



ADDIS ABABA UNIVERSITY
SCHOOL OF GRADUATE STUDIES

**Factors that help to reduce corruption: case study on the Federal public
procurement of Ethiopia**

For the partial Fulfillment of MSc in Accounting and Auditing

By

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Declaration

*Haftom Gebremedhin Gebre declares that; this study entitled **Factors that help to reduce corruption: case study on the Federal public procurement of Ethiopia** is my own effort and study. It has been carried out by me independently except for the guidance and suggestion from my research advisor and it has not been submitted for any degree or Diploma in AAU or any other University. It is presented, in partial fulfillment of the requirements for the degree of Msc. in Accounting and Auditing.*

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Certification

This is to certify that Ato Haftom Gebremedhin Gebre has carried out his research work on the topic entitled "Factors that help to reduce corruption: case study on the federal public procurement of Ethiopia" under my supervision. This work is original in nature and it is suitable for submission for the award of degree for Masters in Accounting and Auditing.

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Acronyms

CPAR	Country Procurement Assessment Report
CPI	Corruption perception Index
FDRE	The government of the Federal Democratic Republic of Ethiopia
FEACC	Federal Ethics and Anti-Corruption Commissions
GCC	General Conditions of Contracts
ICB	International Competitive Bidding
IER	Institute of Educational Research
IBI	International Business Initiative
NCB	National Competitive Bidding
OFAG	Office of federal Auditor General
OECD	Organization for Economic Cooperation and Development
PPD	Public Procurement directive
PPA	Procurement and Property Administration Agency
PSCAP	Public Sector Capacity Building program
SBD	Standard Bidding Documents
SFO	Series Fraud Office
TI	Transparency International
UN	United Nations
UNCITRAL	UN Commission on International Trade Law
UNDP	United Nations Development Program
UNCAC	United Nations Convention against Corruption
WB	World Bank

Abstract

The purpose of this study was to establish the factors that help to reduce corruption in the federal public procurement of Ethiopia. Corruption on public procurement has become a burning issue today especially in the federal government where large and complex procurement takeover. The study used a descriptive survey method. Out of 127 government organizations operating in Addis Ababa; the researcher randomly selected 52 budgetary institutions (Represented by 52 procurement heads/officers, auditors, finance heads/ senior experts and lawyers). Descriptive statistical techniques were used and findings were presented in forms of tables, charts and graphs using code and percentages. The research findings revealed that all the variables (existence of legal framework, effectiveness of transparency and e-procurement) were statistically significant that affect the reduction of corruption in public procurement. Based on the findings the researcher recommends to use competitive tendering and limit the use of exceptions and single-source procurement to reduce corruption; develop ethics training programmes for the procurement workforce to reduce corruption; develop an appropriate strategy for the integration of secondary policy objectives in public procurement systems; employ appropriate impact assessment methodology to measure the effectiveness of procurement legal framework in achieving secondary policy objectives; establish clear lines for oversight of the public procurement cycle; develop a system of effective and enforceable sanctions; handle complaints in a fair, timely and transparent way; conduct procurement auditing regularly and develop cooperation between OFAG, FEACC and PPA and implementation of e-procurement system.

KEY WORDS: REDUCTION OF CORRUPTION, LEGAL FRAMEWORK, TRANSPARENCY, E-PROCUREMENT, PUBLIC PROCUREMENT, ADDIS ABABA, ETHIOPIA.

Chapter One

1.1 Introduction

According to Tesfahun (2011) following the downfall of the Derg regime, the country promulgated a new public procurement regulation. After the coming into effect of the new constitution in 1995, the Federal Government of Ethiopia (FGE) drafted a new public procurement laws and regulations; namely “The Federal Government of Ethiopia the Financial Administration.

Proclamation 57/1996” and “the Council of Ministers Financial Regulations 17/1997.” However, according to the World Bank sponsored Country Procurement Assessment Report (CPAR), which was released in August 1998, these rules and regulations were not made on the basis of internationally recognized public procurement legal documents such as the UNCITRAL Model Law on Procurement of Goods, Works and Services. In addition, according to the report, the federal procurement laws and regulations were very weak and not comprehensive. Further, the regulation doesn’t put clear distinction between procurement of goods, works and consulting services.

In Ethiopia the principles which apply to all federal organizations in respect to public procurement are set out in the federal democratic republic of Ethiopia procurement and Property Administration directive (PPA). The PPA establishes the core procurement policy framework and articulates the Ethiopian government's expectations for all federal organizations and their officials, when performing duties in relation to procurement. This Directive is issued by the Ministry of Finance and Economic Development Pursuant to Article 78/2 of the Ethiopian Federal Government Procurement and Property Administration Proclamation no 649/2009 and Article 19 of the definition of powers and duties of the Executive Organs of the Federal Government of Ethiopia Proclamation No 471/2005/6 (as amended).

In Ethiopia the hierarchy of law according to their precedence is the constitution, proclamation, regulation and directives (public procurement manual, 2011).

The fact that corruption has become one of the major global problems is no more contentious. Awareness of this problem, the international community established various regional and international legal frameworks. Among those legal frameworks are the United Nations Convention against Corruption (UNCAC) and the African Union Convention on Preventing and

Combating Corruption. As a party to both conventions, Ethiopia has been combating corruption at all levels by establishing Federal Ethics and Anti-Corruption Commissions (FEACC bulletin, 2015). The government of the Federal Democratic Republic of Ethiopia (FDRE) clearly recognizes that corruption hinders development, democratization, and good governance endeavors. Hence, it has been striving to prevent and combat this socioeconomic evil by designing various strategies (World Bank, 2012).

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 corruption. Corruption is widely seen as one of the biggest impediments to economic growth, investment, and poverty reduction in developing contexts.

The World Bank defines corruption as “the use of public office for private gain” (Campos and Pradhan 2007) and elaborates that corruption has a number of faces: bureaucratic corruption, nepotism and patronage, and state capture (often equated with political corruption). Transparency International defines corruption as “the abuse of entrusted power for private gain” and also differentiates between “according to rule” corruption (where bribes might be given to receive preferential treatment for services to which users are entitled by law) and “against the rule” corruption (where the service provider is not entitled to provide that service by law.”

The Government of the Federal Democratic Republic of Ethiopia represented by the Public Procurement and Property Administration Agency (PPA) defined corruption as the offering, giving, receiving or soliciting, directly or indirectly, of anything of value to influence improperly the action of a public official in the procurement process or in contract execution.

1.2 Statement of the problem

Worldwide, procurement spending averages between 13 per cent and 20 per cent of gross domestic product. Every year an estimated average of US\$9.5 trillion of public money is spent by governments through public procurement (TI, 2014). According to Getnet (2014) “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.

The Federal Ethics and Anti-Corruption Commission (FEACC) stated in its performance report to the parliament that; one of its major focuses is public procurement. The first comprehensive corruption survey carried out in 2001 by the Institute of Educational Research (IER) of Addis Ababa University on behalf of the FEACC, revealed that corruption was not only prevalent, but had also become a severe socio-economic problem that was hampering the development of the country. According to the survey, staffs in a number of government agencies were engaged in corrupt activities. A diagnostic baseline survey conducted by Transparency Ethiopia (2008) also showed that corruption was the third most serious problem in Ethiopia. According to the survey made by FEACC, public procurement is one of the most affected areas of corruption (FEACC, 2012). According to the transparency International (TI, 2014) Corruption perception Index (CPI), Ethiopia ranked 110 from 176 countries.

Studies have undertaken worldwide on corruption in public procurement. However, corruption in public procurement varies from continent to continent, from country to country, from region to region and even from town to town. Therefore, there is a need for investigating the actual condition of corruption on public procurement at federal government level.

1.3 Research objectives

The general objective of the study is to examine the factors that help to reduce corruption in the public procurement of Ethiopia. Specifically the study aimed:

- To assess the existence of procurement legal framework that reduces public procurement corruption in Ethiopia.
- To assess the effectiveness of transparency in reduction public procurement corruption in Ethiopia.
- To examine the role of e-procurement in reduction of public procurement corruption in Ethiopia.

1.4 Research questions

The research tried to answer the following questions:

- Does Ethiopia develop a model public procurement legal framework that can reduce corruption?
- To what extent the Ethiopia public procurement is transparent enough to reduce corruption?
- What is the effect of e-procurement on reducing corruption in the public procurement?

1.5 Significance of the study

The study is significant for the following contributions:-

- To high light the problem areas on legal framework and transparency and indicate solution ideas for decision makers.
- To place a special measure when corruption occurs in public procurement.
- As source of knowledge for future references by people who have interests to gain insight about the factors that help to reduce corruption on public procurement.
- To research through revealing issues for further research.
- As a guide line for auditors who undertake evaluation of corruption on public procurement.
- As a baseline against similar studies to be made in the future

1.6 Scope and limitations of the research

The study title “factors that help to reduce corruption: in the public procurement of Ethiopia” was conducted in Addis Ababa at the federal level based on 52 sample public budgetary institutions. However, public procurement takeover in the whole country this research was restricted only to Addis Ababa. As this research is a descriptive type; the researcher advises future studies would be such if it considers hypothesis test.

1.7 Organization of the research

Following the discussions in this chapter; the ensuring part of this research paper was organized as follows. Chapter two provides the literature review. Chapter three discusses the research methodology. The result and discussion was presented in the fourth chapter. Finally, chapter five discusses findings of the study, conclusion & recommendations made on the basis of the research findings.

Chapter Two

2 Review of related literatures

This section reviews the literature that is relevant to the problem under investigation. The review also covers theoretical and empirical studies in the area focusing attention on the research problems that were investigated by other studies. The rationale was to critically use the evidence from the studies to establish the gaps in the literature and also to serve as a basis for validation of the findings of the paper.

2.1 Public procurement

Based on UNICTRAL the principal hallmarks of proficient public procurement are:-

1. *Value for money (economy, efficiency, and effectiveness);*
2. *Non discrimination (fairness);*
3. *Transparency; and*
4. *Accountability and Ethical Standards.*

Economy: Procurement is a broad concept, which goes beyond purchasing activity, whose purpose is to give the public body best value for money. Value implies right price, right quality, right time, right place, and right quantity. Moreover, lowest initial price may not equate to lowest cost over the operating life of the item procured. But the basic point is the same: the ultimate purpose of sound procurement is to obtain maximum value for money.

Efficiency: The best public procurement is simple and swift, that meets the public body's need as planned, producing positive results immediately. In addition, efficiency implies practicality, especially in terms of compatibility with the administrative resources, organizational capabilities of the purchasing entity and its procurement personnel with the planned/envisaged type and volume of procurements.

Effectiveness: Effectiveness means the extent to which the entity is able to procure goods, works and services of quality, in a timely and most economical manner.

Fairness: Good procurement is non-discriminatory, impartial, consistent, and therefore reliable.

It offers equal opportunity for all interested contractors, suppliers and consultants by providing a level playing field on which to compete and thereby, directly expands the public body's options and opportunities for getting value for money.

Transparency: Good procurement establishes and then maintains rules and procedures that are accessible, predictable and unambiguous. It should be fair and seen to be fair.

Accountability and Ethical Standards: Good procurement holds its practitioners and other officers responsible for enforcing and obeying the rules. It makes them subject to challenge and to sanction, if appropriate, for neglecting or bending those rules. Accountability is a key inducement to individual and institutional probity, a key deterrent to collusion and corruption, and a key prerequisite for procurement credibility. All procurement officers and other staff should adhere to the professional ethical code.

2.2 Theoretical overview of corruption and public procurement

Procurement organizations should develop a comprehensive policy manual that clearly defines authority, responsibility, and establishes guidelines for the organization and the procurement professional to follow when carrying out their responsibilities (National Institute of Governmental Procurement Inc, 2012)

Procurement is a complex function guided by numerous policies and statutes. A comprehensive procurement policy manual - one that lays out these policies and applicable laws is critical to ensuring that procurement, agency staff, and all stakeholders follow the proper procedures and rules so all will have a clear and consistent understanding of the required regulations. In the absence of such guidance, a lack of consistency in how procurement work is carried out becomes likely. This inconsistency results in frustration within and outside the procurement organization, and the possibility that procurement actions may appear to be arbitrary and unfair. It is therefore critical for procurement to have a comprehensive procurement policy manual in place (GAO, 2007). Public procurement laws and regulations are designed to promote competition between bidders and secure the best value for public money. The fight against bid rigging and bribery should be an integral part of this process.

According to OECD (2006); the legislative and regulatory framework (policy) covers the legal and regulatory instruments from the highest level (national law, act, regulation, decree, etc.) down to detailed regulation, procedures and bidding documents formally in use. It also covers

indicator verifies the existence, availability and quality of implementing regulations, operational procedures, handbooks, model tender documentation, and standard conditions of contract. Ideally the higher level legislation provides the framework of principles and policies that govern public procurement. Lower level regulations and more detailed instruments supplement the law, make it operational, and indicate how to apply the law to specific circumstances.

OECD uses the following 6 indicators for the implementation assessment of legislative and regulatory framework on public procurement.

Indicator 1 – Implementing regulation that provides defined processes and procedures not included in higher-level legislation: This indicator aims at verifying the existence, clarity, accessibility and comprehensiveness of regulations to the law that further detail and clarify its application. Regulations are an important aspect of a procurement system as they provide the detail that explains and enables the application of the legal framework in a variety of applications.

Indicator 2 – Model tender documents for goods, works, and services: Potential contractors or suppliers are more willing to participate when they are familiar with the documents and their interpretation. Model documents should contain the basic required clauses that will be incorporated into contracts in order to enable the participants to value the cost and risk of mandatory clauses when performing a contract for the government. If model documents are not available, there should be, as a minimum, a set of standard and mandatory clauses and templates that will help in the formulation of the tender documents.

Indicator 3 – Procedures for pre-qualification: This indicator covers the existence of procedures for pre-qualification of participants in a particular procurement. Pre-qualification is normally limited to requirements of a high level of complexity where it is possible to determine, primarily using pass/fail criteria, if the interested companies possess the capacity to perform the requirement. Assessment of qualifications can be combined with the tender documents as part of the specific procurement or it can be initiated as a separate exercise that is conducted before full offers are requested. In highly complex procurement, use of pre-qualification as a separate process can make the procurement more efficient by ensuring only qualified participants are included and it can save money by limiting the number of participants incurring the expense of putting together a comprehensive bid.

Indicator 4 – User’s guide or manual for contracting entities: This indicator covers the existence of a user’s guide or manual for contracting entities. This is an important implementation tool that can help provide staff with information that incorporates the law, policy and procedures and helps turn policy into practice. Such tools are more important as a system becomes more decentralized. Creating a manual or user’s guide is often a function of a central management unit and can help create a consistency of application within the government procurement system. Although not a substitute for training, a manual can contribute to building and maintaining capacity and provides an easy reference for users.

Indicator 5– General Conditions of Contracts (GCC): This indicator deals with General Conditions of Contracts that set forth the basic provisions which will be included in a contract with the government. The GCC are based on the laws in the country and generally reflect the commercial codes that deal with contracts between parties. It is important to participants in a procurement that they know the specific conditions under which they will perform a contract before they submit a price for performing the contract since conditions of contract will often have an impact on pricing. The GCC provide information that enables participants to understand the allocation of risk between parties to a contract as well as other obligations that the signatories to the contract will incur. It is important that the government establish GCC that are consistent, applicable to the requirement, and are reflective of laws that impact on contracts and their performance. GCC need to be mandatory in their use and not subject to negotiations on terms and conditions of contract.

Indicator 6 – Procedures suitable for contracting for services or other requirements in which technical capacity is a key criterion: If technical capacity and/quality is a key criteria for selection of consulting services or other requirements, the law should specify clearly how this aspect is to be considered. While technical qualifications can be assessed by a pass/fail review, in most cases a scored evaluation of technical qualification against stated criteria is considered necessary in order to select the highest qualified proposal, price and other factors considered. In the case of consultants and other professional services, selection based on technical qualifications alone should also be authorized. If a combination of price and technical capacity is permitted by law, it should establish the obligation to include in the solicitation documents the manner in which they are combined and the relative weights to be allocated to technical capacity and price.

As stated by TI (2010), transparency covers six (6) indicators that are considered necessary to provide for a system that operates with integrity, has appropriate controls that support the implementation of the system in accordance with the legal and regulatory framework and has appropriate measures in place to address the potential for corruption in the system. It also covers the following important aspects of the procurement system that include stakeholders as part of the control system.

Access to information: Data systems should be in place for the collection, analysis and dissemination of information on procurement processes, including the decisions taken and money spent. The decentralization of procurement should not be an excuse for poor information keeping, particularly on statistics.

The technologies in use should facilitate broad public access for increased transparency and accountability. Technical information needs to be presented in a simplified way in order to be accessible to civil society and the broader public.

Capacity development: The system should ensure that the different actors involved in procurement processes are well equipped to perform their role. This requires the professionalization of government officials (especially those at the local level) and businesses involved in procurement, through active training, information sharing and guidance. The aim should be that they interact effectively in the procurement market with no major constraints that could limit the participation of the private sector. As important is the capacity development of civil society so it can take part in improving procurement processes and advocating for the strengthening of procurement systems. Access to public information is key, but the capacity development of civil society, with adequate resources for it, is the necessary complement. Given the high numerical value of contracts and the numerous procurement processes in any one country, training and the sharing of know-how with communities is essential if they are to be engaged, aware and effective.

Control and auditing systems: Internal and external control and auditing processes serve as fundamental deterrents to corruption in procurement. They should ensure proper follow up, so that there is no impunity when mismanagement is uncovered. Penalties for fraud and corruption should be clearly established and enforced.

Appeals mechanism: There must be an effective review body or authority that handles complaints and which has the sufficient procurement expertise and capacity to enforce remedies. The body should be independent from those agencies in charge of regulation, procurement operations, auditing and oversight.

Institutional structures: The procurement system must be properly developed in conjunction with the country's public financial management structures so that national budget planning and disbursement processes support the effectiveness of procurement operations. At the same time, the procurement system must be effectively managed so that responsibilities for policy and regulation, advising contracting entities, handling procurement information and statistics, and overseeing performance monitoring are effectively carried out.

Ethics & Anti-corruption measures: A procurement system that is effective in deterring corruption should be supported by mechanisms that can prevent, detect and sanction corruption. Criminal laws should include provisions on fraud, corruption, collusion and conflicts of interest. Effective enforcement mechanisms should be in place, including debarment. Sanctions ultimately serve both as a punishment for wrongdoing as well as a deterrent for future wrongdoers. In general, the involvement of civil society as a third party to either monitor procurement or support advocacy for procurement reform is a powerful resource. The increased use of e-procurement processes can help in this area. Finally, if problems arise, mechanisms are needed to facilitate the reporting of corrupt behaviors, such as whistleblower protections.

But for the purpose of this study, Corruption within public institutions may be defined as the misuse of entrusted authority for private gain. It occurs when public officials or employees misuse the trust placed in them as public servants for either monetary or non-monetary gain that accrues to them, their friends and relatives or for their personal or political interests. It encompasses abuses such as embezzlement and nepotism, bribery, extortion, influence peddling and fraud. Corruption also involves the sale or use by officials of government property for personal gain and where they charge personally for goods owned by the state (FEACC, 2012)

2.2.1 The cost of corruption in public procurement

According to TI (2006), the cost of corruption in procurement is difficult to measure quantitatively, if at all, due to the secret environment in which it takes place. Given the massive amounts of money spent on public contracts, however, no one doubts that corruption in

procurement has an immense impact on the effectiveness of government investments. Transparency International estimates that damage from corruption can represent on average 10 to 25 percent and in the worst cases as much as 50 percent of a contract's value. Surveys at the country level equally suggest such a high price tag for businesses when it comes to corruption in procurement. In Morocco, despite positive reforms to the procurement system, recent calculations by industry experts suggest that corruption still costs the country about 5 per cent of the value of each contracted purchase (OECD Observer, 2009). In the Philippines, business insiders have speculated that this cost may reach up to 50 percent.

According to TI (2010), corruption in public procurement is not just about money: it costs lives. This can happen when the execution of a construction contract is flawed leading to a building collapse, or when substandard or counterfeit medicines fail to attend to people's health needs. This has happened and can occur in both developing and developed countries. For example, the high death tolls as a result of the devastating earthquakes in China (2008), Haiti (2010), India (2001) and Turkey (1998) were partly blamed on alleged corruption in the construction of public buildings, including schools and hospitals.

2.2.2 Corruption risks and responses in public procurement

According to OECD (2009), in most systems, procurement follows a set of formally established rules and procedures that should always be transparent and subject to effective controls. A procurement process, either openly competitive or otherwise, can be divided into five stages. Each faces specific corruption risks that can be responded to by following good procurement practices. Szymanski (2007) also propose that; public procurement processes have different phases and each phase has a risk of corruption.

Needs assessment: This stage involves decisions about the scope, economic viability and environmental and social impacts of the project, and the corresponding budget allocation. Corruption risks at this stage are linked to the approval of unnecessary, low quality or overestimated purchases or investments.

These actions are aimed at inducing demand in order to favour a particular company or individual and, on occasion, may even be socially and/or environmentally damaging. Such problems often arise as the result of conflicts of interest on the part of government officials involved in the procurement process.

Their decisions may respond to previous political commitments, reflect undue influence by the private sector, or be made based on their plans to leave public office and enter the private sector (i.e. the „revolving door“ phenomenon).

Best practices to avoid these risks recommend providing extensive access to information including project feasibility studies that cover all phases of the decision-making process and facilitating discussions with project stakeholders (and particularly with affected communities) using public hearings or other consultation mechanisms. Another good practice is to ensure the transparency of the selection of consultants responsible for the feasibility studies and to introduce ethics provisions. Such stipulations should help to ensure that selected consultants are free from conflicts of interest and are independent from political pressures. Measures to promote the integrity of consultants may include professional codes of conduct (such as for engineers, accountants and lawyers) and the inclusion of related provisions in any signed contracts.

Preparation: On the basis of the project review and approval process, the contracting authority is expected to develop specific technical designs, prepare a proper procurement plan, select the appropriate procurement method under the law, prepare bidding documents and announce the call for bids. Corruption risks are often associated with consultants preparing a design that favours a particular bidder, issuing bidding documents with biased or inaccurate technical specifications, developing award criteria that make competition impossible, and/or improperly using exceptions to open competitive bidding.

Based on good practice, preventive measures at this stage can include the appointment of staff with sufficient technical capacity and resources to oversee the process; the mandatory completion by all staff of a conflict of interests register; transparent procedures to select design consultants to ensure their independence; public access to information on the final designs; public access to the bidding documents and an organized process to collect feedback on them; and independent external monitoring by civil society of the process, such as through the use of Integrity Pacts.

Contractor/supplier selection and contract award: This stage includes providing clarifications to interested bidders, the submission and evaluation of bids, and awarding and signature of the contract. The most common corruption risks involve the sharing of confidential or privileged information with a bidder during the process to grant an advantage over other bidders; biased or delayed application of evaluation and award criteria to benefit a particular bidder; the prevalence

of conflict of interests among members of the awards commission, lack of sufficient information on the award decision (in order to avoid complaints); and/or changes to basic elements of the proposal when signing the contract with the successful bidder.

Many measures can be taken to prevent corruption at this critical stage of the procurement process such as by ensuring all bidders receive exactly the same information, including which bids were submitted and their total cost; organizing an evaluation of the bids through a committee with relevant technical capacities and bound by a code of conduct; providing complete and timely documentation to bidders and the general public of all decisions taken during the selection process, including the compilation of a comprehensive evaluation report; and putting in place effective and independent complaints and appeal mechanisms.

Contract execution: In this stage the contractor or supplier that has been awarded the contract provides the goods or performs the works or services as agreed, under the direct supervision of the contracting authority or an outsourced consultant. Payments are disbursed following the supervision of the process. The most frequent corruption risks include poor quality or defective work, or the failure by consultants and/or officials to report that goods or services do not comply with the specifications. Other risks are the issuance and approval of unjustified „change orders“ that modify the scope of the contractor’s obligations or increase the cost of the contract, and the requirement by officials of the contracting authority that bribes be paid in order to process payments for the contractor. Good practice recommends establishing an effective control system including unannounced visits to the project site involving civil society as external monitors, if possible together with project beneficiaries and/or local communities. The involvement of these stakeholders can help to check whether there has been compliance with the contract terms and specifications and to detect and report corruption “red flags. Another measure is to fix a cap for contract changes (i.e. 15 per cent of the contract’s value) above which supplementary authorization would be needed, for example by an evaluation committee. Also, strict rules for contract payments should be established and set out in a clear and agreed process. Finally, complete, timely and publicly available information should be provided on decisions taken by the contracting authority during the execution of the contract.

Final accounting and payment: Once contract execution ends, the contract’s final accounting and payment happens under the responsibility of government staff. The main corruption risks are

associated with the acceptance of false accounting or cost misallocations, fraudulent or duplicate invoicing for goods and services, or false certification of the project's successful completion.

Good practice recommends ensuring that staff members responsible for the final accounting of the contract have not been involved in any of the previous stages.

Third party involvement in the verification of the final deliverables of the project is suggested. It is also useful to conduct performance audits, which compare the original estimated costs and benefits with the real ones at the end of the project.

Major discrepancies may be signs of corruption. The reasons should be investigated and the responsible officials should be held accountable. Finally, both financial and performance audit reports should be made publicly available.

2.3 Empirical studies on factors that help to reduce corruption on public procurement

Transparency is a core principle of high-quality public procurement. Transparency supports the wise use of limited development funds, from planning investments in advance to measuring the results. An open and transparent procurement process improves competition, ensures value for money, increases efficiency and reduces the threat of unfairness or corruption. Transparency in public procurement takes form in a variety of practices, such as publishing procurement policies; advance publication of procurement plans; advertisement of tender notices; disclosure of evaluation criteria in solicitation documents; publication of contract awards and prices paid; establishing appropriate and timely complaint/ protest/dispute mechanisms; implementing financial and conflict of interest disclosure requirements for public procurement officials; and publishing supplier sanction lists. Transparency" has only recently emerged as a principle in its own right, al-though it is probably better to think of it as a tool to be used to achieve other objectives (SIGMA, January 2011).

2.3.1 Understanding corruption in public procurement

As in any other corrupt transaction, corruption in public procurement involves a series of actors who take decisions based on their own interests rather than the public good. Some of the most important actors involved include public officials who are responsible for procurement and the management of contracts; politicians who influence decisions at the planning and contracting stages; and bidders, suppliers, contractors and sub-contractors who are involved in competing for

and delivering on contracts. Also, intermediaries who represent bidders, joint venture partners and private companies' subsidiaries can play a role in corruption. Not to be forgotten are the banks, financial centres and other financial intermediaries that facilitate corruption by processing the illicitly acquired funds.

The concept of corruption can be seen from various perspectives and depends on how it is being perpetuated or practiced. According to Adisa (2003) corruption or corrupt practices has to do with fraudulent activities especially siphoning of funds that are meant for the general populace for one's aggrandizement only. In line with this, Osoba (1996) defines corruption as an anti-social behavior conferring improper benefits contrary to legal and moral norms and which undermines the authority's ability to improve the living condition of the people.

Corruption has a never-ending definition, because the definition depends on the place of the corruption. Corruption exists in the private sector as well as the public sector. There are two kinds of corruption in the public sector, administrative corruption and political corruption. The corruption referred in this study is the corruption that characterized public sector intuitions, also referred to as administrative corruption that happens among bureaucrats. Dutt (2009) identified petty corruption and grand corruption as the two kinds of administrative corruption. Petty corruption exists among bureaucrats who rely on small tips and kickbacks from citizens to pad their pockets. Grand corruption, on the other hand, exists among higher-ranking officials who decide on large public contracts for their personal benefit. Grand corruption benefits organized groups, such as political party members or management of the organization where the corruption takes place (Dutt, 2009).

2.3.2 E-procurement on public corruption

According to Croom and Brandon-Jones (2007), "e-procurement is the process of purchasing goods and services electronically." The various stages of public procurement in which electronic procurement method can be applied include, identifying vendors or suppliers, placing orders and arrival of goods. E-procurement helps to improve the efficiency of the purchase process and decrease the cost involved in traditional purchasing. Most of the paper work is limited, thereby cutting the cost and time required reaping benefits often to the tune of millions of birr's.

Croom and Brandon-Jones also explain that, E-procurement is most employed in purchasing small and less expensive items. The traditional approach is still preferred for more expensive

products such as complex engineering machinery. However, companies are increasingly recognizing the benefits of online sourcing. Online goods procurement helps organizations to sketch out optimized plans for managing the supply chain. E-procurement not only saves money the simplification of the whole process. The optimized plans can be communicated quickly to the suppliers thereby reducing cost and wastages usually involved in the supply chain. The advantage of E-procurement include a reduction of overhead such as purchasing agents, effective control of inventories, and the overall improvement the business cycle.

E-procurement can limit the opportunities for corruption by automating procedures and reducing the amount of discretion exercised by procurement officials and their personal contact with private sector representatives. E-procurement can increase the number of suppliers and the amount of competition by making access easier and significantly enhancing transparency by centralizing all information related to the procurement process in a publicly available web portal (TI, 2014)

Public e-procurement has been defined as the use of information and communication technology such as internet / web based system by governments in conducting their procurement relationship with bidders for the acquisition of goods, works, services and other consulting services required by the public sectors (Davila,Gupta & Palmer, 2003; Leipold et al., 2004). It has been defined as an inter-organizational information system, which automatizes any part of the procurement process in order to improve efficiency, quality, and transparency in government procurement (Vaidya, 2007). Currently there are different types of e-procurement systems available in the market such as e-market, e-MRO, e-sourcing, e-tendering, e-ordering and e-exchange (De Boer et al. 2002). Each type of system is built for special purpose and has its own specific functionality and characteristics.

Implementation of public e-procurement technology plays a vital role to reduce corruption in public procurement. The most important perceived anti-corruption factors of public e-procurement technology are: real time access procurement information, automation of procurement system, more completion in public tendering, reduces human interference in public tendering, transparency, efficiency, quality, and accountability in public procurement. Developed countries have already implemented and practiced e-procurement in public and private levels. For example, Singapore, Australia, New Zealand, UK, USA, Denmark, and Japan, have already materialized public e-procurement and received many perceived benefits of e-procurement

performance in public and private sectors. In the context of developing countries, adoption of e-procurement in government level is in a preliminary stage. Some of the developing countries' governments already have e-procurement and others are in a piloting phase. Some governments have a position of "wait and see" for e-procurement performance (Neupane et al., 2012). According to Neupane et al. (2012) the most common types of E-procurement system are presented in the table below.

Table 1: Types of E-procurement system

E-procurement system	Description
e-Informing	Gathering and distributing purchasing information both from and to internal and external parties using internet technology.
e-Sourcing	Process of identifying new suppliers for specific categories of purchasing requirements using internet technology.
e-Tendering	The process of sending requests for information and prices to suppliers and receiving the response using internet technology.
e-Reverse auctioning	Internet based reverse auction technology which focuses on the price of the goods and services auctioned.
e-MRO and web based ERP	The process of creating and approving purchasing requisitions, placing purchase orders and receiving the goods or services ordered via a software system based on internet technology, e-MRO deals with indirect items (MRO), web-based ERP deals with product-related items.
e-ordering	The use of Internet to facilitate operational purchasing process, including ordering (requisitioning), order approval, order receipt and payment process.
e-Markets	E-markets are meeting venues for component suppliers and purchasers, who use exchange mechanism to electronically support the procurement process.
e-Intelligence	Management information system with spend analysis tools
e-Contract Management	The use of information technology for improving the efficiency and effectiveness of contracting processes of companies.

Achterstraat (2011) indicates, twelve Anti-corruption factors of public e-procurement technology for reducing corruption in public procurement a) Avoid unnecessary purchase / project, b) Real time access information or real time bidding, c) Automation of procurement process, d) Increase competition among the bidders or suppliers, e) Reduce human intervention in bidding process, f)

Reduce human intervention in bidding process, g) Standardization enactment (More consistency in Procurement phase), h) Monitoring and tracking application, i) Efficient and secure document transmission, j) Managerial control and collaboration, k) Transparency and accountability, l) Make a procurement process faster and easier, m) Obtain the best quality / price ratio

2.3.3 Corruption measurement tools

According to the UNDP user manual for corruption measurement; the following five indicators are used to measure corruption (UNDP, 2008)

Objective Indicators: Indicators constructed from undisputed facts. Typical examples might include the existence of anti-corruption laws or the funding received by the anti-corruption agency.

Perception-based Indicators: Indicators based on the opinions and perceptions of corruption in a given country among citizens and experts.

Experience-based Indicators: These indicators measure citizens' or firms' actual experiences with corruption, such as whether they have been offered or whether they have given a bribe

Proxy Indicators: Buoyed by the belief that corruption is impossible to measure empirically, proxy indicators assess corruption indirectly by aggregating as many "voices" and signals of corruption, or by measuring its opposite: anti-corruption, good governance and public accountability mechanisms.

Pro-Poor and Gender-Sensitive Indicators: A pro-poor indicator requires a focus on those living in poverty, and a gender sensitive indicator captures the different experiences and interests of women and men. Such indicators are useful to track the potentially different impacts that the mechanisms and processes of governance have on different social groups.

Series Fraud Office (SFO) also used in its report; corruption indicators are but not limited to the follows:

- Abnormal cash payments.
- Pressure exerted for payments to be made urgently or ahead of schedule.
- Payments being made through 3rd party country, e.g. goods or services supplied to country 'A' but payment is being made, usually to shell company in country 'B'
- Abnormally high commission percentage being paid to a particular agency. This may be split into 2 accounts for the same agent, often in different jurisdictions.

- Private meetings with public contractors or companies hoping to tender for contracts
- Lavish gifts being received.
- Individual never takes time off even if ill, or holidays, or insists on dealing with specific contractors him/herself
- Making unexpected or illogical decisions accepting projects or contracts
- Unusually smooth process of cases where individual does not have the expected level of knowledge or expertise
- Abusing decision process or delegated powers in specific cases.
- Agreeing contracts not favorable to the organization either with terms or time period.
- Unexplained preference for certain contractors during tendering period.
- Avoidance of independent checks on tendering or contracting processes.
- Raising barriers around specific roles or departments which are key in the tendering/contracting process.
- Bypassing normal tendering/contractors" procedure.
- Invoices being agreed in excess of contract without reasonable cause.
- Missing documents or records regarding meetings or decisions.
- Company procedures or guidelines not being followed.
- The payment of or making funds available for high value expenses or school fees etc on behalf of others.

Chapter Three

3. Research Methodology

3.1 Research design

The study employed descriptive research design. Descriptive research provides an accurate account of characteristics of a particular individual, event or a group in real-life situations (Polit & Hungler 1999). It is a type of research design where the human's behavior, feelings or thoughts will be tried to explain from the existing context. Therefore, this study is descriptive because the current factors that help to reduce corruption in public procurement was described in this condition.

3.2 Data sources

The study was utilized primary and secondary data. The primary data generated mainly through questionnaires which allow the researcher to produce a rich and varied data set in a less formal setting and a more detailed examination of experiences, feelings or opinions. In addition, secondary data were used from procurement proclamation, directive, procurement manual, framework agreement manual and Standard Biding Documents to support the primary data.

3.3 Targeted population

The target populations of the study were covered one hundred twenty seven (127) budgetary federal government Organizations located in Addis Ababa. The targeted respondents for this study was experienced and qualified legal experts, procurement heads or officers , finance heads/senior experts and auditors in the selected government organizations. The targeted respondents were selected purposefully; because they are more familiar and have responsibility on the government procurement processes to reduce corruption.

3.4 Sample size

The respondents for the study have been one from each government institutions in the sample frame as per determined by using sampling design formula (Kothari, 2004).

$$n = \frac{p \cdot q \cdot N \cdot Z^2}{(N-1) e^2 + Z^2 \cdot pq}$$

Where, n= sample size= 52 respondents

N= Total population =127 (Federal Public Institutions).

Z= 95% confidence level (interval) under the normal curve (1.96)

E= Acceptable error term (0.05)

P and q are estimates of proportions sampled and not sampled that are 6% and 94% respectively.

According to the formula, the number of respondents was 52 representatives of the government institutions (Annex II). The selection process was in simple random sampling from government organizations obtained the annual budget from the federal government. Finally simple random sampling technique was employed to collect the primary data from the respondents.

3.5 Data collection tools

In order to collect data from the primary sources, this research was used survey questionnaires (Annex I). The researcher prepared questionnaires which have fixed alternative questions and administer to collect a wide range of data from respondents. The questionnaires designed by the researcher and were administered by the same. The questioners are adopted from OECD (2006); “methodology for assessment of national procurement system”. OECD developed the questioners to facilitate a consistent approach to the application of strengthening procurement capacities in developing countries. The researcher made some amendments on the questioners to relate with the research objective. The questions prepared in English language. The questioner consists of twenty (20) questions related to public procurement legal framework, transparency and e-procurement. The first 8 questions 1 (a)-6(a) of the questioner developed to assess the

existence of legal framework on public procurement, questions 7-12 of the questioner covers transparency on public procurement and the remaining six (6) questions 12-18 of the questioner covers the role of E-procurement in reducing corruption. Five levels Likert rating scales were used which includes as “**Strongly agree**” to “**Strongly disagree**” and “**Yes**, “**No**” answer was used to assess the variables. Secondary documents were also used to assess the existence of legal frame work on public procurement.

3.6 Data analysis and presentation

The researcher were used a mixed quantitative and qualitative data type. Quantitative data was collected through questioners were analyzed and interpreted through speared sheet (Microsoft Excel). The descriptive quantitative data was then analyzed and interpreted by using statistical tools such as data tabulation, frequency distribution, percentage, graphs and charts. Once the data was analyzed and interpreted; it then analyzed to form meaning about the research objectives and draw appropriate recommendation.

Chapter Four

4. Results and discussions

4.1. General information

This chapter presents the findings of the study. Tables, percentages, frequencies and charts were used to present the response rates from the questioner schedules responded by the respondents and from the secondary data. The data for this study has been collected from 52 public sectors located in Addis Ababa.

The researcher aggregates each indicator to obtain the effect of variables on reduction corruption.

Finally the analysis of the data collected is presented based on the specific objectives of the research in a binary response rating system for each variable.

4.1.1 Respondents response rate

Table 2: Response rate

Response	Frequency	percentage
Actual response	48	92
Non-response	4	8
Total	52	100

From table 2 above, the researcher issued a total of 52 questionnaires to the potential respondents. Four questionnaires or 8% were not responded to while 48 questionnaires or 92% were properly completed. According to Mugenda and Mugenda (2003), a response of above 50% is adequate enough to represent a phenomenon under investigation. The response rate of this study was therefore sufficient for the investigation.

4.1.2 Respondents current work category in their organization

Table 3: Respondents current work category

Department of the respondent	F	%
Procurement	15	31
Auditing	12	25
Law	8	17
Finance	13	27
Other	0	0
Total	48	100

The respondents of this research were Procurement head or officer 31%; Auditors 25%; lawyers 17%; Finance head or senior expert 27%. These respondents have direct or indirect responsibility on procurement in government organizations as well as in reduction of corruption in the sector

4.2 Examining the existence of legal framework

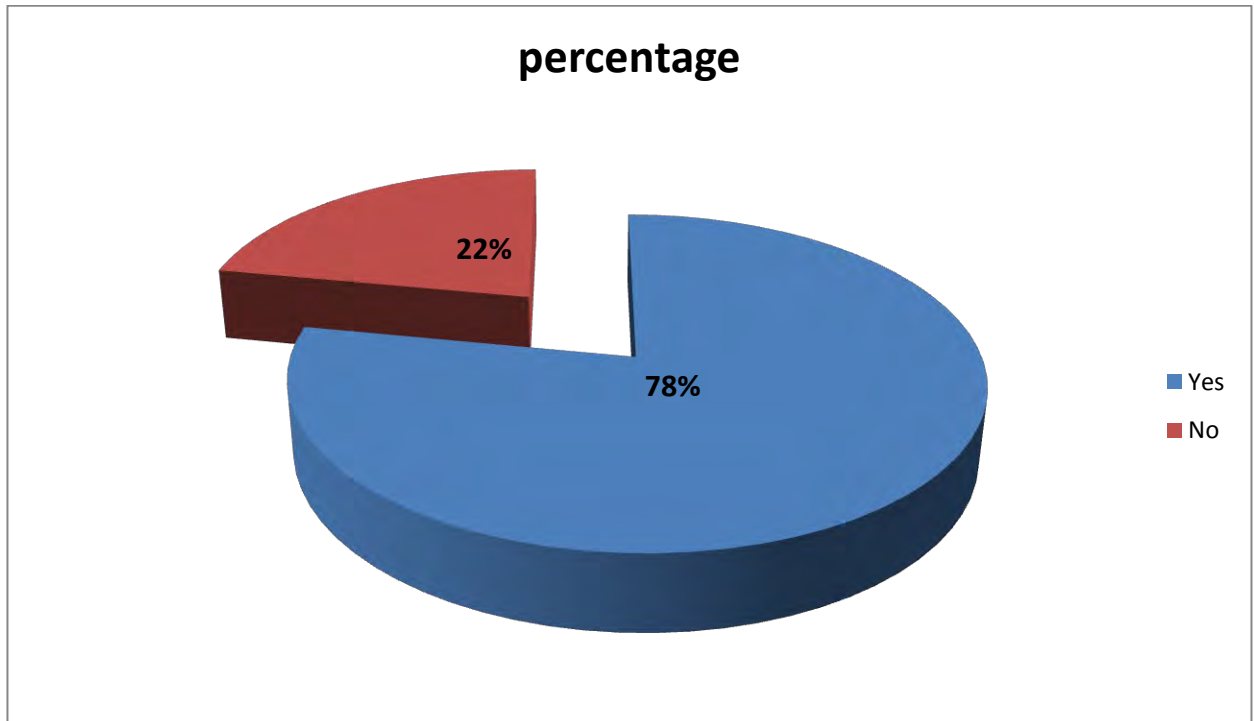


Figure 1: Response on the existing implementation of public procurement legal framework

Most of the respondents or 78% agreed with the statement that currently Ethiopia has developed a modern procurement legal framework while 22% of the respondents disagreed with the statement.

The current legal framework of Ethiopia is based in the UNCITRAL Model Law for Public Procurement and now clear and stringent, with a federal procurement proclamation supported by secondary implementing legislation (procurement directive and manual) and guidelines/SBD's. According to Tesfahun (2011), the best legal framework lays down the establishment of an audit unit, complaint review unit, procurement oversight body, tendering committee and the enactment of secondary legislatives among others. Accordingly the Ethiopian public procurement legal framework has established all this.

In the Federal Democratic Republic of Ethiopia basic legal act regulating questions related to the public procurement procedures, including those which refer to the award of framework

agreements is the Ethiopian Federal Government Procurement and Property Administration Proclamation No. 649/2009 that entered into force on the date of publication in the Federal Negarit Gazeta No. 60 on 9th day of September 2009.

Apart from the Proclamation, there is also the Federal Government Public Procurement Directive issued by the Minister of Finance and Economic Development that entered into force on 8th day of June 2010, which establishes procedures for concluding and administering framework agreements.

Following to the proclamation and Directive the public procurement manual is issued in December/2011. The Public Procurement Manual is a public document issued by the Public Procurement and Property Administration Agency (PPA) as mandated in the Proclamation. The Manual is intended for the use of all public bodies undertaking public procurement using public funds, in accordance with the Proclamation and Directive. Entities outside the coverage area of the Proclamation may use this Manual with the prior consent of their respective relevant authority under jurisdiction. The Manual also includes Guidance notes and Formats that can be used by public bodies, which is consistent with the Proclamation and Directive.

In addition, the FDRE has issued public procurement framework manual in May/2011. This Manual is designed to define policies and procedures which govern procurement, administrative, and monitoring arrangements required for development and management of framework agreements and to provide public bodies with the necessary information needed to utilize framework agreements.

The Legislation and legal indicators typically focus on the production of legislation to combat corruption and the progress of trials involving corruption. They also tend to include other de jure (i.e., written) provisions such as the production of monitoring reports and audits as part of their anti-corruption indicators. Strong procurement legislation is essential for providing tools for the police and judiciary with which to investigate and prosecute alleged acts of corruption (Sumedh & Heather, 2012).

4.2.1 Assessment on the processes and procedures not included in higher level legislation:

Table 4: Rating respondents' value on implementation of regulations

Statements	Yes		No			
	F	%	F	%	F	%
There are regulations that are clear, comprehensive and consolidated as a set of regulations available in a single and accessible place.	40	84	8	16	48	100

Majority or 84% of the respondents agreed with the statement that there are regulations that are clear, comprehensive and consolidated as a set of regulations available in a single and accessible place in Ethiopia; while 16% disagreed with the statement.

The FDRE Public Procurement Directive (PPD) was issued on June 8/2010 by the Ministry of Finance and Economic Development Pursuant to Article 78/2 of the Ethiopian Federal Government Procurement and Property Administration Proclamation no 649/2009 and Article 19 of the definition of powers and duties of the Executive Organs of the Federal Government of Ethiopia Proclamation No 471/2005/6 (as amended). Now a day's PPD issuance is the responsibility of public procurement and property administration agency.

4.2.2 Model tender documents for goods, works and services.

Table 5:- Rating assessment of model tender documents

Statements	Yes		No		Total	
	F	%	F	%	F	%
There is model invitation and tender documents provide for use for a wide range of goods, works and services procured by government agencies that can reduce corruption.	36	75	12	25	48	100
There is a standard and mandatory set of clauses or templates that are reflective of the legal framework, for use in documents prepared for competitive tendering to reduce corruption.	38	79	10	21	48	100

Key: F= Frequency %= Percentage

As shown from the above table; majority of the respondents agreed with statement that there is model invitation and tender documents provide for use for a wide range of goods, works and services procured by government agencies that can reduce corruption with 75% of respondents; while just 25% of the respondents disagreed with the statement. 79% of the respondents agreed with the statement that there is a standard and mandatory set of clauses or templates that are reflective of the legal framework, for use when documents prepared for competitive tendering; while 21 of respondents disagreed with the statement. The researcher observation of the existence of Standard bidding Documents (SBD) supports the respondents’ response. As shown in the table below the country prepared the SBD for each category of procurement.

Table 6: Model SBD for public procurement Ethiopia

S/No	Description	NCB	ICB
1	Standard Bidding Documents for Procurement of Goods and Related Services;	Yes	Yes
2	Standard Bidding Documents for Procurement of Works	Yes	Yes
3	Standard Bidding Documents for Procurement of Non Consultancy Services	Yes	Yes
4	Standard Bidding Documents for Procurement of Goods and Related Services customized to meet requirements of Framework Agreements	Yes	Yes
5	Standard Bidding Documents for Procurement of Non-Consultancy Services customized to meet requirements of Framework Agreements	Yes	Yes
6	Standard Bidding Documents for Procurement of Textbooks and Related Services;	Yes	Yes
7	Standard Bidding Documents for Procurement of Health Sector Goods and Related Services;	Yes	Yes
8	Standard Bidding Documents for Supply and Installation of Information Systems;	Yes	Yes

Source: PPA manual 2011

Key: NCB-National Competitive Bidding; ICB-International Competitive Bidding

Even though the country has adopted a UNCITRAL Public Procurement Model Law, it is not being implemented appropriately on ground. Respondents of the research also said that there are major gaps in the procurement practices especially with regard to procurement planning and usage of the SBD. This is supported by Tesfahun (2011), a total of 54 federal government ministries, agencies, universities and other institutions were assessed 46 organizations (or 80.7%) do not use the SBD prepared by the Agency.

4.2.3 Assessment on Procedures for pre-qualification.

Table 7: Rating response on pre-qualification

Statements	Yes		No		Total	
	F	%	F	%	F	%
Procedures exist that define pre-qualification which Specify the use of pass/fail for application of qualification criteria.	40	84	8	16	48	100
Procedures exist that define pre-qualification which Provide guidance on when to apply a pre-qualification procedure.	42	88	6	12	48	100

Respondents largely agreed with the statement that Procedures exist that define pre-qualification which Specify the use of pass/fail for application of qualification criteria at 84% while 16% disagreed with the statement. On the other hand 88% of respondents agreed with the statement that Procedures exist that define pre-qualification which Provide guidance on when to apply a pre-qualification procedure while 12% disagreed with the statement.

Under article 20 of the public procurement directive of Ethiopia the pre-qualification procedure used for closed bidding and sets out the conditions under which it applies and the process to be followed. Closed bidding may be used for procurement of goods, services and works that are complex in nature or available to a large number of firms operating in the market. The article does not specify pass/fail criteria for the qualification but indicates that only these criteria's provided in the pre-selection/pre-qualification documents may be applied. The article does not limit the number of pre-qualified competitors; as in some countries like the European Union. This encourages competitors and helps the public organization to get more advantage.

Sub-article 20.2 of the directive shows the procedures for pre-qualification clearly. The sub-article stated that procurement requiring pre-qualification bids should satisfy at least one of the following criteria.

- a) Where the procurement pertains to a work of design, manufacturing or installation of a very high value or complex nature.
- b) Where the procurement pertains to a turnkey contract of works, or the acquisition of machinery or IT.
- c) Where the procurement pertains to supply of goods or equipments of considerable importance and includes installation.
- d) Where the cost of drawing up bidding documents is so high that only pre-qualified bidders should participate in the bid.

4.2.4 Procedures suitable for contracting for services or other requirements where technical capacity is a key criterion.

Table 8: Rating the evaluation of technical capacity criteria

Statement	Yes		No		Total	
	F	%	F	%	F	%
The legal framework and its implementing regulations provide for the Conditions under which selection based exclusively on technical capacity is appropriate and when price and quality considerations are appropriate that prevents fraud and corruption.	40	84	8	16	48	100

Majority of respondents or 84% agreed with the statement that the legal framework and its implementing regulations provide for the Conditions under which selection based exclusively on technical capacity is appropriate and when price and quality considerations are appropriate that prevents fraud and corruption while 16% disagree with statement.

Article 16.8 of the Public Procurement Directive sets out the evaluation criteria to be applied in the case of consultancy. Sub-article 18.6.1 of the directive indicates that public body has to indicate clearly the bid evaluation criteria in the evaluation and qualification criteria section of the standard bidding document (SBD). Sub-article 5.6.2 of the public procurement manual also

states that; the evaluation and selection of consultants shall be carried in accordance with Quality and Cost Based Selection (QCBS); Quality Based Selection (QBS), Selection of Fixed Budget (FBS); Selection of Consultants Qualification (CQS) and Selection Based on least Cost.

4.2.5 Assessment on User’s guide or manual for contracting entities.

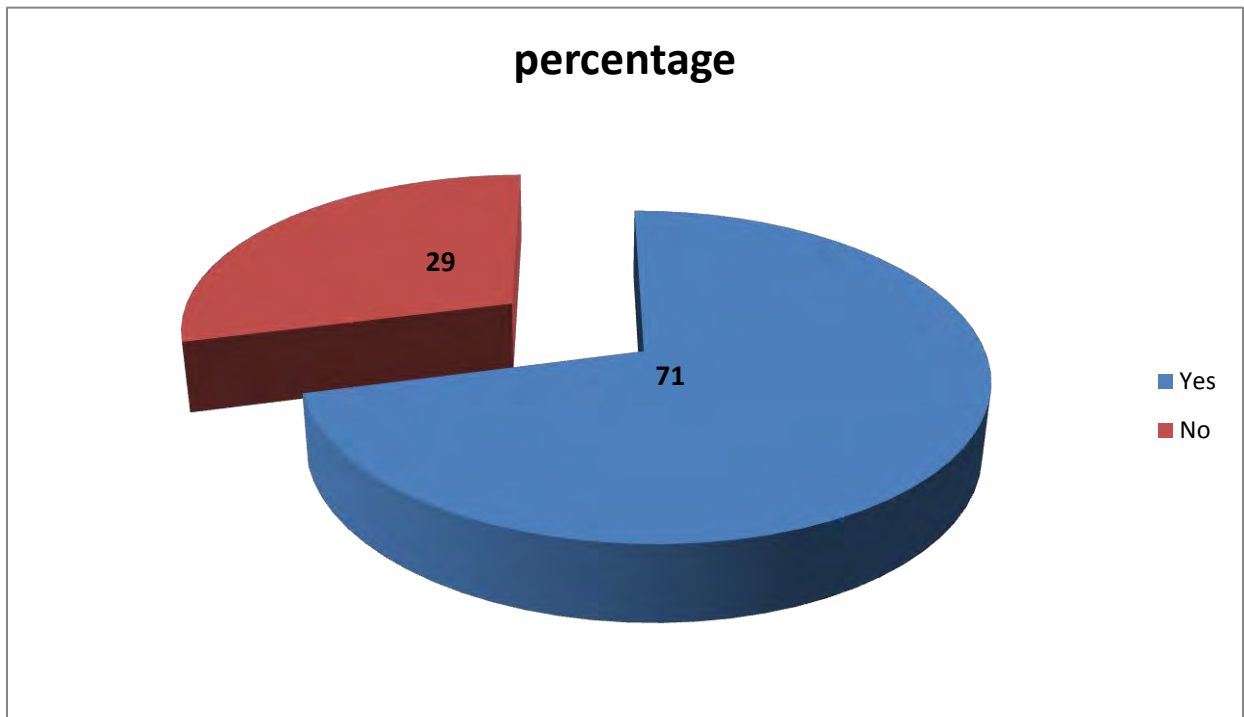


Figure 2: Response percentage on user’s guide or manual for contracting entities

As shown from figure 71% of the respondents agreed with the statement that Ethiopia have a unique procurement manual detailing all procedures for the correct administration of procurement regulations and laws while 29% of the respondents disagree with the statement.

The Government of Ethiopia has a unique public procurement manual issued December 2011; by the Public Procurement and property administration Agency (PPA). The manual provides a clear and compressive guidance on the use of public procurement. As explained in the manual it was prepared by the international Business Initiative (IBI) for the PPA, Minister of Finance and Economic Development Ethiopia; under the World Bank Public Sector Capacity Building program (PSCAP).

4.2.6 Assessment of the General Conditions of Contracts goods, works and services

Table 9: Rating the General condition of Contract (GCC)

Statements	Yes		No		Total	
	F	%	F	%	F	%
The General Conditions of Contracts (GCC) for public sector contracts covering goods, works and services consistent with national requirements and when applicable international requirements	30	63	18	37	48	100

Majority of the respondents agreed with the statement that the General Conditions of Contracts (GCC) for public sector contracts covering goods, works and services consistent with national requirements and when applicable international requirements at 63%; while 37% of the respondents disagreed with the statement.

4.3. Assessment on the effectiveness of public procurement transparency

Table 10: summary of descriptive statistics on transparency

Statements	SD		D		ID		A		SA	
	F	%	F	%	F	%	F	%	F	%
A legal framework, organization, policy, and procedures for internal and external control and audit of public procurement operations are in place to provide a functioning control framework.	24	50	10	21	6	12	8	17	0	0
The mechanism for appeals decisions are deliberated on the basis of available information and the final decision can be reviewed and ruled upon by a body (or authority) with enforcement capacity under the law.	14	29	18	38	10	21	6	12	0	0
Information on procurement is easily accessible in media of wide circulation and availability and centralized at a common place.	18	38	17	35	6	12	5	11	2	4
The legal and regulatory framework for	20	42	16	34	10	20	2	4	0	0

procurement, including tender and contract documents, includes provisions addressing corruption, fraud, conflict of interest, and unethical behavior and sets out (either directly or by reference to other laws) the actions that can be taken with regard to such behavior.										
A sustainable strategy and training capacity exists to provide training, advice and assistance to develop the capacity of government and private sector participants to understand the rules and regulations and how they should be implemented. (capacity development)	20	42	18	38	8	16	2	4	0	0
The government has in place an anti-corruption program but it requires better coordination or authority at a higher level to be effective.	4	8	6	13	8	16	12	25	18	38

Key: SD= Strongly Disagree D= Disagree ID= In Difference A= Agree SA= Strongly Agree

Respondents strongly disagreed that a legal framework, organization, policy, and procedures for internal and external control and audit of public procurement operations are in place to provide a functioning control framework, at 50% while 21% disagreed, as well. Only seventeen percent agreed and 12% choosing to remain neutral. Twenty nine percent of respondents strongly disagreed and 38% disagreed that the mechanism for appeals decisions are deliberated on the basis of available information and the final decision can be reviewed and ruled upon by a body (or authority) with enforcement capacity under the law. In contrast 21% and 12% remain neutral and agreed respectively. Only fifteen percent of respondents agreed that Information on procurement is easily accessible in media of wide circulation and availability while 38% strongly disagreed and 35% disagreed with the statement, 12% choosing to remain neutral. Respondents confirmed that the legal and regulatory framework for procurement, including tender and contract documents, includes provisions addressing corruption, fraud, conflict of interest, and unethical behavior and sets out (either directly or by reference to other laws) the actions that can be taken with regard to such behavior as follows: majority or 42% strongly disagreed; 34% disagreed, 20% neutral; and only 4% agreed with the statement. As concerns the statement that a sustainable strategy and training capacity exists to provide training, advice and assistance to develop the capacity of government and private sector participants to understand the rules and regulations and how they should be implemented, a large number or 42% of respondents strongly disagreed, 38% dis

agreed, 16% neutral, 4% agreed. On the issue of the government has in place an anti-corruption program but it requires better coordination or authority at a higher level to be effective. Most of respondents or 38% strongly agreed and 25% agreed. Sixteen percent choose to remain neutral. The rest of the respondents were distributed as follows: 13% disagreed and 8% strongly disagreed.

4.4. Examining the role of E-procurement on public procurement

Table 11: Statistical summary on the role of e-procurement

Statements	SD		DA		ID		A		SA		Total	
	F	%	F	%	F	%	F	%	F	%	F	%
E-procurement can reduce corruption by delivering real time access information or real time bidding.	2	4	2	4	2	4	20	42	22	46	48	100
E-procurement can reduce corruption by reducing human intervention in bidding process.	0	0	2	4	4	8	22	46	20	42	48	100
E-procurement can reduce corruption by using efficient and secure document transmission.	0	0	2	4	8	16	32	67	6	13	48	100
E-procurement can reduce corruption by increasing managerial control and collaboration.	0	0	2	4	10	21	26	54	10	21	48	100
E-procurement can reduce corruption by increasing transparency and accountability.	0	0	2	4	12	25	18	38	16	33	48	100
E-procurement can reduce corruption by making a procurement process faster and easier.	0	0	0	0	6	12	32	67	10	21	48	100

Respondents majorly felt that e-procurement can reduce corruption by delivering real time access information or real time bidding given that 46% strongly agreed and 42% agreed. On the other hand 8% of respondents disagreed while 4% of them remained neutral. As concerns the statement that E-procurement can reduce corruption by reducing human intervention in bidding process, a large number of respondents or 42% strongly agreed; 46% agreed; 8% remained neutral and 4% disagreed. Respondents generally confirmed the statement that e-procurement can reduce corruption by using efficient and secure document transmission with 13% strongly

agreeing while majority or 67% agreed. Contrarily, 4% of respondents disagreed the rest or 16% remaining neutral. 21% of respondents strongly agreed and Majority of or 54% of respondents agreed that e-procurement can reduce corruption by increasing managerial control and collaboration. Otherwise, 4% and 21% of respondents disagreed and remain neutral, respectively. 33% of respondents strongly agreed and 38% agreed that e-procurement can reduce corruption by increasing transparency and accountability. Else, 4% of respondents and 25% disagreed and remained neutral, respectively. Finally, 21% of respondents strongly agreed and a large number or 67% that e-procurement can reduce corruption by making a procurement process faster and easier. The rest of respondents or 12% remained neutral.

Chapter Five

5. Summary of findings, Conclusions and Recommendations

5.1 Summary of findings

The general objective of the study was to establish the factors that help to reduce corruption in Ethiopia federal institutions found in Addis Ababa. The response rate was 92% which is viewed as sufficient to conduct the study. The respondents were procurement heads or officers, auditors, lawyers and finance heads or senior experts.

The first research objective was to assess the existence of procurement legal framework that can reduce corruption in the public procurement of Ethiopia. The findings confirmed that existence of model procurement legal framework has an important determinant in the reduction of corruption. This was evidenced by majority of the respondents from the data collected. Apart from the respondents response current procurement legal frameworks such as proclamation directive, manual and SBDs“ were assessed.

This is similar with Sumedh & Heather (2012) that, Legislation and legal indicators typically focus on the production of public procurement legislation to combat corruption and the progress of trials involving corruption. They also tend to include other de jure (i.e., written) provisions such as the production of monitoring reports and audits as part of their anti-corruption indicators.

The second research objective was to examine the effectiveness of transparency in public procurement of Ethiopia. It was confirmed that transparency can reduce corruption; when there is free access to information, established ethics and anti-corruption measures, a strategy to capacity development, control and auditing systems and strong sanction mechanism. The data collected indicated majority of the respondents strongly disagreed with transparency in the public procurement of Ethiopia.

The finding was inconsistent with Lindstedt and Naurin (2006) that; transparency can lead to lower levels of corruption, but this is contingent on other factors. Making information available will not prevent corruption if conditions for publicity as well as accountability, such as education, newspaper circulation, and free and fair elections, are weak.

This is supported by Transparency International (2014) that, e-procurement can limit or reduce the opportunities for corruption by automating procedures and reducing the amount of discretion exercised by procurement officials and their personal contact with private sector representatives. E-procurement can increase the number of suppliers and the amount of competition by making access easier and significantly enhancing transparency by centralizing all information related to the procurement process in a publicly available web portal.

5.2 Conclusions

The study was conducted to establish the factors that help to reduce corruption in the federal public procurement of Ethiopia. The factors considered were existence of legal framework, transparency and e-procurement. Based on the findings it was concluded that existence of legal framework on model tender documents, procedures for pre-qualification criteria, specific & General Condition of Contract for goods, services and works, the existence of clear and consolidated users' manual, suitable technical capacity criteria and developing secondary supporting regulations contribute to reduce corruption on public procurement; even if there is a great difference between legislation as it is written and as it is actually practiced.

The research finding clearly revealed that transparency can lead to reduce corruption. However, transparency on public procurement is not in the stage to reduce corruption in Ethiopia due to the lack of access to information; incompetent capacity of professionals, absence of internal control and auditing, unethical professionals and weak sanction mechanism.

The research finding also indicated that e-procurement reduces corruption by increasing transparency and efficiency. Seeking that e-procurement minimizes corruption by reducing face to face contracting and preventing illegal interference and collusion; pursuing that important information is open and monitored by users in real time; bidders can participate in bidding on fair terms whenever they want.

5.3 Recommendations

5.3.1 legal framework

- **Use competitive tendering and limit the use of exceptions and single-source procurement to reduce corruption.** Competitive procedures should be the standard method for conducting procurement as a means of driving efficiencies, fighting corruption, obtaining fair and reasonable pricing and ensuring competitive outcomes. If exceptional circumstances justify limitations to competitive tendering and the use of single-source procurement, such exceptions should be limited, pre-defined and should require appropriate justification when employed, subject to adequate oversight taking into account the increased risk of corruption, including by foreign suppliers.
- **Develop ethics training programmes for the procurement workforce can reduce corruption:** both public and private organizations to raise awareness about integrity risks, such as corruption, fraud, collusion and discrimination, develop knowledge on ways to counter these risks and foster a culture of integrity to prevent corruption.
- **Develop an appropriate strategy for the integration of secondary policy objectives in public procurement systems.** For secondary policy objectives that will be supported by public procurement, appropriate planning, baseline analysis, risk assessment and target outcomes should be established as the basis for the development of action plans or guidelines for implementation.
- **Employ appropriate impact assessment methodology to measure the effectiveness of procurement legal framework in achieving secondary policy objectives.** The results of any use of the public procurement system to support secondary policy objectives should be measured according to appropriate milestones to provide policy makers with necessary information regarding the benefits and costs of such use. Effectiveness should be measured both at the level of individual procurements, and against policy objective target outcomes. Additionally, the aggregate effect of pursuing secondary policy objectives on the public procurement system should be periodically assessed to address potential objective overload.

5.3.2 Effectiveness of transparency

- Institutionalize a participative or collaborative process with Non-Government Organizations (NGOs) and Civil Society Organizations (CSOs) on procurement, Wide dissemination of procurement information on procurement newspaper and the procurement website.
- Institutionalize required basic knowledge and skills for procurement staff. Further implement comprehensive procurement capacity building programme and training of trainers on: Procurement procedures; Preparation of procurement plan; Preparation of cost estimates and budgeting; Records management; Criteria on procurement performance and Professional behaviors.
- **Establish clear lines for oversight of the public procurement cycle** to ensure that the chains of responsibility are clear, that oversight mechanisms are in place and that the delegated levels of authority for approval of spending and approval of key procurement milestones is well defined. Rules for justifying and approving exceptions to procurement procedures should be comprehensive and clear, such as in cases of limiting competition.
- **Develop a system of effective and enforceable sanctions** for government and private-sector procurement participants, in proportion to the degree of wrong-doing to provide adequate deterrence without creating undue fear of consequences or risk-aversion in the procurement workforce or supplier community.
- **Handle complaints in a fair, timely and transparent way** through the establishment of effective courses of action for challenging procurement decisions to correct defects, prevent wrong-doing and build confidence of bidders, including foreign competitors, in the integrity and fairness of the public procurement system. Additional key aspects of an effective complaints system are dedicated and independent review and adequate redress.
- **Conduct procurement auditing regularly and develop cooperation between OFAG, FEACC and PPA** to strengthen oversight and inspection activities for procurement nationwide and develop a national M&E system for procurement performance and outcomes. Re-establish Internal Audit Units, Control Units within implementing agencies and large-scale procuring entities.
- The procurement capacity building programme to train auditors on procurement procedures and practices.

- In parallel with implementing the Competition Law, Government has to open for regular dialogue with the private sector, which would have a positive impact on the level of competition for public sector contracts. Phase out the Government subsidy for state owned enterprises. Expand procurement capacity building programme for private sector.
- It is necessary to have more integration between the public financial management and the procurement system as Ethiopia is applying programming budget system.

5.3.3 E-procurement

Most developing and developed countries“ governments would like to implement public e-procurement technology in such a way, as to enhance transparency and accountability in government procurement processes. The basic principle of the government procurement is straightforward: to acquire the right item at the right time with the right price. The process should be open, objective and transparent. However, corruption in public procurement processes leads to problems such as lack of accountability and transparency, lack of political control and auditing, weak professionalization of the bureaucracy and many more. To overcome these concerns relating to corruption in the government procurement, information and communication technology (ICT) can play an important role to reduce corruption by promoting good governance (Bertot,Jaeger & Grimes, 2010), enhancing relationships between government employees and citizens tracking activities, monitoring and controlling the government employees and reducing potentiality of corrupt behaviors. ICT enabled technology especially public e-procurement plays an important role for minimizing the risk of corruption in public procurement processes (OECD, 2008).

South Korea has one of the most complete e-procurement systems in the world, and it is often referred to Ethiopia as a best practice example. The current e-procurement system (KONEPS) of South Korea was developed in 2002 as part of the project Cyber Korea 21. In 2003, the system received the UN Public Service Award, and in 2004, the UN selected it as the best practice model. The system has since been exported to various developing economies, including Vietnam and Costa Rica.

When we come to Africa Kenya was the first country in Africa to implement an automated, end-to-end procurement and payment system in an attempt to enhance transparency, accountability and fairness. The World Bank, a major funder of telecom and construction projects in Africa, is

providing financial and technical support for e-procurement initiatives in several African countries including Zimbabwe, Nigeria, Mauritius, Cameroon, Uganda and now, Zambia.

Based on this the government of Ethiopia has:

- To establish the system now; as e-procurement is a process to implement.
- To mandated the framework act on e-procurement.
- Regulating the legal effect of digital documents, signature and certificate.
- Encourage public organizations to have interest in and to use e-procurement.
- Promoting public organizations to share data in cooperation with other organizations.

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Annex I

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Survey Questioner for federal budgetary institutions

This questioner is for a master's study entitled **Factors that help to reduce corruption: case study in the federal public procurement of Ethiopia**. The study is purely intended for academic purpose and for the partial fulfillment for the award of masters' degree in Addis Ababa University. You have been selected to participate in this study due to the importance of your information in the study. The information you provide will only be used for the purpose of this study and will be treated with utmost confidentiality. Please feel free and answer all the questions truthfully. Thanks for your cooperation in answering the questioner by scarifying your valuable time.

Thank you

MSc student: Haftom Gebremedhin

Part One: Please indicate your response by marking “X”

1. Please indicate your gender _____ M _____ F
2. What is your current position in your organization? _____
3. What is your highest level of completed education?
 Diploma _____ Bachelor’s degree _____ Masters’ degree _____
 PHD _____ Other specify it _____
4. Years’ of Experience
 <2 years _____
 2-5 years _____
 6-10 years _____
 >10 years _____

Part two: (Only applicable for budgetary institutions)

Please provide “YES or “NO” answer with the following areas of statements. mark “X” for each line in the column)			
SNo	Factors	Yes	No
	1. Statements related to procurement legal framework	Yes	No
1 (a)	There are regulations that are clear, comprehensive and consolidated as a set of regulations available in a single and accessible place.		
2(a)	There is model invitation and tender documents provide for use for a wide range of goods, works and services procured by government agencies that can reduce corruption.		
2(b)	There is a standard and mandatory set of clauses or templates that are reflective of the legal framework, for use in documents prepared for competitive tendering to reduce corruption.		
3(a)	Procedures exist that define pre-qualification which Specify the use of pass/fail for application of qualification criteria.		
3(b)	Procedures exist that define pre-qualification which Provide guidance on when to apply a pre-qualification procedure.		

4	The legal framework and its implementing regulations provide for the Conditions under which selection based exclusively on technical capacity is appropriate and when price and quality considerations are appropriate that prevents fraud and corruption.		
5	There is a unique procurement manual detailing all procedures for the correct administration of procurement regulations and laws.		
6	The General Conditions of Contracts (GCC) for public sector contracts covering goods, works and services consistent with national requirements and, when applicable, international requirements.		

Please provide your level of agreement or disagreement with the following areas of statements (Strongly Disagree (SD) 1, Disagree (D) 2, In Difference (ID) 3, Agree (A) 4, Strongly Agree (SA) 5. mark "X" for each line in the column)						
		SD	D	ID	A	SA
	2. Statements related to transparency	1	2	3	4	5
7	A legal framework, organization, policy, and procedures for internal and external control and audit of public procurement operations are in place to provide a functioning control framework.					
8	The mechanism for appeals decisions are deliberated on the basis of available information and the final decision can be reviewed and ruled upon by a body (or authority) with enforcement capacity under the law.					
9	Information on procurement is easily accessible in media of wide circulation and availability and is centralized at a common place.					
10	The legal and regulatory framework for procurement, including tender and contract documents, includes provisions addressing corruption, fraud, conflict of interest, and unethical behavior and sets out (either directly or by reference to other laws) the actions that can be taken with regard to such behavior.					
11	A sustainable strategy and training capacity exists to provide training, advice and assistance to develop the capacity of government and private sector participants to understand the rules and regulations and how they should be implemented.					

	(capacity development)					
12	The government has in place an anti-corruption program but it requires better coordination or authority at a higher level to be effective.					
	3. Statements related to E-procurement anti-corruption factors					
13	E-procurement can reduce corruption by delivering real time access information or real time bidding.					
14	E-procurement can reduce corruption by reducing human intervention in bidding process.					
15	E-procurement can reduce corruption by using efficient and secure document transmission.					
16	E-procurement can reduce corruption by increasing managerial control and collaboration.					
17	E-procurement can reduce corruption by increasing transparency and accountability.					
18	E-procurement can reduce corruption by Making a procurement process faster and easier.					

Additional comment on, corruption on public procurement. _____
