

TRENDS IN ELECTRONIC PROCUREMENT

The Internet and Business to Business (B2B) Internet commerce

The Internet had its origins in defense systems in the US in the 1970s. It then moved into universities in the 1980s and soon became the standard world wide communications. The term information super-highway was on everyone's lips. Recently, many have come to realize that the greatest potential for the Internet is to provide business-to-business services, not consumer services. Many analysts are bullish about the potential for this so-called Internet commerce.

So why this interest in B2B Internet commerce? The answer is simple: businesses and governments currently trade with an established set of business partners, where the identity of participants is not so much of an issue, particular if suppliers have gone through a pre-qualification process. Furthermore, payment is generally by account, and hence the requirement for on-line payment is not essential.

EDI and Electronic Commerce

Electronic commerce is not new: Electronic Data Interchange (EDI) has been used as a basis of electronic trading by industry for over a decade. EDI is a formatting protocol for commonly used electronic 'documents' that are transferred between two parties by means of electronic mail. In the context of procurement, the documents of interest include order forms, invoices, consignment documents and so forth.

The use of EDI has not been as suc-

cessful as had been hoped for, however, for several reasons: it is expensive (especially for SMEs); there are conflicting or non-existent standards; and it has not been tightly integrated with Seller/Vendor catalogues.

Current Kenya Government eProcurement

With the advent of fibre optic technology, USAID is partnering with Kenya to develop an E- Procurement system...more on this as developments unfold.

Some issues to be addressed

Not all the technology is in place yet to enable the Government to take full advantage of Internet commerce. The following first need to be addressed:

- Identification: It is essential that parties in a transaction be able to identify themselves fully, as it is possible for a website to be spoofed. This requires all participants in the procurement process to be issued with digital certificates, which will verify their identity on-line through a hierarchy of Certification Authorities.
- Synchronization: There are occasions where timing is critical, such as an auction bid, and time stamping of transactions is important.
- Confidentiality: Orders and tender responses often contain company confidential information, and a procurement system needs to ensure that the necessary confidentiality measures are in place.
- Data Integrity: This requirement relates to the need to make sure that a document such as a tender specification or response is not modi-



fied in any way, or to identify when such a modification occurs.

- Bandwidth: Current Internet response in Kenya is still generally too slow, because of bandwidth restrictions. It is expected that this will improve as the main providers shift their focus to the B2B Internet commerce area.
- What can we expect the eProcurement infrastructure to look like?

Article references:
The Procurement And Supply-chain Benchmarking Association
The Procurement Virtual Library

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SAFEGUARDING THE NATIONAL ECONOMY



By M.J.O. Juma
Acting Director General, PPOA

The Public Procurement Oversight Authority (PPOA) was established in 2007, with a clear mandate of ensuring that public procuring entities

eliminates wastages and corruption through strategic procurement planning. Since then, we have covered a milestone on the way procurement is conducted by various state bodies across the country. Before the coming to scene of PPOA, information on contracts awarded for most of the turnkey projects was very minimal in the public domain.

Today however, this has greatly changed. Any one interested in knowing the tenders awarded within a particular period and the winners can easily access the said information right from their offices by logging into the PPOA website. PPOA has been at the forefront in disseminating this information by using all the available platforms. In the print media and the electronic media, PPOA has taken every opportunity to share with the general public the latest of Procuring Entity, Tender Number, Tender Name, Firm Awarded and the Tender Value among other details

on a very regular basis. Besides posting the information for the general public, PPOA has also been in the forefront educating the public procuring entities and the relevant officers on what the law stipulates in relation to procuring. All public procuring entities are required by to submit to PPOA details of the contracts awarded monthly. The publication of the contracts awards is mandatory and not optional pursuant to section 46(1) of the Public Procurement and Disposal Act, 2005.

Guided by our mandate we have covered good ground but still there is great room for improvement. As a public body we will execute our responsibility without fear or favour for the goodness of the country. True we shall safeguard the national economy of our motherland Kenya. Now that the New Year has come, let me take this opportunity to wish the PPOA family, our partners and Kenyans at large a very happy and prosperous 2010.

PUBLIC SECTOR PROCUREMENT: MEETING THE CHALLENGE

Article by Daniel Ojijo, Executive Chairman Mentor Holdings (Villa Care, Homes Kenya, International Valuers)

Public sector procurement issues were discussed with a sector leader within the construction industry, Mr Ojijo. This is what he had to say. Contractors must take the initiative in helping public sector clients deliver their construction projects more efficiently and not wait for clients to lead the way, said Mr Ojijo.

Contractors that can help local authorities and Government departments deliver those efficiencies get an edge over their competitors. "Many suppliers see the client's predicament much more clearly than the client. The reward given to these suppliers is now being noticed. You have got to understand clients better because they will be looking for those efficiency ideas from you," he said, adding, "Stop saying, tell me what to do. Rather, start saying to the

customer, do you realise you can do this to be more efficient."

Mr Ojijo insisted that the efficiency targets would not be achieved by cutting costs. "This is a value driven agenda," he said. Nor is it about inventing new efficiency mechanisms, "The aim is to spread best practice across the market place. Some may do this already but plenty do not, he said, citing the example of the recent collapse of a building in Kiambu that killed 16 people.

This drive for efficiency, Mr Ojijo said, will see a much greater use of framework contracts, with integrated teams, regular performance management, greater cost clarity, greater use of e-procurement, sustainable reviews and whole life costing. Contractors will improve their delivery if clients create the right procurement environment, Mr Ojijo stated.

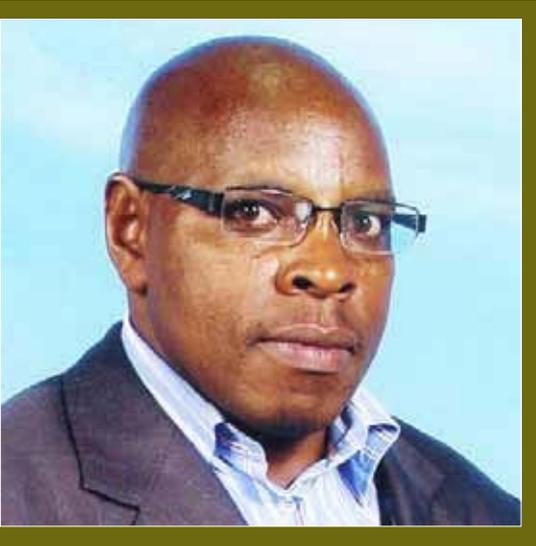
Mr Ojijo said the construction industry had made great strides in delivering clients better value for money in recent years. "The environment for procurement in the public arena is not set by industry players but by Government,



and to that end the establishment of PPOA is very commendable. "If the Government sets the environment for people to work together, allowing early engagement with the team, setting targets for improvement and allowing supply chain collaboration then we will continue to improve our delivery."

However industry players also have to step up to the mark, said Mr Ojijo, by developing their supply chains for the long term and by training their staff to better understand the customers' needs. "It is our collective responsibility to improve," he concluded.

IMPORTANCE OF SOUND PROCUREMENT RECORDS MANAGEMENT



**By Joseph M. Rembe,
ARD Records Management
Specialist**

Record keeping is a vital component of sound procurement practice but one which tends to be ignored and neglected. There can be no meaningful reform of procurement systems without addressing record keeping practices. Records are essential for accountability and effective performance. Sound information and records management underpin good corporate governance. Procuring entities need to recognize records and the information they contain as a crucial resource.

Record keeping and corporate governance

There is a trend in the public and corporate sectors towards embracing corporate governance. Corporate governance refers to the processes by which an organization is directed, controlled and held to account. It entails exercise of authority and stewardship and includes accountability not only in legal terms but also in terms of self-regulation and norms of best practice. Key requirements of good corporate governance include honesty,

trust, integrity, transparency, performance orientation, accountability and commitment to the organization. Accountability means having to answer to others for things one does, while transparency means doing things in a way that facilitates appropriate scrutiny. The objectives of embracing corporate governance are to foster ethical behaviour, enhance the reputation of the organization, and comply with the law and to increase the organization's effectiveness and efficiency. All this means that overall, the productivity and profitability of the organisation gets to satisfy the shareholders and stakeholders.

Procuring entities need to keep records of their decisions, activities and transactions to meet the demands of corporate accountability.

Effects of poor record keeping practices

Poor record keeping has serious implications in the procurement process and in contract management. Poor record keeping means activities of the officials are not transparent and contributes to loss of documents and inability to locate needed documents. At times Procuring Entities lose legal disputes in courts on account of poor record keeping practices. Inadequate record-keeping and an inability to retrieve records when required have been identified as major impediments to the auditing process and procurement reviews.

Procurement record keeping - the present status

Over the past one year ARD, under the Millennium Challenge Account – Threshold Program has conducted a number of baseline studies in the management of records in 6 major GOK entities including PPOA. The studies have revealed serious weaknesses in records keeping, particularly in regard to procurement records management, including

failure to comply with the procurement law, fragmentation of procurement files, maintenance of informal – at times makeshift filing systems - and negligent keeping of closed procurement records. It has also been observed that procurement records are often viewed as falling outside the jurisdiction of records managers where they have been appointed in procuring entities. Failure to integrate procurement records within the records management function is a major problem.

Record keeping and the law

The Public Procurement and Disposal Act 2005 and the associated regulations have important provisions on procurement record keeping. Section 45 requires procuring entities to maintain a proper filing system with clear links between procurement and expenditure files. A separate file should be maintained for each procurement requirement containing all relevant documents. Procurement documents should be retained for at least six years and some records may need to be retained permanently.

The role of the PPOA

The overall mandate of the Public Procurement Authority is to ensure public procurement is done efficiently and in an economical manner, and that there is fair competition, transparency and accountability. Regulation 34 (2) mandates PPOA to provide guidance and direction to PEs on procurement record keeping. A Procurement Records Management Procedures Manual was recently issued by PPOA with the help of ARD. This Manual sets out in detail the record-keeping practices that should be carried out by procuring entities. Key points from the Manual were promulgated by PPOA Circular No. 1/2009 of 22nd April, 2009.

In the next issue of Procurement Journal: Reforming the public procurement record keeping practices

E-PROCUREMENT SYSTEM

By Michael Karanja,
Butterfly News

Kenya's fledgling companies are losing out on the big contracts because they have not fully grasped the rules of tendering.

The Public Procurement Oversight Authority (PPOA) has observed that even though small firms have the capacity to undertake major contracts, they end up being locked out on technicalities.

The authority has now developed a Bidder's Guideline to assist such companies launch competitive bids that could help them make their 'big break.'

"It targets bidders so that they are educated on how to submit responsive bids and we believe that will go a long way in assisting them to participate effectively in procurement," PPOA Director General of Morris Juma said.

Speaking during the opening of the Second East African Public Procurement Forum, Mr Juma said Kenya's Micro Small and Medium Enterprise (MSME) sector lacked the kind of money and know-how that would edge the 'big boys' out of the game.

"When you don't have the resources it becomes increasingly difficult to finance any investment opportunities that come around," he said. The forum attracted procurement agencies from East Africa and Southern Sudan and is meant to help these countries in-

tegrate their procurement systems in a bid to enhance cross border trade.

World Bank Country Director Johannes Zutt called for the strengthening of procurement laws in the region saying too often, government tenders were awarded on a who-knows-who basis rather than competence.

"Its very important public procurement follows laws and regulations that ensure efficiency, fairness and reliability and that permit accountability and transparency," he said.

According to Mr Zutt, sound procurement systems require three key components; the right legal and regulatory framework, institutions that fit into the laws and regulations and above all qualified personnel to run those institutions.

The calls for accountability and transparency were echoed by USAID Mission Director Erna Kerst who said taxpayers have a right

to know how their money is being spent.

"Procurement reforms, therefore, are about Kenyans getting value for the money that is collected from them. It would in turn make those charged with using the money plan with the best interests of people in their mind,' she explained.

Procurement goes high-tech

With the advent of fibre optic technology, USAID is partnering with Kenya to develop an E- Procurement system. Kenya's procurement boss said the plan is at an advanced stage.

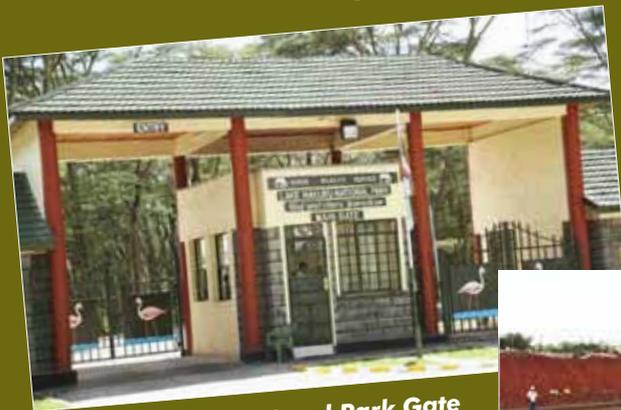
Mr Juma said the PPOA had also identified bidders to go ahead with putting the system in place.

PPOA also plans to take a hands-on approach in monitoring use of the Constituency Development Fund.

"What the law provides is that different sectors can liaise with PPOA and formulate a sector specific manual. We consider CDF sector specific and we should have that manual operational once we have had wider discussions with stakeholders," Mr Juma said



Some turnkey projects that have undergone successful tendering process under the watchful eye of PPOA that will be show cased in PPOA's 2010 Calendar.



Lake Nakuru National Park Gate



Thika Road Dual Carriage



Jomo Kenyatta International Airport, Cargo Apron

LEAD FROM WHERE YOU ARE

In the month of November 2009, the Ministry of Public Works held a seminar for senior officers drawn from all the Districts in the country to sensitise them with various policy issues. This was geared towards empowering the officers with vital information to enable them render great and quality service to the various stations where they are based and the country at large. Due to its importance and significance, the seminar was officially opened by none other than the Minister for Public Works, Hon Chris Obure.

Given that the ministry officials work demands that they liaise with other ministries and government arms, the participants also got an opportunity to be enlightened by other government arms. Indeed the Ministry of Finance, Economic Stimulus Programme (ESP) was at hand to share insights as to why it is important for the accounting officers in the district level need to strictly follow the government budgetary guidelines more so when it comes to awarding contracts for various tenders. This is because it is important for time to be observed

and also the monetary allocation for each and every project more so when implementing various projects. Various constituencies will be benefiting from various development projects under ESP and billions of Kenya shillings will be spent. Some of those projects it was noted will come from other ministries and will need to be implemented in all the constituencies across the country and therefore a slight increment on the prices would result in unplanned expenses, more so at a time when the government is under pressure to run under very tight budgetary allocations.

The ESP presentation by Ann Waiguru dwelt at length on what is expected of the government officers executing their tasks on the ground for and on behalf of the government. She challenged the respective officers to *'Lead from where they are'*. For this country to move forward and for the government to be successful in implementing the ESP, we have to stay focused and as much as possible stick to deadlines. We must also as a people keep on learning and adjusting (flexibility).

The Public Procurement Oversight Authority (PPOA) equally was at hand to share their expertise in the procurement matters. In his presentation Mr. Henock K Kirungu, PPOA Manager Policy & Research shared in detail with the officers on the best practise when it comes to all the procurements in public sector. Indeed he observed that in case of contract variation, the same should not exceed 15% based on the original contract.

It should not be lost to all that before the birth of PPOA, more so in the previous regime contractors were experts in winning contracts and then *'Supplying Air'*. To counter the trend, the law is very clear today that for ALL the projects, there should be a defects retention period which attracts 10% of the total cost. Simply put, no officer is allowed to pay the full amount of the money to any contractor before the handling over of the project and expiry of the defects retention period. In areas where advance payment is necessary, the



Henock K Kirungu
Policy & Research Manager
PPOA

same should be guided by the risk mechanism to shield the government.

The advice of PPOA is mostly sort by various officers from different ministries whenever there is a dispute. At times the PPOA clarification takes longer at coming, but then even PPOA as a body is also limited by law. In such instances, the basic decision should be by the respective agency.

As time goes by it might be prudent to carry a review of the law, perhaps to help create a good procurement system to stabilize procurement structures with a strong oversight regulatory body, on one side and a vibrant review board on the other side.

At the District level the Accounting officer is responsible of appointing members of the evaluation committee. Projects spread all over the country and especially by various CDF committees in the country consume big budget, and this calls for prudent procurement process to be able to realise true value for taxpayers money.



Anne Waiguru
Economic Stimulus Programme

THE ESSENCE OF GLOBAL SOURCING



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Initially, International Sourcing was a reactive approach designed to reduce production costs in an effort to neutralize the threat of foreign competition. Today, leading edge firms have shifted the focus of their international efforts to that of a proactive strategy that pursues a sustainable competitive advantage. This article explores the challenges, requirements and benefits of international sourcing.

Global sourcing managers must understand the differences between in-country and international sourcing, know the elements of the international chain supply, be able to identify the key skills needed for global sourcing and ultimately develop a global purchasing strategy.

International or global sourcing is now part of the worldwide business and the Mantra “sell globally but manage locally” is familiar to many.

The global sourcing manager is respon-

sible for locating, sourcing, and implementing new sources of supplies worldwide. He/she formulates strategies and plans for global sourcing. But has to first understand why his/her organization has chosen to deploy a global sourcing strategy.

Creating relationships with organizations responsible for global sourcing is critical to success. There also needs to be an analysis of the skill set and knowledge inherent in the current supply chain management to accomplish the necessary tasks. Some of these skills and talents can be provided by other supply chain staff, but the most able foreign purchasers must have the entire package of skills, particularly technical and market knowledge.

In my view and continuous research on the successful global sourcing strategy, I hereby recommend the following components to be considered:

- **ORGANIZATION:** This is to recognize the support of the functional groups within the organization such as manufacturing, engineering, logistics, finance, service and specific users group. Full or part time staff may be needed to assist.
- **GOALS:** These may be used as a point of reference or discussion by the management if expectations are higher than the realistic level. Organizations should not revert to global sourcing based solely on purchase costs.

FOCUSED REGIONS/COUNTRIES: The supplier manager should identify the potential items for global sourcing, putting all aspects into consideration.

Market study shows that sourcing products globally is attractive because there is a large pool of competent suppliers and increased chances of sourcing raw materials more efficiently and effectively.

SUPPLY MANAGEMENT PROCESS:

This aspect solely addresses the procedure to be followed to conduct businesses abroad. Responsibilities and tasks must be noted for the following activities;

- Supplier identification
- Supplier assessment
- Supplier selection
- Supplier management

Internal and external resources may be included in the analysis.

RELATIONSHIPS: This aspect covers two critical areas; that of establishing relationships with intermediaries to facilitate the process, while the other deals with describing the type of business relationships desired with global suppliers. It must be noted that most suppliers desire long-term relationships build on mutual trust, reliability, responsiveness, and quality performance.

The strategy here should address the length of contracts, method of communication, and frequency of formal correspondence. Finally, the strategy should state the conditions under which the relationships with intermediaries and suppliers should be served or deployed.

TIMEFRAME: The global sourcing process should not be rushed. The organization may need to invest time in developing the list of commodities, potential countries and prospective sources, and supplier selection.

BUDGET: These are the global sourcing costs. Such costs are both tangible and intangible. Both must be included so that a cost benefit analysis can be done. Some of the tangibles and intangibles are; Tangibles; People, Offices, Travels, Telecommunications, Inventories, Customs/Duties, Legal assistance Intangibles; Cycle Time Difference, Communication Timing Impact, Potential Delays in Problem Resolution, Effects on Forecasting Errors.

TOP TEN PROCUREMENT TIPS

Spend plenty of time planning

1

- Consider at the outset the full extent of what needs to be done, by whom, and by when and seek advice from others (departments, local authorities etc.). It's always harder if you start with a blank piece of paper.
- Establish a complete procedure timetable and ensure adequate time is allowed for the whole process.

Establish Roles & Responsibilities

2

- Establish the roles and responsibilities of all involved. For example, who is to decide/approve the short list? Who will be responsible for the quality and price evaluations?
- Be clear what approvals are required and the teams role in the whole process.

Ensure Transparency of Proceedings

3

- Be seen to be fair to all potential tenderers
- Engage widely with stakeholders and existing contractors in advance of formal proceedings.
- Get all internal players to contribute to the critical success factors and key evaluation criteria, and record these!
- Allow sufficient time for tenderers to 'put their case' during evaluation, at interviews, presentations etc.

Observe Legalities

4

- Ensure compliance with PPOA Procurement Directives, domestic legislation, etc., particularly in respect of advertisements, invitations, and receipt/opening of tenders, evaluation procedure and approvals.
- Seek legal advice and involvement in the process at the outset. You are initiating events that will result in a contract with an outside firm! You want it to be right.

Accommodate Innovation

5

- Do not be too prescriptive in how you want the work to be delivered. Describe the 'outcomes' you require; allow tenderers to innovate and offer you their best solutions.
- Make sure you secure Best Value by considering quality, design, and Whole Life costs, and not just lowest tender price.

Prepare sound and complete tender documents

6

- Specify clearly what you want and describe in detail how tenderers are to price their submissions.

- Give sufficient thought to various pricing mechanisms such as lump-sum or schedules of rates, and how good these will be at accommodating changes.
- Remember, the more information you provide, particularly on the desired outcomes, the greater your chances of success.

Consider monitoring and payment arrangements at the onset

7

- Be clear as to how payments to the successful tender are to be calculated once they have been awarded the contract, and make payments on time.
- Establish the monitoring procedures that are required to satisfy that the service is being delivered in accordance with that specified.
- Consider 'default' procedures and performance incentives.
- Incorporate these processes within the tender documents, as they will provide the basis of the subsequent contract document.

Ensure procedures provide for probity and accountability

8

- Ensure that the whole process is adequately documented and recorded to demonstrate the decision-making processes to others.
- Ensure all key documents are signed, dated etc. and retained to ensure that those responsible for making decisions can be held accountable.
- Communicate all decisions to the whole team.

Think before you act

9

- Review your plans before commencing. Do not 'rush' things – unless it is a real emergency. Inadequate time in the planning stage will lead to problems.
- Think what can go wrong? What if delays occur? What contingencies do you have? (e.g. slack in the timetable)? What if a key person leaves or goes off sick?
- Is the price/quality model practical and robust and will it deliver Best Value? Ensure you test it thoroughly.

Learn from the process!

10

- Learn, experiment, and don't fear mistakes. Ask yourself and the rest of the team, how would you do it better next time? How can we repeat what went well, and not what went badly?
- Develop your skills. Above all else – ENJOY IT!



FIGHTING BLINDNESS

**By Juliana Kivasu ,
Executive Director of KSB**

The Kenya Society for the Blind (KSB) is a charitable organisation established in 1956 by an Act of Parliament. In Partnership with International NGOs, the Government of Kenya and the Community, KSB is the leading agency in the fight against blindness and promotion of Education and rehabilitation of the irreversibly blind. The mandate of KSB is to promote the welfare, education, training and employment of the blind, assist in the prevention and alleviation of blindness and any other purposes connected to blindness. KSB works with the following Government Ministries to execute its mandate and implement its programmes: Ministry of Education, Ministry of Public Health and sanitation, Ministry of Medical services and the Ministry of Gender, Children, and Social Development.

In Kenya there are close to 1 million people who are visually impaired, and of these approximately 300,000 are totally blind. KSB implements programmes in all the three sectors of the eye that include the eye health care, education and rehabilitation. Due to

the stigma attached to being blind, KSB is actively working to advocate for the integration of blind and low vision children into mainstream education and to raise awareness amongst parents, teachers, communities and personnel working in education of the rights and benefits of education to visually impaired children. KSB in partnership with Ministry of Education oversees the Kenya Integrated Education Programme (KIEP) which aims to increase the capacity of the government education systems to integrate blind and low vision

children into mainstream schools.

As an ongoing corporate social responsibility (CSR) initiative, PPOA are generously donating a Braille machine to Kilimani integrated primary school. This Braille machine is among the minimum requirements for a visually impaired student to learn in an environment allowing him/her equal access to education and future career development. Other specialized equipment required include a universal Braille kit, a white cane, Braille paper and low vision devices for those with low vision.

The PPOA are committed to ensuring that persons with disabilities are given equal opportunities to pitch for government tenders as many blind and low vision individuals are successful business entrepreneurs. Also public sector procurement agencies are encouraged to partner with CSO groups that work with persons with disabilities in government tendering processes. PPOA also engage procurement professionals in their procurement units, particularly in the public sector, providing advice and assistance to procuring entities, and develop, promote and support training and professional development of staff involved in procurement.



Core Values

Ethics and Professionalism Integrity and courage commitment and teamwork
Customer focus Social responsibility
Creativity and innovativeness Fairness and efficiency Transparency and accountability

Vision

To be a world class Public Procurement Oversight Authority

Mission Statement

To innovatively design and facilitate an effective procurement and supply chain system that provides value for money by ensuring competition, fairness, transparency and accountability while contributing to national socio-economic development

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