract award notices)
- > Control weaknesses:
  - > Several years in a row the EU anti-fraud agency (OLAF) made a financial recommendation to recover EU funds due in part to deficiencies observed in public procurement .
  - > Several Commission audits on public procurement carried out in 2017-2018 identified systemic irregularities, in particular related to discriminatory or restrictive exclusion, selection or award criteria, and unequal treatment of bidders.
  - > In 2019, the Commission imposed around EUR 1 billion of financial corrections due to deficiencies in the public procurement related management and control system (highest financial correction in the EU in the 2014-2020 period).
- > Competition: the share of contracts awarded to a single bidder remains high (40% in 2019).
- > The Hungarian Competition Authority could be more active in sectors with high risk of collusion:
  - > Only 3 of 13 cartel decisions concerned public procurement in 2019, despite the high number of irregularities reported by the European Commission.
  - > Infringement decisions in public procurement in 2019 were not taken in sectors with high risks of collusion, such as construction and telecommunications.
- > The fee to challenge the results of procurement procedures is 0.5% of the procurement value, which can be quite significant in cases of high value procurements, discouraging appeals.



# Opportunities for improvement: Competition

Share of procurements with only one bidder, %, 2019



Note: The Figure measures the proportion of contracts awarded where there was just a single bidder (excluding framework agreements, as they have different reporting patterns).

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**Good practices**

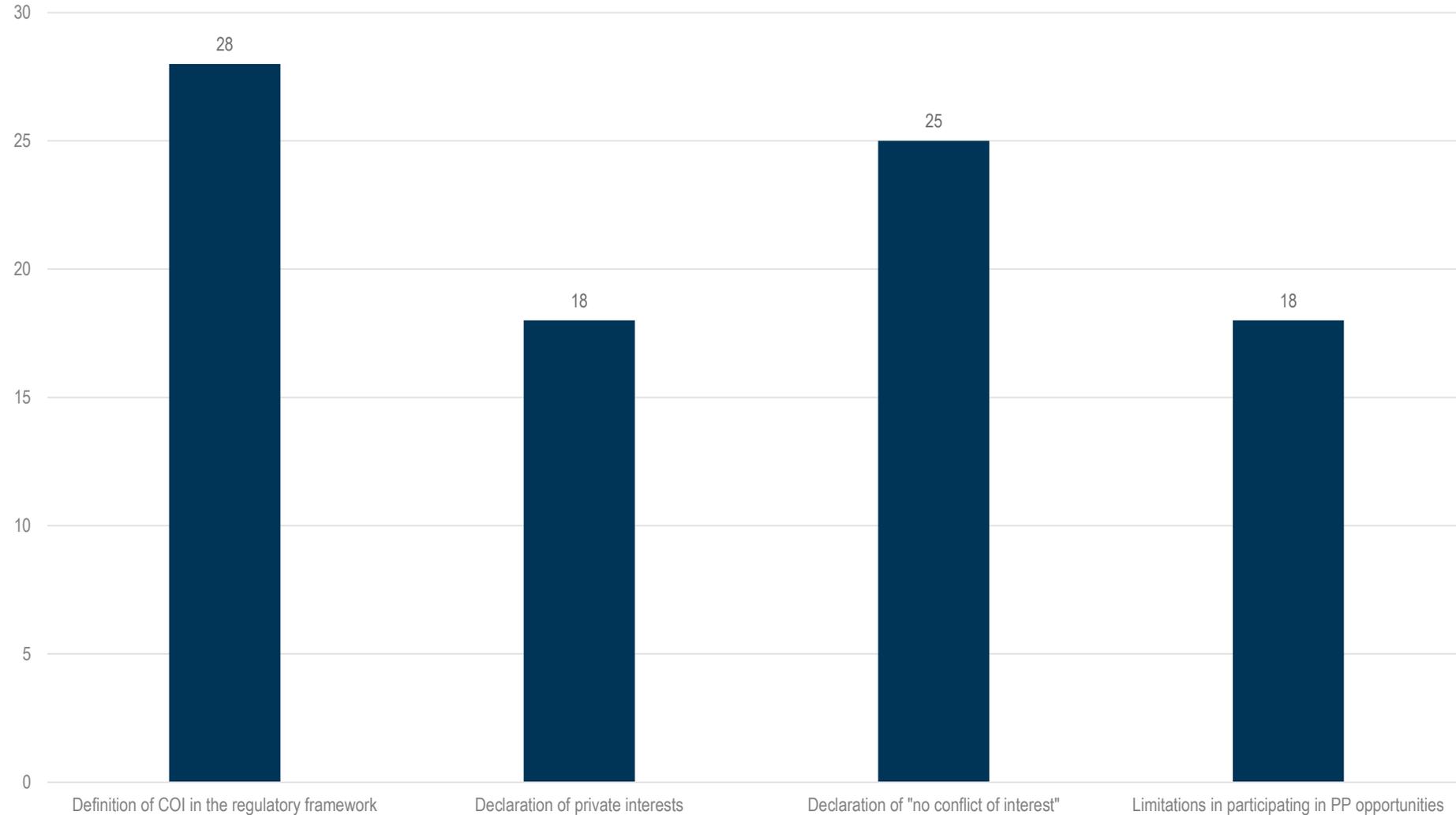


## Good practices to foster Integrity in Public Procurement

- > Developing a culture of integrity, going beyond a compliance approach, by:
  - > Setting common standards and norms that balance values-based with rules-based approaches
  - > Protocols to identify and manage conflicts of interest
  - > Ethical leadership
  - > Investing in training and guidance
  - > Advancing an open organisational environment, where integrity dilemmas can be discussed without fear of reprisal and which fosters reporting of wrongdoing
  - > Extending standards, values, and rules to the supplier and contractor communities

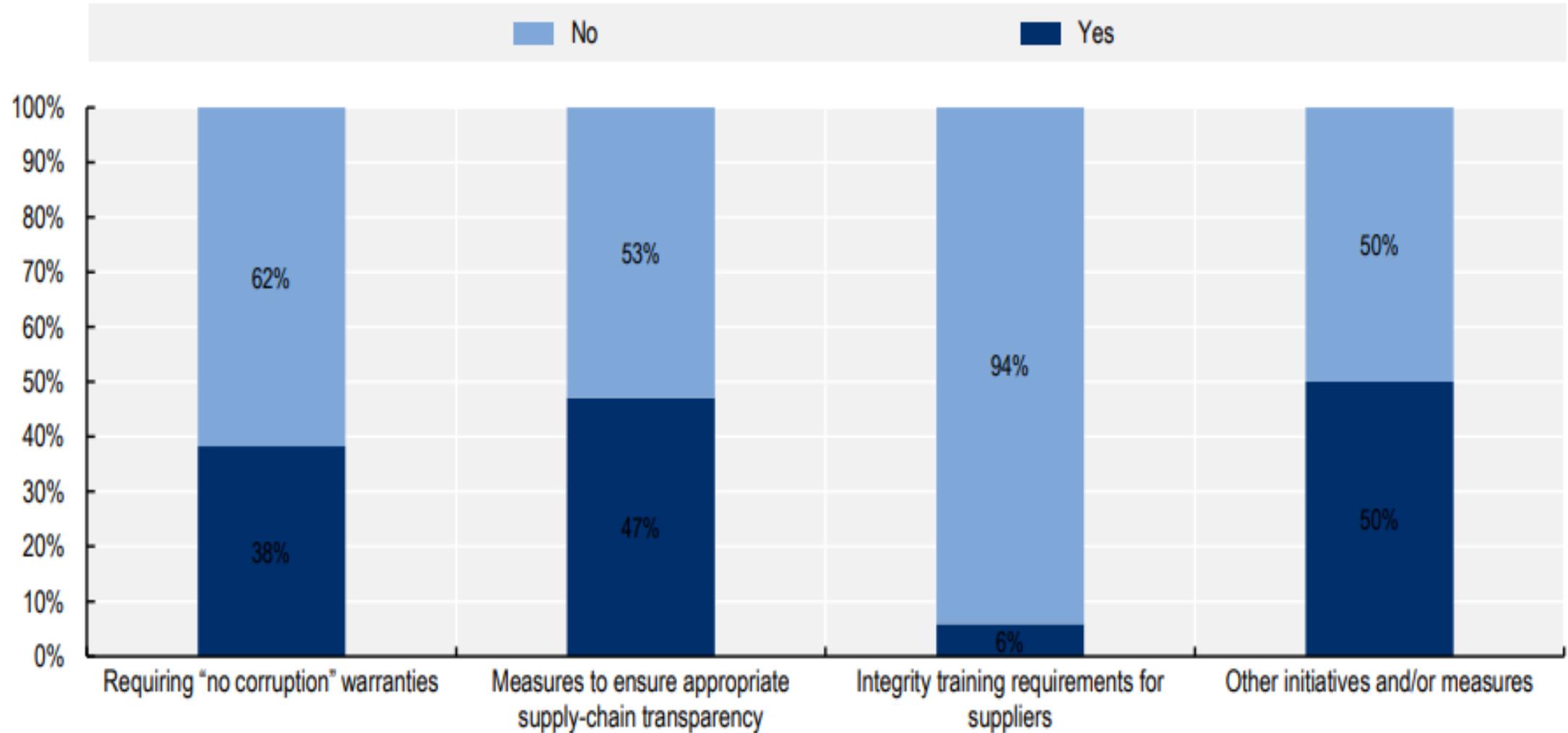


# Policies and mechanisms to identify, prevent, and manage conflict of interest of PP officials





# Measures to promote Integrity among suppliers



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## Data-driven approaches

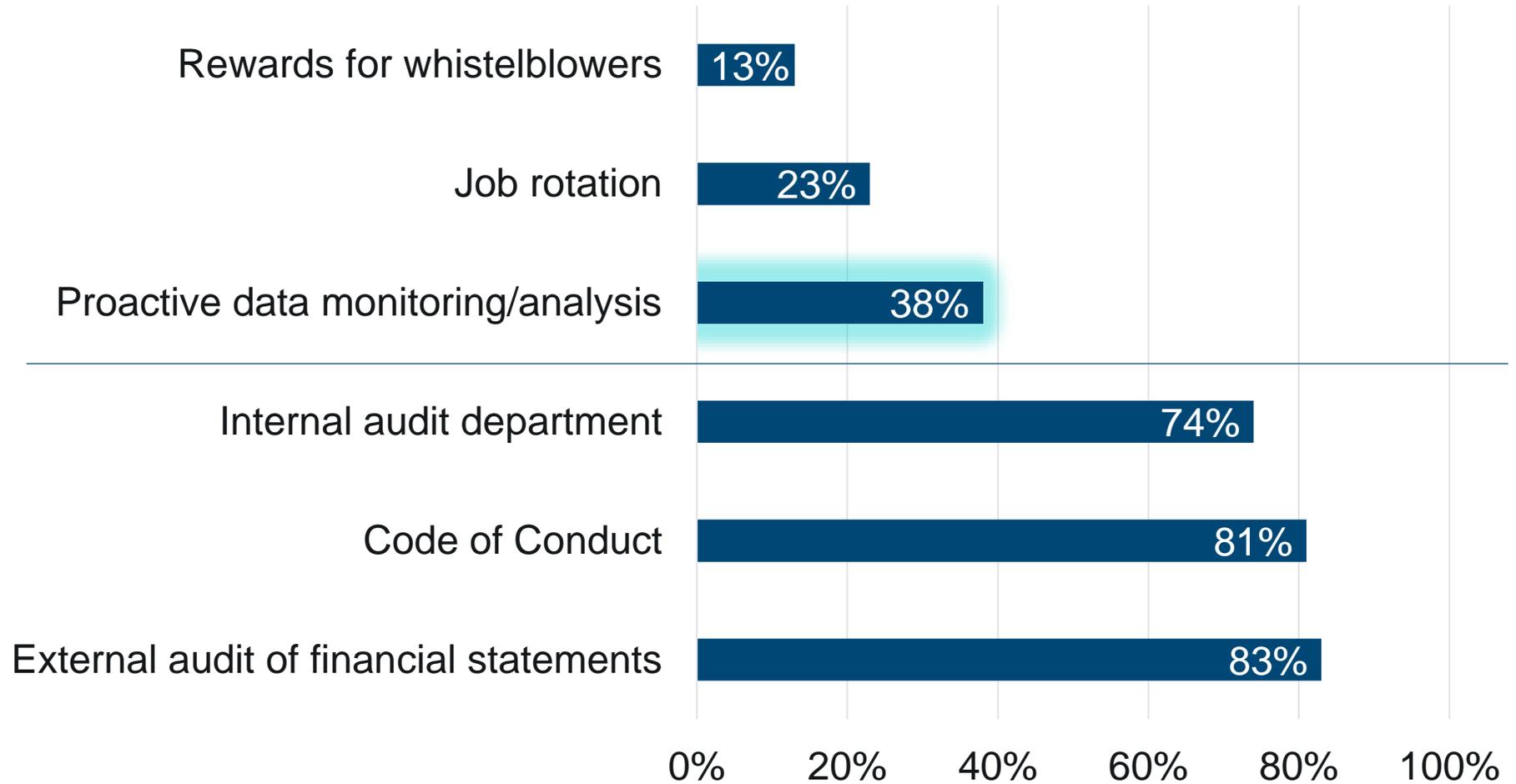


# Data analytics for safeguarding integrity in procurement

<b>Role</b>	<b>Purpose</b>	<b>Examples</b>
<b>Hindsight</b>	What happened?	Data matching and data mining to assess improper payments for government services
		Benford's Law to identify anomalies
<b>Insight</b>	What's going on and why?	Applying statistical models to understand extent of existing problem
		Text mining and text analysis to gain insights from unstructured data
<b>Foresight</b>	What could happen in the future?	Advanced visualisations and dashboards to inform management decision-making
		Using historical data to predict high-risk claims in medical programmes, and identify patterns that can inform improvements to existing control activities
		Applying statistical mode to understand trends and explore future scenarios

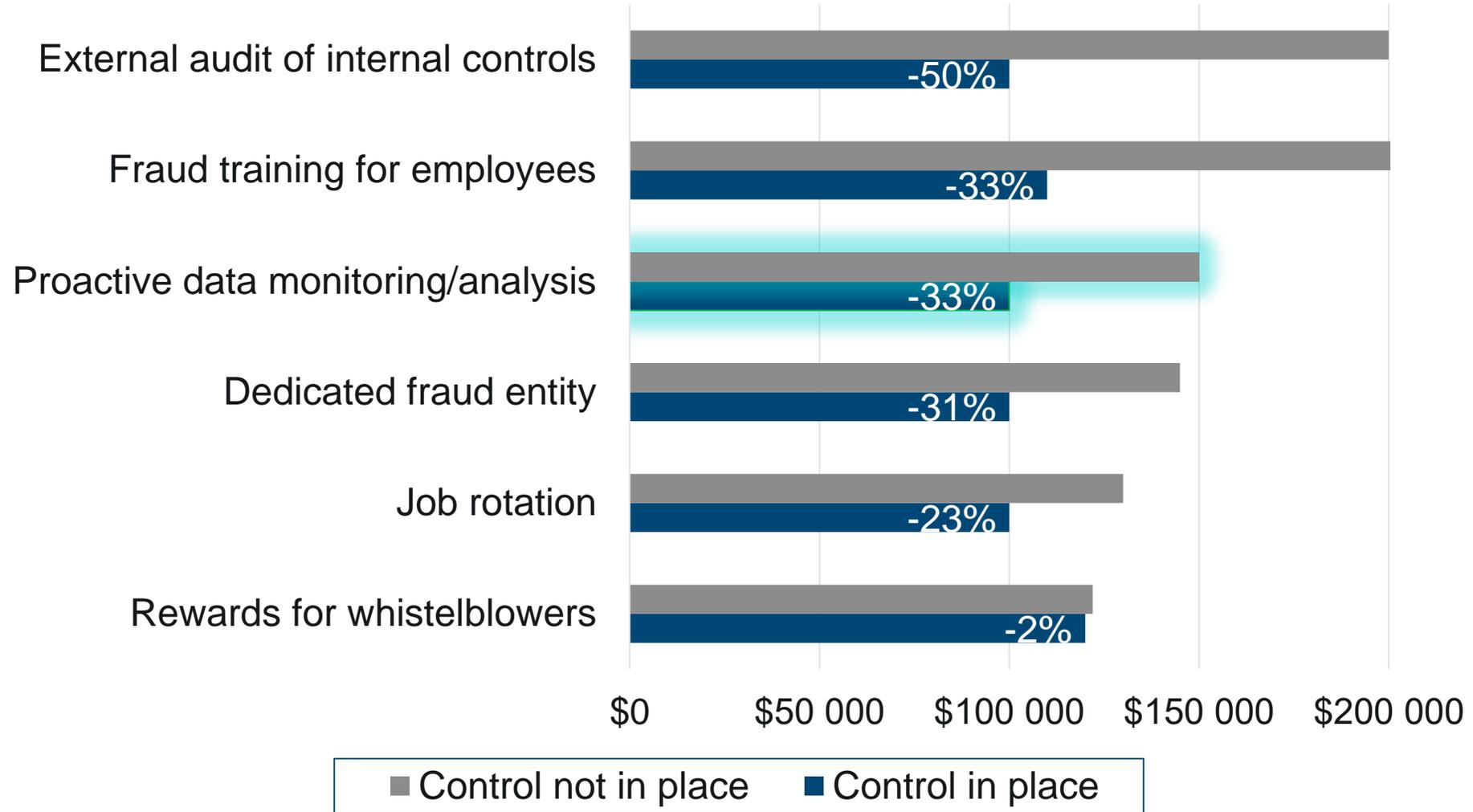


## The three least and three most common anti-fraud controls





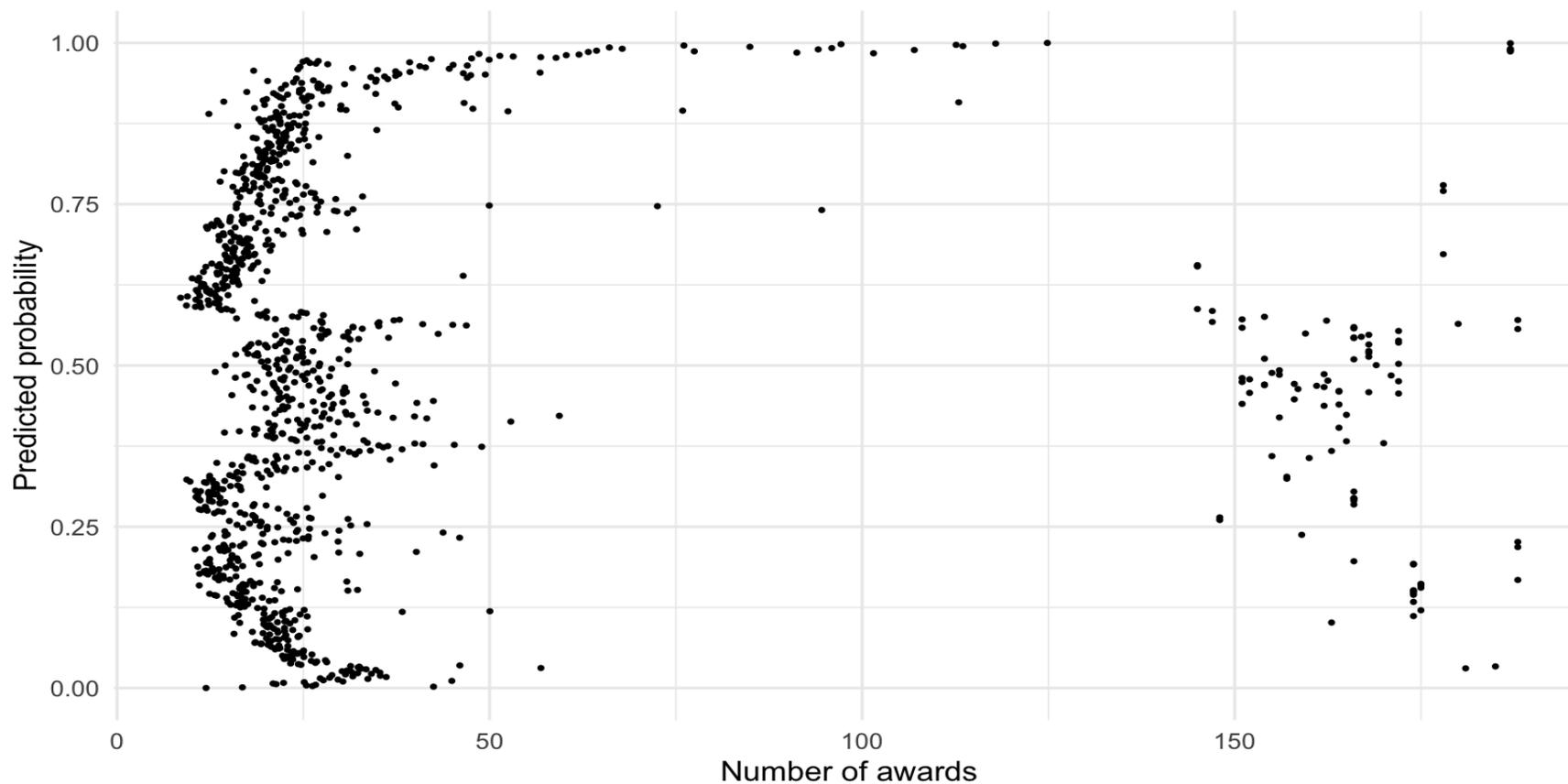
# Impact of controls on fraud loss (percent reduction in USD)





# Rationale of data driven risk assessment for fraud detection

- There are hundreds of thousands of awards each year
- Only a handful of organisations and awards can be investigated.
- As only few awards are fraudulent, a random/quota-based selection may not allocate scarce investigative resources efficiently.



Results: number of awards by probability of sanctions



# Hungarian public procurement contracting market of buyers and suppliers (2014)



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**Key messages**



- Public procurement is a **strategic government activity** that can help governments achieve their public policy objectives (i.e., service delivery, inclusion, etc.), but **integrity risks** are high:
  - > The response by countries to the COVID-19 crisis relied heavily on public procurement. Unfortunately, corruption cases were not scarce throughout the world.
  - > Good governance of public procurement can significantly contribute to resilience and crisis preparedness.
- **Recent achievements** provide foundations for **further reform**: Anti-corruption Strategy, e-procurement, stakeholder engagement, among others.
- However, there are reasons to be concerned about **increasing perceptions of corruption** in Hungary.



## Recommendations

- Keeping the objective set for 2021 of reducing to 15% the single bidder procurements
- Expanding even more the functionalities of e-procurement (i.e., e-invoicing)
- Strengthening risk assessments and making them more data-driven, as well as improving the use of the results for internal control and decision-making.

The OECD could benchmark Hungary's public procurement system to move it closer to best practice, as it has done in other countries such as Bulgaria, Chile, Colombia, Costa Rica, Italy, Lithuania, Mexico, Portugal and the Slovak Republic.

# Köszönöm szépen a figyelmet!

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