THE VALUE FOR MONEY (VfM) ILLUSION: AN ELUSIVE PRINCIPLE IN THE PUBLIC PROCUREMENT SYSTEM IN UGANDA

Godfrey Mungurusi
John Paul Ssetumba
Peter Adoko Obicci

Available at: https://works.bepress.com/pa_obicci/14/
THE VALUE FOR MONEY (VfM) ILLUSION:
AN ELUSIVE PRINCIPLE IN THE PUBLIC PROCUREMENT SYSTEM IN UGANDA

Godfrey Mugurusi, John Paul Ssettumba & Peter Adoko Obicci

ABSTRACT
The present paper is concerned that the rhetoric and fuzziness surrounding the VfM concept limits its practical applicability in within public procurement system in Uganda. Therefore this paper sets out to explore how the principle of value for money (VfM) is conceptualized within the Ugandan public procurement system, and if so, what are the key impediments to the attainment of the VfM objectives in the public procurement system in Uganda. So, to answer these questions, the paper draws empirical evidence from the audit findings by Uganda’s Public Procurement and Disposal of Public Assets Authority (PPDA) of the Financial Year 2012/2013, which covered procurements/contracts of 90 Procuring and Disposing Entities in both Central and Local Governments in the Financial Year 2011/2012. In total the report’s sample covers 12,797 contracts worth over 415 billion Uganda shillings. Our preliminary results suggest that although VfM is not a well understood concept, hence the difficulty of measuring it within the public procurement system in Uganda, it is physically discernible within the actual contracting for goods, services and works. Yet still not all components of the VfM framework are clearly measured and considered in the public procurement system in Uganda. There is a strong orientation towards economy, efficiency, and effectiveness, and very little on equity.

1. INTRODUCTION
Increasingly, public procurement organizations worldwide, and particularly in Uganda continue to be dogged by inefficiency and ineffectiveness in sourcing for public goods, services and works (McCrudden, 2004; Schapper, Malta & Gilbert, 2006). Incidentally, efficiency and effectiveness together with economy and ethics/equity are four coordinates of the value for money (VfM) tetragon that are increasingly used to measure the success or failure of public procurement projects. VfM in public procurement to broadly refers to “the optimum combination of whole-life cost and quality (or fitness for purpose) to meet the user’s requirement” (Jackson, 2012:1). The general thinking behind VfM suggests that achieving a balance among the previous three and now four components of the VfM principle is a essential in supporting the optimum use of budgetary resources in the public sector. Yet to attain that balance, procurement entities must watch over the entire sourcing and contracting process. Sadly, the Ugandan public procurement system is too complicated as a result of complex institutional systems, low accountability, political gerrymandering, little professionalism, and so on. Although many have argued that the Ugandan procurement system is adapting better reforms (Agaba and Shipman,
the picture is still rather grim. The new reforms have done little to achieve the balance expected within the VfM perspective. This leads to us to conceptualize that, first, the concept VfM is not well understood within the Ugandan public procurement context; second, a disconnect exists between the four elements of VfM especially in the context of Uganda’s public procurement machinery or environment, and and thirdly, the boundaries of the public procurement process are too narrow to attain the VfM in Uganda.

We conclude that in such an environment, a balance in the four elements of the VfM tetragon is not possible however synergizes across the four elements can be sought, and could go a long way to addressing the current deficiencies in the public procurement system in Uganda.

Following the introduction, the paper is organized as follows. First, the research questions are presented alongside a brief state of the art on the VfM concept. Thereafter the methodology section is presented. The last section before references, combines the results and discussion of the results in one section.

2. RESEARCH QUESTIONS

Against this background, this paper proposes to answer, and more importantly create a better understanding to the question, “why is VfM such an elusive principle within public procurement system in Uganda”. In order to do that, we propose to specifically answer the following research questions:

RQ1: How is the principle of value for money (VfM) conceptualized within the Ugandan public procurement system?
RQ2: What are the key impediments to the attainment of the VfM objectives in the public procurement system in Uganda?

The VfM concept: some twists and turns

Value for money (VfM) has been significantly used as a major principle in public procurement to focus on proper utilization of public funds. As a concept, the definition of VfM has been elusive as it has instinctively been understood by most people in terms of the way it conditions the majority of everyday purchases, and purchase outcomes, hence the confusion in literature and in practice (Heald, 2003). According to Barr and Christie (2015), it is a way of thinking about, and assessing how well public funds are used. Kalubanga & Kakwezi, (2014) consider VfM as something that is well worth the money spent on it denoting a commitment to ensuring the best results possible are obtained from the money spent. Grimsey & Lewis, (2005) broadly define it as the optimum combination of whole-of-life costs and quality (for fitness of purpose) of the good or service to meet the user's requirements. Heald, (2003; 345) considers VfM as related to concepts of “efficiency and effectiveness...”. Emmi, Ozlem, Maja, Ilan, & Florian, (2011; 14) cite the director of UKs DFID who defines VfM is the “determination to get the most impact for money we have”.

As a point of coherence, these definitions conceptualize VfM as performance related construct; one in which value is monetized. But more importantly, they also agree that VfM is measurable basing on the four components that constitute it – efficiency, effectiveness, equity and economy (Emmi et al., 2011; Heald, 2003). In the public procurement environment, especially in Uganda, similar sentiments are shared, yet VfM focuses more on economy, given that the cost elements of any purchase are quick to ascertain, compared to the other Es (Barr & Christie, 2014). Typically the predominant argument is that the choice of suppliers for goods or a service is based on the lowest bid price (Eyaa & Oluka, 2011). Now, there is an increasing emphasis towards choice based on the whole life costs of the good or service. It is in this process were money resources are converted into input resources (Barr & Christie, 2015). This, according to Emmi et al., (2011) and Barr & Christie, (2015) puts in place the right mix of inputs to achieve optimal outputs which in turn is ultimately projected to achieve the desired outcomes, for the beneficiaries (described impact) hence the VfM.
The public procurement system in Uganda is still undergoing reform, and because these reforms are supported by international development agencies, their interests in a politically charged system, is reducing economic costs of procurement transactions in order to increase social benefits (Schapper et al., 2006; Agaba & Shipman, 2007). And by characterization of reforms in developing countries according Hunja (2003), what motivates them are changing profiles of what they purchase and the increasing emphasis on information communication technologies, which from the purchasing and supply management literature, are cost (economy) based measures. This cost based orientation of the entire public procurement system which emphasizes more the economy component, and has little emphasis on efficiency, effectiveness and equity, is a characteristic of reforms towards reducing public expenditure, at the expense of the other Es – as shown in Table 1.

<table>
<thead>
<tr>
<th>VfM components</th>
<th>Orientation in the literature</th>
<th>Some evidence or lack of</th>
</tr>
</thead>
</table>

Table 1: Extent of VfM orientations in Uganda’s public procurement system

VfM and Public Procurement – Challenges in implementation of the VfM concept in Uganda

In public procurement, the central theme of VfM is that public funds should be put to the best possible use. As a result, all goods, services, and works procured using public funds must be the right ones, of the right quality, in the right quantity, at the right time, at the right place, and delivered to the right place. This is premised on that fact that there are limited resources available to government which requires optimum utilization of scarce budgetary resources. Apart from making it possible to focus on spending wisely to achieve local priorities, VfM promotes accountability in terms of economical, efficient and effective resources management. It also reflects a measure of transparency in justifying the continued funding or otherwise, of a programme with taxpayer’s money. Further still, Morallos & Amehudzi (2008) reveals that VfM aids public agencies to decide whether to implement a project through public procurement or not.

VfM is the very heart of public procurement as it is primarily tied to the competitive process. It’s only in situation where there is a strong competition from a vibrant market that VfM outcomes can be fully generated. Jackson (2012) postulates that the primary aim of VfM should be based on the consideration of the optimal combination of “whole life cost” (i.e. acquisition cost, cost of maintenance and running costs, disposal cost) of a purchase and its fitness for purpose (i.e. quality and ability to meet the contracting authority’s requirements). Meanwhile, according to Nditi (2014), this necessitates compilation of procurement specifications that include social, economic and environmental policy objectives within the procurement process. This calls for critical thinking about each decision within the complexity of the procurement cycle.

Achievement of VfM in a procurement process is tied to strict observance of some key principles. According to Glavee-Geo (2008), competition among suppliers brings out the best offer that gives VfM. As a principle, competition has the potential of saving for the economy, increasing in the seller base, and the development of the local industries within the economy, thereby leading to economic development and poverty reduction. Gershon (2004) articulates that the principle of effectiveness and efficiency in VfM is about the amount of money that is spent in getting the needed goods and services. The purpose of this principle is to obtain maximum benefit using the same amount of resources for improved service delivery. It requires expanding the number, variety and accessibility of services and goods (Carayannis & Popescu, 2005). The principle of fairness and non-discrimination achieve VfM is based on the understanding that the procurement process should remain unbiased and consistent. It
should be clear and everybody should be treated equally which will lead to more and better offers for sellers to choose from. The principle of objectivity/integrity/honesty requires procurement officials to declare conflict of interest that affects or appears to affect their judgment. They should reject gifts, hospitality and benefits of any kind from the sellers whether real or potential which might be reasonable seen to compromise their objectivity, honesty or integrity.

Armstrong (2005) asserts that the transparency principle in VfM is the availability of information on decisions and performance of a procurement process. The available information must be reliable and accessed by everybody on time. Evenett and Hoekman (2005) contend that making procurement procedures more transparent will not only improves the options for suppliers to participate in the process but also make prices go down. Every public official is required to report on the usage of public resources and answer for failing to meet stated performance objectives (Armstrong, 2005). This is the basis of the principle of accountability in achieving VfM in which the procurement procedures and protocols should explain why certain products were bought and the steps undertaken to arrive at such a decision. Public procurement officials are also required to abide by the principle of confidentiality while striving to achieve VfM in a procurement process. The principle urges them to respect the secrecy of information acquired in the course of performing their duties and not to disclose any such information without having proper and legitimate authority to do so. Another important principle in achieving VfM is conformity to the laws, as well as to other requirements and commitments regarding public procurement. This helps to prevent fraud and corruption which are bound to lower VfM. Since procurement officials are critical to the procurement process, to achieve VfM there is need for them to be professionals in their dealings. This principle requires procurement officials to be well educated, experienced and responsible so that they can make informed decisions regarding procurement functions. Lastly, the principle of green procurement requires procurement officials to purchase environmentally preferable goods, services or works in order to achieve VfM. This is especially critical in the long run as the cost of the useful life of the procured item will be significantly lower, and the product may be reusable, more durable and energy efficient.

Apart from the principles, the achievement of VfM requires having the right policies (given specific needs), choosing the most cost-effective interventions, and implementing the interventions efficiently, fairly and with moral considerations. As a consequence, therefore, VfM should be concerned with obtaining the best possible combination of services from the least resources. In fulfillment of such concern, Shah (2005) associates VfM with efficiency, effectiveness and economy. Bandy (2014) adds two other aspects for VfM which are ethics and equity though often times combined together. Efficiency means maximizing the ratio of outputs delivered from the inputs. It is about spending well. It is the ability to avoid wasting materials, energy, money, time and efforts in doing something or in producing a desired result. Achievement of VfM therefore, requires an efficient procurement process one which should respond to the needs of the beneficiaries (Carayannis & Popescu, 2005). Under the efficiency criterion, VfM is compared to drive and improve decision making such that the unit cost of outputs become its basis of measurement.

Effectiveness means achieving the intended results of the service, project or programme. It is about spending wisely. It is concerned with whether an intended objective achieves its purpose by the use of quantitative and qualitative measures. It examines the relationship between outputs and outcomes. Economy means minimizing the cost of inputs. It is about spending less. It looks at the cost incurred for producing a service aimed at minimization of the costs of inputs with due regard to the quality of the product to be produced. In essence, VfM under economy reflects demonstration of good management practices in terms of effective procurement practices, good financial system and functional monitoring and evaluation. Ethics means ensuring public services reach their intended recipients. It is about spending fairly. Any VfM equation must therefore be considered in the context of the organizational values and mission. This means the consideration of process elements such as participation,
sustainability, or gender equity or even the intensive nature of staff support. Equity means managing services and programmes with integrity. It is about spending properly. It ensures that VfM analysis accounts for the importance of reaching different groups.

The impetus to turn to VfM in public procurement process has been growing interest over the past few decades. It has been argued that the principle of VfM is an essential factor in supporting the optimum use of budgetary resources in the public sector. VfM is essentially intended to streamline the sourcing and contracting process of public procurement. There is however, little evidence on how such a key principle can be used to alleviate the many problems that occur in sourcing for public goods, services and works in Uganda.

METHODOLOGY
To answer these questions, this paper draws empirical evidence from the audit findings by Uganda’s Public Procurement and Disposal of Public Assets Authority (PPDA) produced in the report of the Financial Year 2012/2013. The findings cover procurements/contracts conducted by 90 Procuring and Disposing Entities in both Central and Local Governments in the Financial Year 2011/2012. Of these 90 entities, 24 were Central Government entities whose 5,246 contracts worth UGX 192,431,932,713, were considered. 60 were Local Government entities with 7,425 contracts worth UGX 148,914,327,548 and 6 contract audits with 126 contracts worth UGX 75,735,058,461 were sampled.

According to the PPDA report (2014) the audits covered the procurement activities within the standard procurement process that included planning to initiation, bidding, evaluation, contract award, signing, execution, delivery and payments management. The central government audits considered entities in nine sectors namely; Accountability, Parastatals, Agriculture, Education, Health, Information and Communication Technology, Justice, Law and Order, Tourism, Trade and Industry and Works and Transport) while the audits in the 60 Local Government Entities covered 41 districts and 19 Municipal Councils.

RESULTS & DISCUSSION
The report addresses 9 categories of findings that cut across the 90 entities.

First and foremost, there was a general failure to fully establish procurement structures: the report faults 11 Entities, where Contracts Committees were not fully constituted while Procurement and Disposal Units lacked all the required staff which led to delays in the procurement processes. Second, 32 entities were faulted for Poor procurement planning and poor execution of the procurement plan resulting to procurements worth UGX 8,844,048,674 not being executed or being conducted outside the procurement plan. As a result of this failure most of these entities suffered budget overruns, created domestic arrears and unimplemented procurements, which affected service delivery. Third, 16 entities were faulted for poor budget estimates, which as a result, caused variances of UGX 2,513,345,082 which were noted between the estimated cost at initiation of the procurements of UGX 3,886,481,770 and the actual contract values of UGX 6,513,345,082. This created budget re-allocations and domestic arrears. Fourth, several entities (24) used wrong procurement methods, and never made proper justification against the recommended thresholds in the law. This led to use of less competitive procurement methods in procurements thus affecting value for money. Fifth, 20 entities were faulted for failure to adhere to the evaluation methodology and criteria stated in the solicitation documents. This was cited in procurements worth UGX 754,671,391. Sixth, 28 entities had failed to appoint contract managers/supervisors, hence effective implementation of contracts worth UGX 3,837,051,762 resulted into poor supervision/monitoring of contracts that led to delayed completion of
projects. Seventh, 17 entities delayed execution of works hence poor workmanship. In other cases, contractors abandoned sites by before contract completion which affected service delivery to the intended beneficiaries of the procurements. The total value of these contracts was worth UGX 7,396,892,365. Eighth, 27 entities were faulted for Poor record keeping. Procurement action files lacked key records especially contract management records like delivery notes, payment documents and progress reports. This affected the audit trail and affected accountability of allocated resources. Lastly, the failure to dispose obsolete items on time was evident in 9 entities. As result, of the failure to dispose of items, VfM was affected since value was never recaptured back into the system.

These findings are analyzed and discussed in the context of the four VfM components – Economy, Efficiency, Effectives and Equity. Table 2, upon which our subsequent discussion is based, presents how these finds play out along the four VfMs components.
Table 2: The findings versus the VfM framework

<table>
<thead>
<tr>
<th>Findings</th>
<th>Economy</th>
<th>Efficiency</th>
<th>Effectiveness</th>
<th>Equity</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Failure to fully establish procurement structures</td>
<td>√</td>
<td>√</td>
<td>√</td>
<td>-</td>
</tr>
<tr>
<td>2. Poor procurement planning and poor execution of the procurement plan</td>
<td>√</td>
<td>√</td>
<td>√</td>
<td>√</td>
</tr>
<tr>
<td>3. Poor budget estimates</td>
<td>√</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>4. Use of wrong procurement methods</td>
<td>√</td>
<td>√</td>
<td>√</td>
<td>-</td>
</tr>
<tr>
<td>5. Failure to adhere to the evaluation methodology and criteria stated in</td>
<td>√</td>
<td>√</td>
<td>√</td>
<td>√</td>
</tr>
<tr>
<td>the solicitation documents</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6. Failure to appoint contract managers/supervisors</td>
<td>√</td>
<td>√</td>
<td>√</td>
<td>√</td>
</tr>
<tr>
<td>7. Delayed execution of works, poor workmanship and abandoned sites by</td>
<td>√</td>
<td>-</td>
<td>√</td>
<td>√</td>
</tr>
<tr>
<td>contractors before contract completion</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8. Poor record keeping</td>
<td>-</td>
<td>√</td>
<td>√</td>
<td></td>
</tr>
<tr>
<td>9. Failure to dispose obsolete items</td>
<td>√</td>
<td>-</td>
<td>√</td>
<td>√</td>
</tr>
</tbody>
</table>
REFERENCES


