

# Public Procurement Reform in Ethiopia: Factors Leading to Effective Public Procurement Implementation: The Case of Amhara Region

Getnet Amdework Chekol

Procurement consultant, SAFEGE consulting Engineer, Bahir Dar Branch, Ethiopia

E-Mail: [getamdew@yahoo.com](mailto:getamdew@yahoo.com)

Tilahun Aemiro Tehulu

Assistant Professor, College of Business and Economics, Bahir Dar University, Ethiopia

E-Mail: [tilahuntehulu@yahoo.com](mailto:tilahuntehulu@yahoo.com)

## Abstract

Prior to public procurement reform in Ethiopia, non compliance with the country's public procurement rules and regulations was observed. These include inefficiency, non transparent procurement processes, and lack of knowledge of rules and regulations. The main objective of this study is to identify factors leading to effective public procurement implementation in Ethiopia with particular reference to Amhara regional bureaus and other government institutions found in Bahir Dar town. The study used data from a survey of 42 public procurement officers. The data were collected using questionnaire containing close-ended items of Likert scale type with five points. The data had been analyzed using multiple linear regression. The findings indicate that familiarity in public procurement rules and regulations, transparency in public procurement processes, ethics in public procurement and efficiency in public procurement processes have a positive and statistically significant impact on effective public procurement implementation. The accountability in public procurement, though have positive associations with effective public procurement implementation, did not have a significant impact on effective public procurement implementation.

**Keywords:** Public procurement, Government institutions, Ethiopia

## 1. Introduction

Public procurement is a key tool to promote objectives of an economic, environmental and social nature gaining much attention globally over the past decades. In developing countries, it is one of the main instruments to the achievement of development goals such as reducing poverty and providing health, infrastructure, education and other services hence immensely contribute to best utilization of public resources. Procurement budgets in developing countries account for about 20 percent of government expenditure globally (Mlinga, 2009), and many governments have embarked on reforms in their procurement systems to streamline and harmonize legal and institutional framework.

According to Abebe (n.d.) "in Sub Saharan African Countries, studies have shown that out of the total public resources, procurement of goods, works and services account for about 70 percent of the total public expenditures." In addition, in Ethiopia from the total public expenditure more than 60 percent is used for procurement of goods and services (Teshfahun, 2011). Improving the public procurement system will obviously impact substantially on the growing economy of Ethiopia which will result in budgetary savings and efficiency in government expenditures, thereby creating wealth and reducing poverty.

Following the downfall of the Derg regime in 1991, the country was regulated by the previous financial proclamation No.57/1966 and the Ministry of Finance (MOF) took responsibility of regulating the procurement system. However, in the later years Ethiopia has attempted to address weaknesses in its public procurement process by the passage of several financial and legal instruments. The Government enacted the financial regulations no.17/1997 which deals with procurement principles and Ministry of Finance directives about procurement and contracts in 1997. In 1999 as a part of Civil Service Reform in Ethiopia, Ministry of Finance has prepared the draft "procurement manual".

According to World Bank CPAR (2002), even if the above rules and regulations have been enacted, successive review of the public procurement regimes in Ethiopia reveal a lot of short comings such as procurement laws and regulations are not based on recognized international models, absence of clearly defined central oversight and public bodies at all level, shortage of experienced management and procurement staffs, lack of transparency in the procurement processes, absence of procedures for modern form of procurement activities and unclear institutional and organizational arrangement required in the management of the public procurement process.

It is in the light of these challenges that the Federal Government of Ethiopia Procurement and Property Administration Proclamation No 649/2009 were enacted by parliament replacing the previous procurement laws.

The legal framework in the proclamation is supported by procurement directives and guidelines and it is based on the UNCITRAL Model Law. The procurement rules, regulations and manuals of the regional states are based on the federal model (CPAR, 2002) and this is one of the public procurement reforms.

All these laws, regulations, directives, manuals and institution were meant to provide a comprehensive framework of administrative powers to regulate the activities of procurement within the public sector efficiently and effectively. Although public procurement is perceived as a major function of government, and although governmental entities, policy makers and public procurement professionals have paid a great deal of attention to procurement improvements or reforms, public procurement has been a neglected area of academic education and research (Thai, 2001). Thus, this study attempted to identify factors leading to effective implementation of public procurement in the case of Amhara region since no study has been made to address the same.

## **2. Review of Related Literature**

### **2.1 Definition of Public Procurement**

Procurement consists of the whole processes of acquiring goods and services and it starts with identification of needs and preparing the procurement plan and the procurement method. It also includes risk assessment, identification and evaluation of alternative solutions, contract award and management, receiving the procured property or obtaining the services and settling of payments ((Ngugi & Mugo, p.2317).

According to Arrowsmith (n.d.), public procurement is an element of government's activities of purchasing goods and services which it needs to carry out its functions. Phases of public procurement processes are: identification of procurement needs, procurement planning, bid processes and placing of the contracts and contract management.

According to the Ethiopian Public Procurement Proclamation (No 649/2009), procurement means "obtaining goods, works, consultancy or other services through purchasing, hiring or obtaining by any other contractual means." From the above definitions, the overall tasks of procurement is to obtain goods, works, consultancy services and other services at the right quality, in the right quantity, from the right sources, at the right time, place and price to achieve an organizational objectives.

### **2.2 Public Procurement Systems**

According to Thai (2009), the public procurement system is built on four pillars: procurement laws and regulations, procurement workforce, procurement process and methods, and procurement organizational structure.

A sound public procurement system needs to have good procurement laws and regulations. In practice and theory, public procurement laws and regulations have been considered as one of the most important pillars of a sound procurement system. According to Thai, procurement laws and regulations lead to procurement efficiency or inefficiency. There are debates about procurement legal framework hinders or helps procurement discretion. Ideally, procurement laws and regulations should be clear, consistent, comprehensive, and flexible.

According to an OECD report (2006), a sound procurement system need also to have a competent professional workforce equipped with defined skills and knowledge for specified procurement jobs. The procurement workforce passes through virtually every effort within an organization, including successfully acquiring goods and services and executing and monitoring contracts. Moreover, the procurement area requires a wide range of standard operating procedures to deal with the normal daily tasks.

### **2.3 Public Procurement Reforms**

Developed and developing countries have been taking various public procurement reforms due to internal and external challenges facing in public procurement. According to Hunga (2003), countries that are reforming procurement systems can be divided into four general categories characterized by their stage of economic development and the issues driving the reform efforts. One category consists of those countries whose economies are in transition from planned/socialist economies to market-based systems. The second group of countries could be described as the "middle income" countries. Many of these countries have had market-based procurement systems in place but are in the process of modernizing such systems. The third group of countries could be described as developing countries. In many of these countries, the procurement systems differ very little from those that were put in place during the colonial era. Proper management of public expenditures, including the fight against corruption has motivated such countries to modernize their procurement systems. Pressure from the donor and lender community has also been a factor in urging and providing resources to support the reforms. Fourth group is reform of public procurement systems is also taking place in the industrialized economies. The motivation to reform in these countries is largely driven by the fact that governments are significantly changing the profiles of what and how they are buying, the need to use new information and communication technologies throughout the procurement process and the introduction of new concepts of public sector management which establish "value for money" as a goal of the procurement process.

As stated in the Council of European Union Press Conference (2013), the agreement on the reform of public procurement policy includes:-Simplification and flexibility of procurement procedures, strategic use of

public procurement in response to new challenges, better access to the market for small companies, sound procedures and governance.

### 2.3.1 Legal Framework of public procurement reforms in Ethiopia (proclamation No 649/2009)

Under civil Service Reform Program, the Expenditure Control and Management was launched in 1996 by the Government of Ethiopia with the aim of improving the overall public financial management in Ethiopia. Public procurement was one component of the expenditure control and management. In 2009, the Government of Ethiopia enacted procurement and property administration proclamation No 649/2009 and it has established the Public Procurement and Property Administration Agency (PPA) accountable to the Ministry of Finance and Economic Development to manage the public procurement activities.

**Table. 1. Legal Framework of public procurement in Ethiopia Proclamation No. 649/2009**

LEGAL FRAMEWORK	DETAILS
Public Procurement proclamation No 649/2009	Provide a comprehensive legal regime to harmonize and safeguard public procurement
Public Procurement Manual	Provides practical guidance and step-by-step procedures for undertaking procurement in accordance with the proclamation.
Standard Tender Documents (STD)	They comprise standard invitation and contract documents for procurement of all values. There are separate standard tender documents for goods, works and services.
Public Procurement Regulations	They contain detailed rules and procedures for all aspects of the procurement system, the operations of Public Procurement Authority (PPA) and procurement entities and the conduct of procurement activities.
Guidelines	issued by the Public Procurement Authority (PPA) which provides supplementary guidance on disposal, single source procurement, margins of preference, framework contract agreements, sustainable public procurement etc.

Source: PPA Regulations (2010)

## 2.4 Factors affecting effective public procurement implementation

### 2.4.1 Familiarity

Familiarity of rules can best be described as having the knowledge with respect to the rules, processes and procedures in carrying out a procurement function. Procurement people can be familiar with public procurement rules and regulations through training and practical experiences on public procurement. Hunja (2003) argued that knowledge is a key ingredient of a well functioning, modern legal and institutional public procurement framework and that the lack of it brings about capacity problems. It is possible to therefore argue that the human resource base of a reform program in public procurement is indispensable for a successful reform and for achieving a high degree of compliance since the lack of knowledge or familiarity with the procurement rules can lead to non-compliance.

### 2.4.2 Transparency

Armstrong (as cited in Abebe, n.d.) noted that transparency refers to unrestricted access by the public to timely and reliable information on public sectors' activities, decisions and performance. Lack of transparency in public procurement is a major obstacle to sustained economic growth and procurement activities can be the source of unhealthy activities such as corruption, scandal and abuse of public resources. Providing an adequate degree of transparency throughout the entire public procurement cycle is critical to minimizing the risk of fraud, corruption and mismanagement of public funds. The accessibility of information, stakeholder participation in key stages of the procurement cycle, and the possibility of review and remedy in case of dispute are essential to transparency and accountability in public procurement (OECD, 2011).

According to Arrowsmith et al (2000) the concept of transparency can be interpreted as publicity for contract opportunity, publicity for rules governing public procurement procedures, and principles of rule based decision making that limit the discretion of procuring entities.

### 2.4.3 Accountability

Barrett (as cited in Mugo and Ngugi, n.d.) noted that in public procurement accountability shows how the public interest has been protected in the expenditure of public funds. Maintaining integrity in public procurement is one of the most important pillars of modern procurement systems and ensuring the accountability of procurement officials and procurement managers is perhaps the most essential aspect of this goal. According to Schooner (as cited in Osei-Afoakwa, 2013), accountability is the process by which officials and participants whose actions determine public procurement input and outcomes are held responsible for such input and outcomes, and is a

critical ingredient in public procurement corruption control.

#### **2.4.4 Ethics**

According to Wood (as cited by Ngugi & Mugo, n.d.) , “Ethics is all about what is morally right and morally wrong, so procurement ethics is concerned with what is morally right in procurement as profession.”. Ethical behavior includes avoiding conflicts of interest, and not making improper use of an individual's position. Public officials should always behave ethically and fairly, including in their business undertakings.

#### **2.4.5 Efficiency**

According to Arrowsmith et al (2000), the major objective of any procurement is to successfully acquire goods and services concerned on the best possible terms .This is ”value for money” or ”efficiency” or “economic efficiency.” According to Abebe (n.d.) “The dictionary meaning of efficiency is productive use of resources, i.e., the ability to do something well or to achieve a desired result without wasted energy or effort.” OECD (2005) stated that procurement officials need to be equipped with adequate tools, technology and organizational environment for improving planning and management and that their decisions need to be well informed in order to enhance efficiency in public procurement. According to Abebe (n.d.), inefficient procurement adversely affects development issues such as service delivery, economic growth, professionalism and international trade and investment, private sector development and decentralization.

### **3. Research Methodology**

#### **3.1 Research Design**

The purpose of this study was to identify factors that affect effective public procurement reform implementation. Thus, the study has followed causal research design. Causal research design was chosen because it enables the researcher to see cause-effect relationships.

#### **3.2 Sampling and Data Collection**

According to Amhara Civil Service Bureau (2013), there are nineteen government bureaus and thirty one other public institutions. From the total population (50 institutions), this study has considered only 42 institutions as the sample of the study. These institutions are selected using purposive sampling technique. The sample institutions are selected for they are public sectors that have been implementing public procurement and a significant amount of the region’s resource is used by these institutions and the information is collected from each institution’s procurement officer.

Data had been collected using questionnaire. The questionnaire contained close-ended items of Likert scale type with five points ranging from one to five, representing very high (5) to very low (1). Questionnaire was adopted from different sources. Mainly the questionnaire had been adopted from Abebe (n.d.) in his study on internal factors affecting Drug procurement processes. The questionnaire was prepared in Amharic and English.

#### **3.3 Hypotheses**

The following hypotheses had been developed and tested using empirical data.

- There is a positive correlation between familiarity with procurement rules and regulations with effective public procurement reform implementation.
- There is a positive correlation between transparency of public procurement processes and effective public procurement reform implementation.
- There is a positive correlation between accountability with procurement laws and effective public procurement reform implementation.
- There is a positive correlation between ethics in procurement and effective public procurement reform implementation.
- There is a positive correlation between efficiency in procurement and effective public procurement reform implementation.

#### **3.4 Data Analysis techniques and Model Specification**

The data presented in this paper were analyzed using Ordinary Least Square (OLS) regression. The following multiple linear regression model was used to test the research hypotheses:

$$EPPRI = \beta_0 + \beta_1 Fami + \beta_2 Trans + \beta_3 Accou + \beta_4 Ethic + \beta_5 Effi + \epsilon_i$$

Where EPPRI which is the dependent variable is effective public procurement reform implementation.; and the independent variables are: Fami=familiarity of public procurement rules; Trans=transparency in public procurement procedures; Accou=accountability for the proper implementation of public procurement rules and regulations; Ethic=the ethical conduct of public procurement practitioners; Effi=public institutions efficiency in public procurement and and  $\epsilon_i$  is the error term.

### **4 Results and Discussions**

The main objective of this study was to evaluate factors leading to effective public procurement implementation in the case of Amhara Region government institutions. In this section, results obtained through questionnaire and

analyzed using OLS regression are presented and discussions are made.

### Regression Results

The following results were obtained after running the OLS regression.

**Table2. Results of Regression Analysis (Dependent variable: Effective Public procurement reform implementation (EPPRI))**

Independent variables	Unstandardized Coefficients	Standardized Coefficients	T	Sig
	B			
Constant ( $\beta_0$ )	0.960		2.173	0.057
Familiarity ( $\beta_1$ )	0.359	0.343	2.030	0.092*
Transparency ( $\beta_2$ )	0.503	0.391	2.689	0.023**
Accountability ( $\beta_3$ )	0.138	0.360	1.432	0.149
Ethics ( $\beta_4$ )	0.526	0.545	3.112	0.010***
Efficiency ( $\beta_5$ )	0.494	0.531	3.096	0.043**

$R^2 = 0.338$ , ( $R^2$  adj = 0.321),  $F(5, 36) = 4.952^{**}$

\*\*\* Significance level (1%), \*\* Significance level (5%) and \* Significance level 10%

Table 2 above gives the estimated parameters of the model. The overall goodness of fit of the model was assessed using the F-value and was found to be statistically significant at  $p < 0.05$  ( $F(5, 36) = 4.952$ ,  $p < 0.05$ ,  $R^2 = 0.338$ ,  $R^2$  adj = 0.321). The goodness of fit of the model is very important because with multiple regressions it is mandatory that all the predictors (independent variables) be taken into account simultaneously to establish the statistical significance of the overall model (Churchill and Brown, 2004, p. 601).  $R^2$  of 0.338 can also be interpreted as 33.8% of the variation in the dependent variable (effective public procurement implementation) can be explained by variations in independent variables (Familiarity, Transparency, Ethics and efficiency). Hence, the four independent variables explain 33.8% of the factors affecting effective public procurement implementation in government institutions with particular reference to Amhara regional bureaus and other government institutions.

### Discussion and Implications

The main purpose of this study was to evaluate factors leading to effective public procurement implementation in the case of Amhara Region. Previous findings support that familiarity; transparency, accountability; ethics and efficiency are the important factors to effective public procurement implementation. According to Agab & Shipman (2009), many central government ministries in Uganda did not comply with the prescribed procurement rules and regulations and the key weakness identified were the lack of transparency in procurement process, non ethical decisions in the process, lack of knowledge and efficiency in procurement reform implementation. A similar finding was made by Abebe, (n.d., p.1286), African countries in general and Ethiopia in particular have not recognized the importance of continuously ensuring efficiency, accountability and transparency in public procurement implementation.

The regression results in our study also revealed that familiarity in public procurement processes had a positive and a significant association with effective public procurement implementation. This shows that the need for knowledge and clarity of procurement rules is a very important factor in the extent or degree to which compliance can be achieved when public procurement reforms are being implemented. Therefore, this shows that the success or failure of public procurement reforms in developing countries such as Ethiopia depends partly on knowledge of the public procurement practitioners in how familiar they are with the procurement rules and regulations. We also found that transparency in public procurement processes had a positive and significant impact on effective public procurement implementation. This indicates that publishing procurement opportunities, advance publication of procurement plans, advertisement of tender notices, disclosure of evaluation criteria in solicitation documents, publication of contract awards and establishing appropriate and timely complaint/dispute handling mechanisms will have a great contribution to ensure effective public procurement implementation.

The findings in our study furthermore revealed that ethics in public procurement had a positive and significant association with effective public procurement implementation. This implies procurement people who avoid the intent and appearance of unethical or compromising practice in relationships, actions and communications will contribute for the effectiveness of public procurement implementation.

In addition, the regression results revealed that efficiency in the public procurement processes had a positive and significant association with effective public procurement implementation. Hence, procurement officials need to be equipped with adequate tools for improving planning and management and that their decisions need to be well informed so as to reduce costs and produce timely results which helps to ensure



compliance in public procurement. Finally, the findings tell us that the independent variable accountability for public procurement was not statistically significant predictor of effective public procurement implementation.

## 5 Conclusions

This study sought to find out whether familiarity with public procurement rules and regulations, transparency in public procurement processes, accountability in public procurement, ethics in public procurement and efficiency in public procurement have an association with effective public procurement implementation. .

Based on a survey of forty two procurement officers in the public sector of the Amhara region, the OLS regression revealed that ethical behavior in public procurement is a highly significant predictor of effective public procurement implementation in Ethiopian government institutions specifically in the case of Amhara region. In addition, transparency and efficiency in public procurement are significant predictors for effective public procurement implementation. Familiarity with public procurement rules and regulations is moderately significant predictor of effective public procurement implementation in Ethiopian government institutions. The findings also showed that the independent variable accountability for public procurement was not statistically significant predictor of effective public procurement implementation. Finally, the study revealed that there is a positive association between familiarity, transparency, ethics, efficiency and effective public procurement implementation.

The statistical model in this study explained 33.8% of the variation in effective public procurement implementation. The implication is that other factors that explain 66.2% of the variation in effective public procurement implementation were not accounted in this study. Therefore, further research should be conducted to account for the other factors as well that lead to effective public procurement implementation with specific focus on government institutions.

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