

# PROCUREMENT MANAGEMENT AS A CATALYST FOR COST-EFFECTIVE INFRASTRUCTURE DEVELOPMENT



By

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**THEME: *Integrated Cost Management Solutions for Sustainable Infrastructure Projects Delivery: A Key to National Economic Development***

# Background

Procurement encompasses all processes, systems, operations and activities aimed at the acquisition of goods and services through a transparent, competitive, sound and the most economical manner. Procurement management, therefore, is a complete process of planning, organizing, directing and controlling the acquisition of works goods and services with the aim of achieving good value for investment within a pre-determined period (Benham & Birchall, 1999; Kinyeki, 2012; Hughes, Hillebrandt, Greenwood, & Wisdom, 2006).

Infrastructure Development refers to the deliberate efforts and actions to establish facilities that have a direct bearing on Economic growth, societal progress, and the overall well-being of the populace. Corporate Finance Institute (CFI) (2023) categorizes Infrastructure into:

## Soft Infrastructure

These usually require extensive human capital and are service-oriented toward the population. They include all educational, health, financial, law and order, governmental systems (such as social security), and other institutions that are considered crucial to the well-being of an economy.

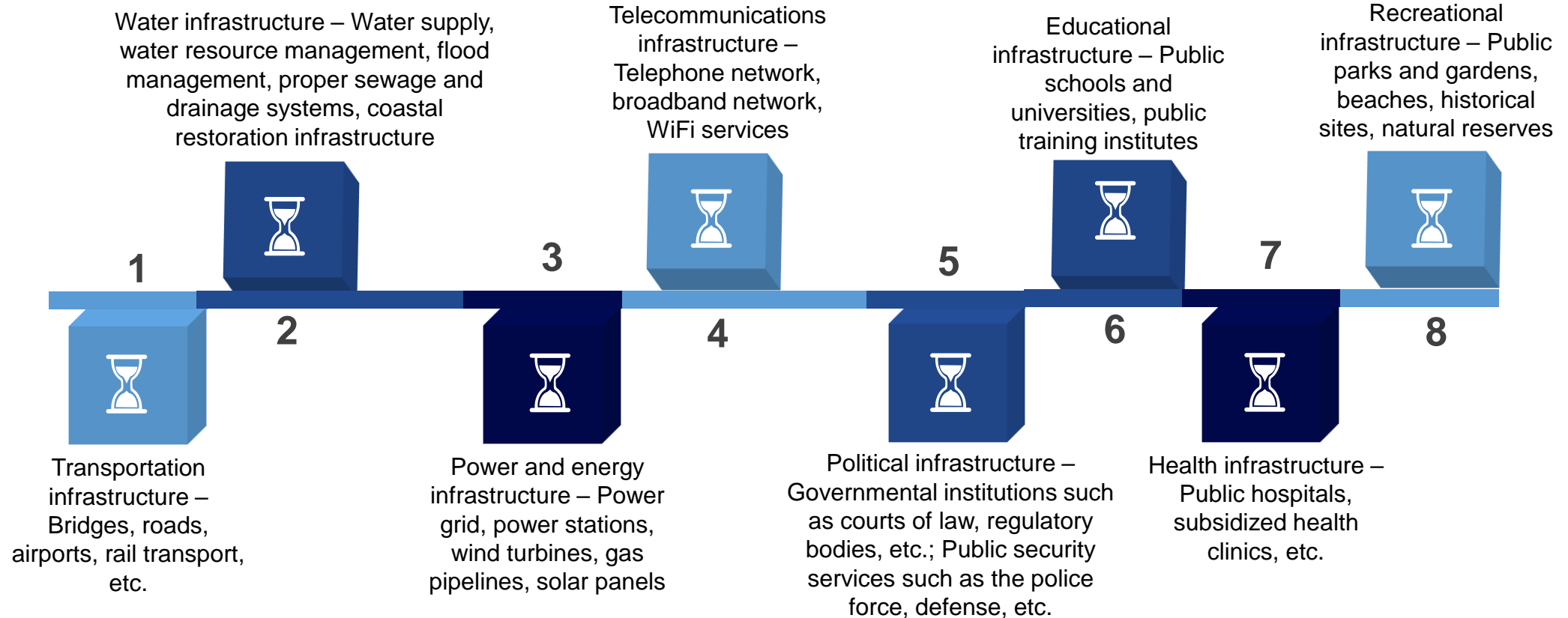
## Hard Infrastructure

Hard infrastructure comprises all the physical systems that are crucial to running a modern, industrialized economy.

## Critical Infrastructure

Critical infrastructure makes up all the assets that are defined by the government as being crucial to the functioning of an economy. It includes assets used for shelter and heating, telecommunication, public health, agricultural facilities, etc.

Generally, Infrastructure can be typified as follows:



Procurement management for Infrastructure Development has since the beginning of the 21<sup>st</sup> century been gaining momentum and the increasing need to ensure probity and economy in spending the limited public resources has equally been generating attention globally (Benham & Birchall, 1999; Evbuomwan & Anumba, 1998). This is why developing nations developed procurement frameworks in the 2000s, with Nigeria enacting its first procurement Act in the year 2007. Several nations commit huge resources to develop infrastructure through various procurement models and systems. There are various procurement models viz: competitive, selective, Direct, Single sourcing, PPPs, PFIs etc (Zhang, Leiringer, & Winch, 2023). The use of any procurement system is however largely dictated by the established procurement framework in the country.

However, there are growing concerns in the procurement and Infrastructure industries whether or not the procurement frameworks and processes in place are actually giving clients good value for the investments made in Infrastructure Development (Hughes, et al, 2006; Liebowitz & Megbolugbe, 2003).

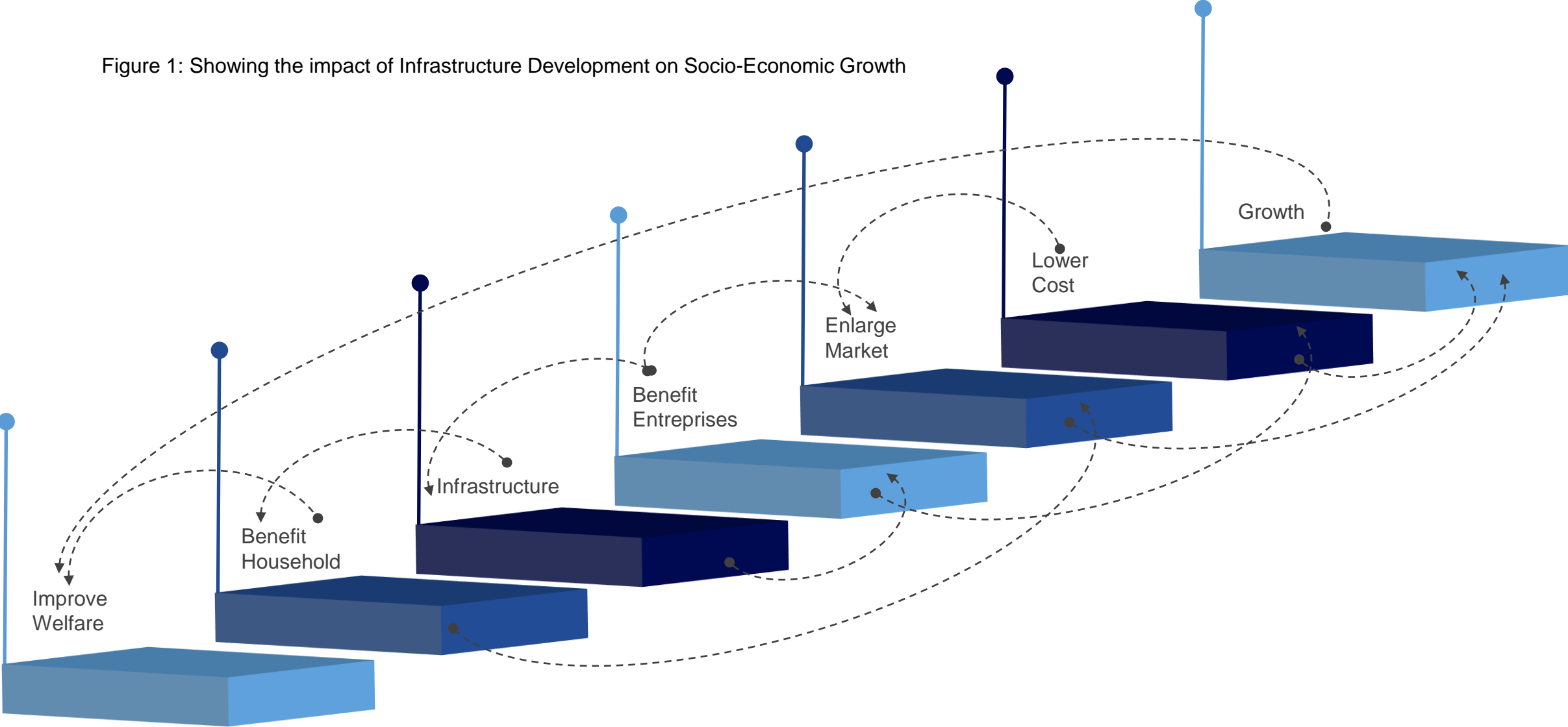
# The Issues

Infrastructure Development involves the improvement of the quality of the various components of infrastructure, such as roads, power, ICT, water, and sanitation (Osei-Hwedie, 2017). It is considered a key factor in promoting economic growth and attracting foreign direct investments (FDI) for sustainable production and productivity. Conversely, inadequate levels of infrastructure constrain economic growth. This necessitates governments across the globe to invest heavily in infrastructure and also to be supplemented by external financing. A great deal of policy emphasis has been placed on infrastructure development to augment the growth, productivity, and quality of life of the citizens of the developing country.

- ❑ Infrastructure Development as an Economic Growth Indicator/enabler**
- ❑ Infrastructure is a Societal Growth and Wellbeing Indicator**



Figure 1: Showing the impact of Infrastructure Development on Socio-Economic Growth

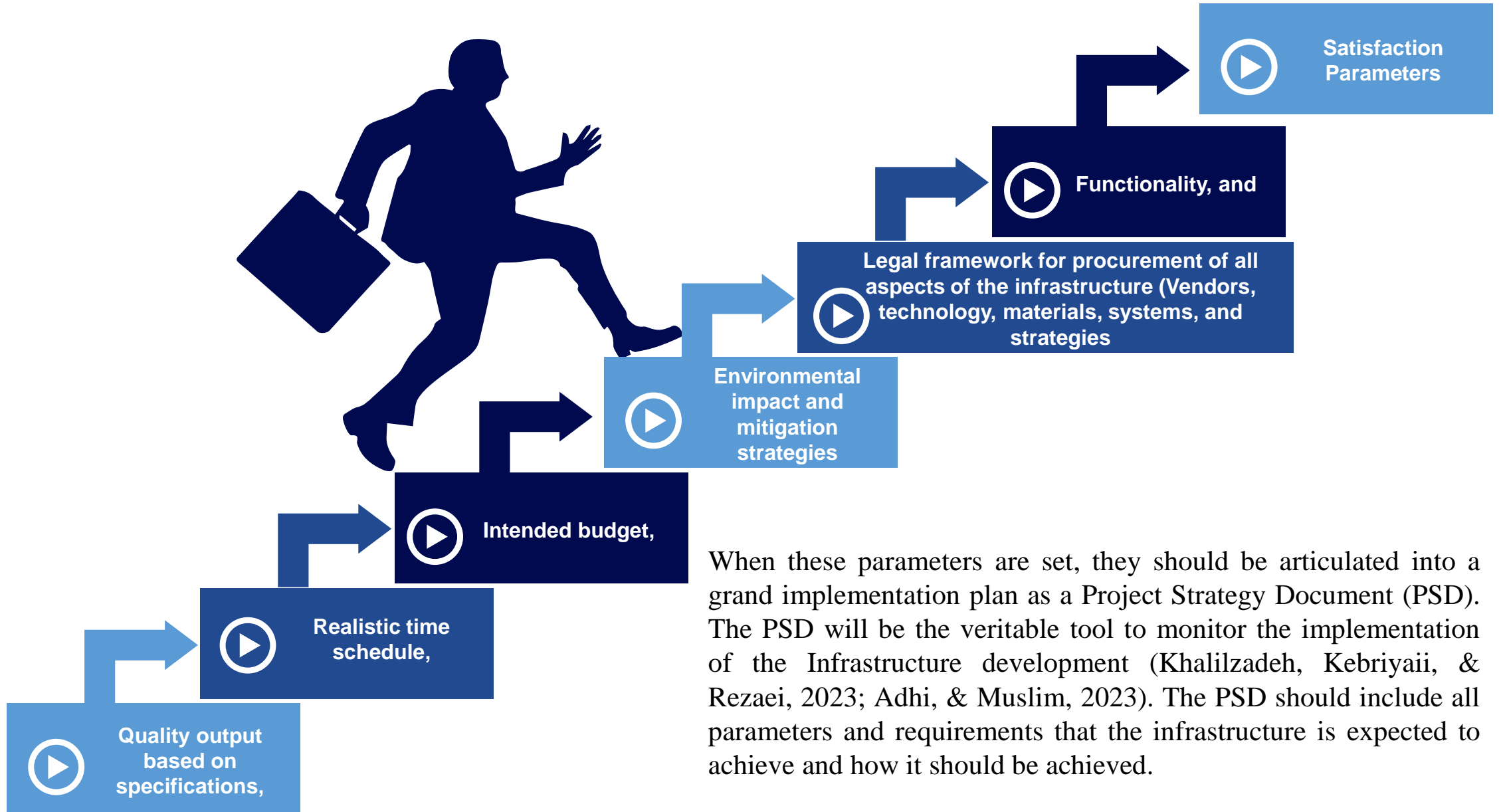


Source: Srinivasa Rao and B. Srinivasu (2013).

# The Issues

## What is Cost-effective Infrastructure?

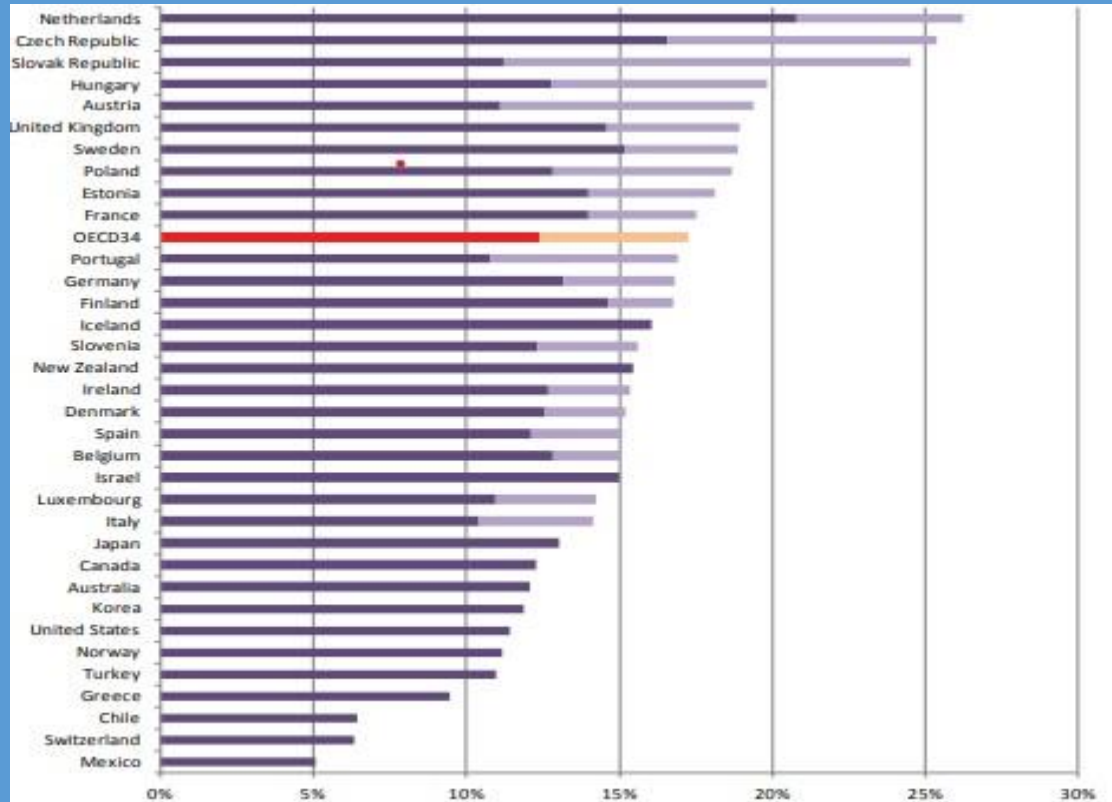
- Cost-effectiveness is an economic concept that refers to any activity or activities that produce good results without costing a lot of money or a good value for the amount of money paid.
- Cost-effective methods or processes bring the greatest possible advantage or profit when the amount that is spent is considered (Cambridge online dictionary).
- It must be added that, in addition to the less-costliness of producing the activity or product, the comparison must be made with the time taken, quality of output (or result, or product), and effect on the environment of the produced infrastructure.
- This means that determining the cost-effectiveness of infrastructure should be based on an overall benefit-to-cost approach rather than a functional approach (Rim, Chang, An, & Han, 2019; Shehu, Ibrahim & Inuwa, 2019).



When these parameters are set, they should be articulated into a grand implementation plan as a Project Strategy Document (PSD). The PSD will be the veritable tool to monitor the implementation of the Infrastructure development (Khalilzadeh, Kebriyaii, & Rezaei, 2023; Adhi, & Muslim, 2023). The PSD should include all parameters and requirements that the infrastructure is expected to achieve and how it should be achieved.

# Procurement for Development

Figure 2: Showing Infrastructure Procurement Investment by Nations as Percentage of GDP

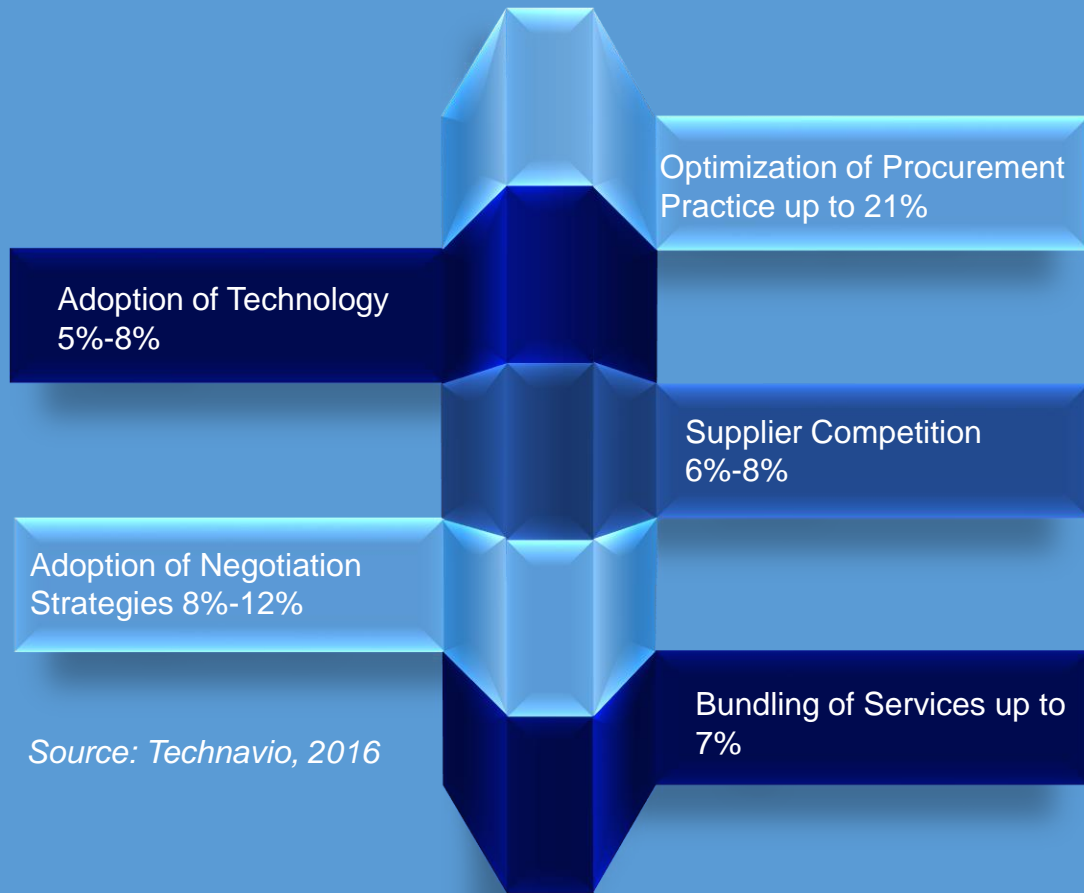


Source: OECD, 2021

- The essence of procurement is to systematically acquire products in the most transparent, equitable, sound, sustainable, and economic manner through robust and well-planned competition among befitting vendors (Opoku, et al., 2022).
- Governments, multilateral organizations, international donor agencies, and many other institutions across the world invest hugely in all manner of resources to provide technical and materials support to less-developed nations and institutions to ensure there is sound knowledge and technical capacity to conduct procurement.
- Procurement is a fundamental and crucial component of democratic governance, poverty reduction, and sustainable development (World Bank, 2020).
- It is estimated that Governments around the world spend over US\$9.5 trillion on public projects every year. It is also estimated that in many developing countries, project expenditure represents approximately 15-22 percent of their GDP (OPEC Fund, 2023; World Bank, 2020; OECD, 2012).



Showing the impact of Procurement as a cost reduction measure for infrastructure delivery



Source: Technavio, 2016

## Procurement for Cost-effective Infrastructure

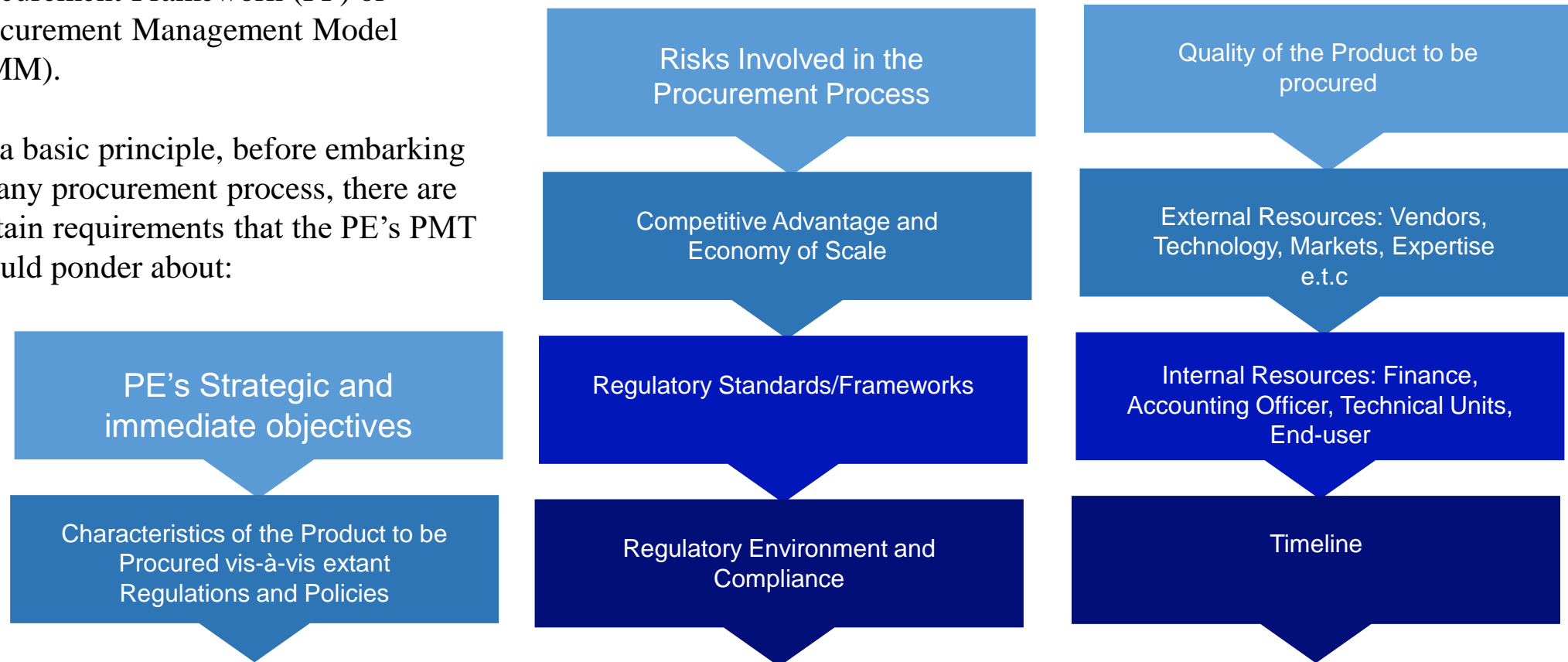
- Procurement is to ensure good cost-effective infrastructure through healthy competition and economy of scale.
- Studies have shown that achieving cost-effective infrastructure is only feasible through robust and efficient procurement systems (Liscow, Nober, & Slattery, 2023; Makovšek, & Bridge, 2021).
- This is more evident in the development of critical infrastructure that drives the economy in developing nations as funding challenges governments to look for alternative means of funding infrastructure development.
- The major challenge to this approach is however the perceived lack of prudent or reliable procurement systems in those countries (Makovšek, & Bridge, 2021) and investors in infrastructure development are skeptical of the outcome of the existing procurement systems (Pruthi & Singh, 2023).

# Procurement **Management** is the Catalyst

- ❑ The objective of Public procurement is to deliver efficient infrastructure to propel economic growth, societal inclusion, and the general well-being of the populace.
- ❑ Efficient Public Procurement has been identified by various stakeholders as the most important driver of economic growth in many countries (Siwandeti, Mahuwi & Israel, 2023; UNEP, 2021; OECD, 2021; World Bank, 2020). It absorbs about 70% of governments' budgets and accounts for about 12% of gross domestic product (GDP) in developed countries and 26% in low-income countries (UNEP, 2021; World Bank, 2020).
- ❑ In addition to being a veritable means of achieving efficient infrastructure, public procurement is a critical aspect of government operations, as it enables governments to acquire goods and services from the private sector to deliver public services (Castro, Guccio, & Rizzo, 2023). Indeed, procurement is not only a way to fulfill a specific demand, obtaining value for money, but also a tool to pursue key policy objectives.
- ❑ Infrastructure procurement is one of the most critical spheres of public procurement with significant implications on policies; as it serves as a prerequisite for both public and private investments that contribute to the proliferation of socio-economic capital throughout the country (Castro; et al. 2023; Papagni, Felice, Baraldi, Alfano, 2021).
- ❑ Procurement management remained the way as it has been adjudged by several studies to be the veritable means through which infrastructure can be efficiently developed (Bello, et al., 2023; Irshad & Ghafoor, 2023; Pruthi & Singh, 2023; Makovšek, & Bridge, 2021; Rim, et al., 2019; Chen, et al. 2018).

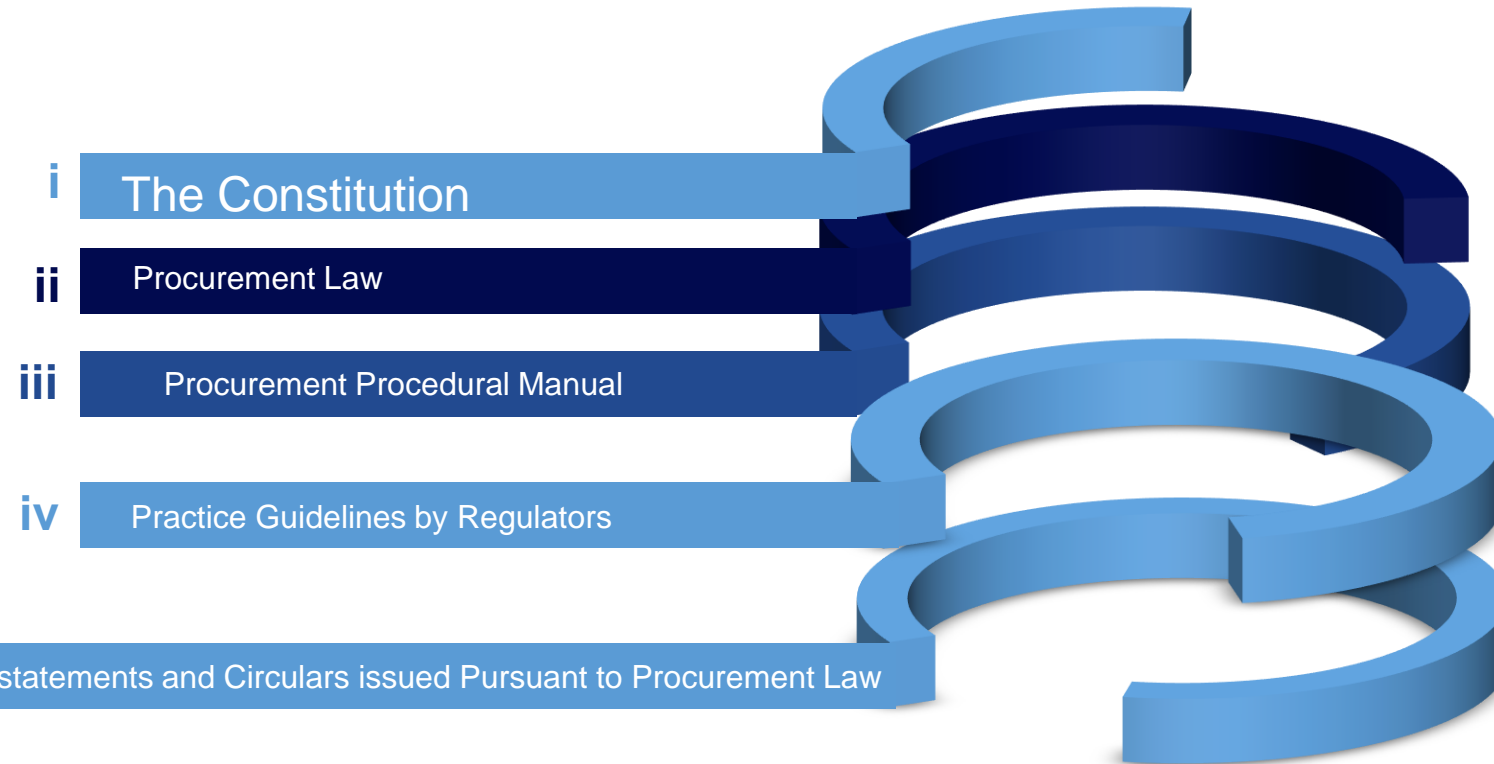
- ❑ Procurement is a regulated activity, therefore all steps to be followed should be based on an efficiently documented process as enshrined in the approved Procurement Strategy Document (PSD), Procurement Framework (PF) or Procurement Management Model (PMM).
- ❑ As a basic principle, before embarking on any procurement process, there are certain requirements that the PE's PMT should ponder about:

# Requirements for Efficient Procurement Management



# Requirements for Efficient Procurement Management

Further requirement to ensure efficiency, soundness, healthy competition, and probity, the procuring organizations shall be guided by the established procurement instruments viz:

- i The Constitution
  - ii Procurement Law
  - iii Procurement Procedural Manual
  - iv Practice Guidelines by Regulators
  - v Policy statements and Circulars issued Pursuant to Procurement Law
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*Most failures are not entirely due to the absence of tools that steer procurement processes in public organizations to the desired efficiency*

# Challenges/Risks to **Efficient Procurement Dispensation**

- ❖ In the first place, it was identified that the federal character principle, job racketeering, client-patron relationship, and ethnicity, among others, **have hindered entrenchment of the merit system** in human resource engagement for procurement cadre in Nigeria (Okunmahie, 2022).
- ❖ **A lack of political will by governments and their agencies** to entrench good governance in procurement (Ogunsanya, Aigbavboa, Thwala, & Edwards, 2022). Monopoly of decision, impunity, wide discretion, lack of transparency, and weak accountability have over time characterized governments and their agencies in most procurement transactions mostly in developing countries and this has created an avenue for failure in their procurement process (Abioro, 2021).
- ❖ **Corruption and Unethical conduct** (Ebekoziem, et al. 2023; Ogunsanya, et al., 2022; Abioro, 2021; Agarchand, & Laishram, 2017). This is a global issue. Business World (2020) reported the Vice President of the REID Foundation telling a Construction conference in Philippines that Construction sector loses as much as 35% of its costs to corruption. In the same vein, RICS (2021) stressed that, if corruption is allowed to thrive unabated, by 2030 it is estimated that up to \$5 trillion could be lost to corruption annually across the construction industry globally.
- ❖ **Absence of well-trained Procurement managers** (Ebekoziem, et al. 2023; Ogunsanya, et al., 2022).

## ***THERE IS A LIGHT AT THE END OF TUNNEL***

- ❑ **Despite the challenges/Risk factors discussed above, procurement management presents a unique opportunity for the government and its agencies to achieve efficient infrastructure development.**
- ❑ **Government through procurement regulators can still entrench sound procurement systems in the delivery of cost-effective infrastructure.**
- ❑ **This can be achieved by a deliberate political will to enforce all the provisions of the procurement instruments (Law, framework, capacity building, guidelines, and thresholds) in the dispensation of procurement. Professional institutions have a critical role in dealing with these challenges/risk factors.**
- ❑ **The entrenchment of ethical practices through continuous professional development (CPD) courses in procurement management, monitoring of members' activities and sanctions on erring members, and reward to members that proved their mettle in upholding the code of ethical conduct.**
- ❑ **Public officers that are appointed to dispense procurement should dedicate themselves to training and re-training, learning and relearning on the technical basis of procurement and subject matters of procurement in their procuring entities. They should uphold tenets of transparency, accountability, level-playing grounds, and national interest. When these stakeholder groups put all hands on deck there will sure sound procurement systems and that will directly ensure delivery of Cost-effective infrastructure.**



# Conclusion

- ❑ This paper established that Infrastructure development is a precondition for socioeconomic growth and attracting foreign direct investment (FDI).
- ❑ It has also been established that the gap that exists between developed and less-developed nations is largely due to the gap existing between them in their respective investment in infrastructure development.
- ❑ It was established also that most challenges being faced by nations in bridging their infrastructure needs is due to poor procurement systems in the delivery of infrastructure which led to poor infrastructure, costly investment, and longer delivery periods.
- ❑ It has been determined that the challenges were not encountered due to the absence of legal and technical frameworks for procurement dispensation.
- ❑ It was because of a lack of merit system in appointing public officers in procurement positions, lack of political will by governments and their agencies, Corruption and Unethical conduct in procurement dispensation, and the Absence of well-trained Procurement managers.
- ❑ Notwithstanding the challenges above, this paper sees a light at the end of the cost-effective infrastructure procurement tunnel.

# Recommendations

This paper recommends as follows:.

## Recommendation 1

Governments at all levels and their agencies should entrenchment of deliberate actions in the implementation of procurement frameworks. It is high time for the Federal Government of Nigeria to constitute the National Council on Public Procurement.

## Recommendation 2

The government should declare a National emergency on Infrastructure procurement and create a forum where all stakeholders will meet for an Infrastructure conference to discern how Infrastructure procurement will be improved to propel immediate socio-economic growth and the general well-being of the populace.

## Recommendation 3

The Bureau for Public Procurement (BPP), Office of the Head of Civil Service (OHOSF), and similar offices in the states of the federation should partner with professional bodies in developing training frameworks for public officers wishing to develop careers in procurement cadre.

## Recommendation 4

They should also ensure only well-trained and certified staff are deployed to serve as procurement managers in various government procuring entities.



# Recommendations

## Recommendation 5

Professional institutions like NIQS should plan and execute concerted actions in fighting corruption and unethical conduct by their members and reward members that uphold the principles of professional conduct,

## Recommendation 6

They should also partner with the Bureau for Public Procurement (BPP) and other stakeholders in planning and conducting a rich-content infrastructure-centered continuous professional development in procurement themes.

## Recommendation 7

The QS Academy should begin to contemplate offering courses that will inculcate proficiency in procurement management and lead to a certification in infrastructure procurement management.

## Recommendation 8

Procurement managers should at their personal levels engage in self-study and self-value addition drives by utilizing the available/upcoming training avenues to be up-to-date on procurement standards and especially the subject matter of various procurements their entities engage.

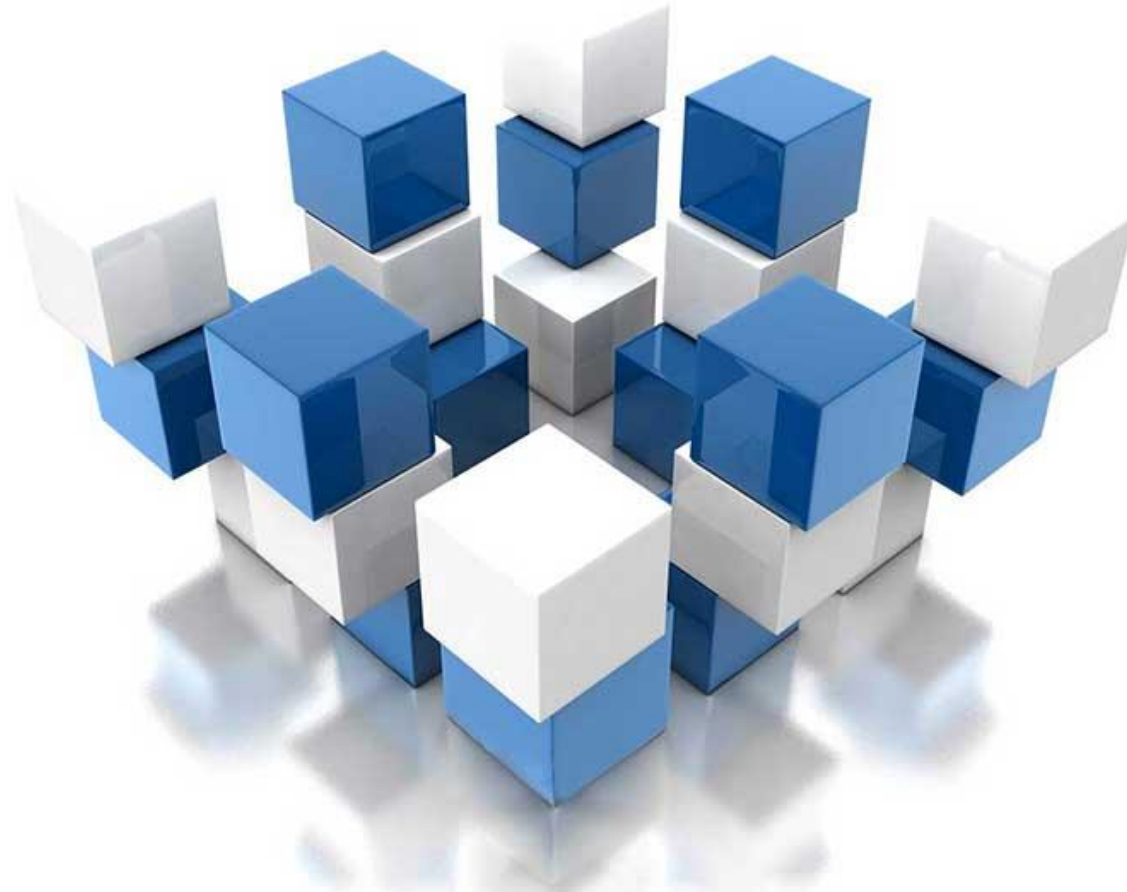
# Recommendations

## Recommendation 9

Vendors should maintain high ethical standards in their own operations and also encourage their public sector clients to improve on procurement dispensation and infrastructure investment governance and efficiency.

## Recommendation 10

Civil society organizations (CSOs) should be more active in their operations by acting as lines-men in public infrastructure procurement and assisting in data preparation and interpretation on public infrastructure investment for stakeholders and by supporting them to act on those data.



**THANK YOU**

**For listening**