



INNOVATIVE PROCUREMENT PRACTICES IN IRAQ'S SOCIAL SAFETY NET PROGRAM

*Nazaneen Ismail Ali, Andrew Jacobs, Rachel Lipson,
Fabio Isoldi¹*



A Fully Equipped SSN Center

Introduction: Well-functioning institutions are critical to reducing poverty and boosting growth. However, fragile and conflict-affected states generally lack the political and institutional structures needed to address pockets of poverty and promote development. The challenges posed by the difficult context of conflict zones may require creative solutions. One relevant example where the World Bank met this challenge was in the innovation of procurement procedures in a recent Social Safety Net (SSN) program in Iraq. Adapting

these practices to the local conditions played a key role in the successful completion of the project.

Rather than allowing inefficient bidding procedures to block successful implementation, the team at hand adjusted their approach, and adopted simplified, non-traditional methods: they tested the ability of the local market to supply equipment through numerous smaller-value contracts, and removed constraints that discouraged the participation of local Small and Medium Sized Enterprises (SMEs). In doing so, the Government of Iraq saved millions and was able to rededicate its conserved funds to improve the functionality of the IT system and support the expansion of the Social Safety Net program. This case has important lessons for the way we think about procurement procedures in states that are undergoing conflict and with weak institutions.

Working in Fragile and Conflict States Challenges in Procurement: After 30 years of conflict and embargo, the Iraqi government sought to strengthen social protection for its citizens by transforming what were traditionally subsidies into a targeted cash-based Social Safety Net program. However, the current iteration of the program was very ineffective in reaching the poorest Iraqis: just 1.2% of the population was assisted through cash transfers. Under a US\$ 8 million Iraq Emergency Social Protection Project (ESPP), the World Bank and the Iraqi Government aimed to help reform the program by establishing a basic information system within the Iraqi Ministry of Labor and Social Affairs (MOLSA) to record and process

¹ All the authors work in the Procurement unit of the World Bank's Middle East and North Africa Region (MNAPC). This Quick Note was prepared under the general direction of, and cleared by, Yolanda Tayler, Manager, MNAPC.

information on safety nets through accurate and timely data collection.

Doing so would require the establishment of functioning SSN centers in Baghdad and the regional governorates, and these centers would need to be supplied with essential IT equipment. The total cost for the equipment, connectivity, and generators for all SSN centers was estimated at US \$5.2 million during the project's appraisal. Given the large amount of money involved, three international procurement processes were planned for launch. This decision followed traditional thinking about procurement policies at the Bank: international competition was thought to best capture economies of scale and value for money.

But the reality in Iraq was quite different. In 2007, the first of these large procurement processes was floated with an estimated cost of US \$830,000. Yet after an extended period of time to prepare bids, only one company had responded, and its \$5 million price was over six times as expensive as the original estimate.



IT Supply Market, Sina'a Street, Baghdad

The initial approach had not accounted for the unique institutional constraints of Iraq, particularly the difficulty of linking up with outside firms and the weakened Iraqi private sector.

Distressed that this would require a drastic reduction in the scope of the rollout and the desired efficiency of the cash transfer process, the task team sought advice from the MENA Regional Procurement Manager who proposed testing the ability of the local market to supply the equipment through numerous smaller-value contracts.

Using SME-Friendly Procurement Practices:

The new approach devised involved offering multiple smaller-value contracts, while removing constraints such as bid guarantee requirements and high financial capacity for firms which would have discouraged participation by local SMEs.



SSN center in Muthana Governorate

In order to encourage competition and ensure appropriate prices from SMEs, several important measures were taken:

- Preparing and publicizing annual procurement plans for each procuring entity
- Using simplified procedures and simple procurement packaging
- Publicizing procurement opportunities broadly (e.g., on the official Ministry's website and local newspapers) even for lower value contracts
- Using simple but standard bidding documents, request for quotations and general conditions of contract

- Allowing alternative guarantees for security requirements
- Streamlining and simplifying procurement and related administrative procedures
- Applying advance payment to assist SMEs for contract implementation
- Announcing award decisions on the Ministry's bulletin board even for lower value contracts
- Streamlining approvals processes for prompt payment of invoices

The testing of the three smaller procurement contracts for IT equipment by SMEs was a resounding success in terms of costs and efficiency. It led to the re-structuring of all contracts into the smaller sizes that local SMEs could provide.

In the end, the procurement from the local SME market not only helped promote growth for SMEs, but also provided substantial cost savings for the country. By effectively responding to local market conditions, the project saved US \$1.4 million, or around 20% of the original estimated cost of the contract. These savings allowed for the purchasing of additional equipment for disaster recovery, monitoring equipment, software, etc.—all which are necessary for proper functionality and sustainability of the system in the long-term.

Tangible Results: By adopting innovative solutions fit to local market conditions, the cash transfer program administered by MOLSA could be scaled up. It now reaches nearly one million families, with a budget of about US\$800 million.



Iraqis who live below the poverty line will benefit from an improved SSN program.

Conclusion: Challenges related to Iraq's volatile situation, including the lack of interest from international suppliers, encouraged the Bank to look for alternative solutions in the design of the procurement process. The experience of working in a conflict-affected country led to smaller procurement packages and simplified procedures. An unorthodox and riskier approach at the outset ended up not only saving costs but also strengthening the local private sector and generating jobs in the country.

Contact MNA K&L:

Gerard A. Byam, Director, Strategy and Operations. MENA Region, The World Bank
Preeti S. Ahuja, Manager, MNADE

Regional Quick Notes Team:

Omer Karasapan, and Roby Fields
Tel #: (202) 473 8177

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