PUBLIC PROCUREMENT AND ASSET DISPOSAL ACT 2015

PFM Seminar, Mt. Kenya Branch

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New vehicle dealers are losing business to importers of second-hand cars as county governments opt for the cheaper option.
Sparks fly after awarding of Sh170bn tender for coal plant
The country could be up for another round of tender wars after the government’s decision to award
And 300 bn express way??
Procurement is defined as an activity or function that involves buying or purchasing or acquisition of goods, works and services to meet a specifically identified need e.g. a need or requirement to buy a plot for a cemetery or gravel and other building materials for a ward bridge.
Public procurement forms the largest domestic market in many countries;

Worldwide, procurement spending averages between 13% & 20% of GDP;

Sound procurement system can contribute to a country’s economic development
The Kenya government loses about 1/3 of the national budget to corruption.
80% percent of all corruption cases before EACC IS on procurement.
WB - in order to secure a government contract, a gift whose value represents 8 – 10% percent of the contract amount is expected,
IDS - manufacturing firms in Kenya spend an average of 14% of the value of government contracts on kick-backs.
procurement entities are buying goods and services at an average of 60% above the prevailing market price.
In the past decades, the public procurement system in Kenya has undergone significant developments.

From being a system with no regulations in the 1960s, and a system regulated by Treasury Circulars in the 1970s, 1980s, 1990s, and 2001.

The introduction of the Public Procurement and Disposal Act (PPDA) of 2005 and the Regulations of 2006.

PPDA of 2005 was repealed and replaced with PPADA 2015- became operational on 7th Jan. 2016.
Procurement is a key component in the PFM System
Article 201 of the Constitution of Kenya provides that public money shall be used prudently and responsibly
Article 227 of the constitution provides that:- when a state organ or any other public entity contracts for goods / service, it shall do so in accordance with a system that is fair equitable, transparent competitive and cost effective
The current framework for public procurement is the PPADA, 2015 and the relevant regulations.
THE ELEMENTS OF PROCUREMENT

Purchasing, hiring, leasing (Local, international)

Storage / supplies (Receipts, stores)

Logistics – transport, distribution

Processing payments

Contract management

Disposal of obsolete, surplus, unserviceable stores.
• Fair, equitable, transparent, competitive & cost-effective - Art. 227(1)
• Procurement & disposal law to provide - Art. 227(2):
  ✓ Categories of preference
  ✓ Protection of persons, groups previously disadvantaged by unfair competition or discrimination
  ✓ Sanctions against suppliers who have not performed professionally, agreements or law
  ✓ Sanctions against tax defaulters, corrupt & serious violators of employment laws & practices
SIX OBJECTIVES OF PROCUREMENT

☐ Procure the **RIGHT ITEM**
☐ Procure the **RIGHT QUALITY** goods, works or services from a reliable supplier.
☐ In the **RIGHT QUANTITY** ensuring cost effectiveness and;
☐ Delivered at the **RIGHT TIME**;
☐ Delivered to the **RIGHT PLACE**; and
☐ Paying the **RIGHT PRICE** whilst achieving the lowest possible total cost.

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KEY ACTIVITIES IN A PROCUREMENT CYCLE

1. Identify Procurement needs
2. Develop Proc. Plans
3. Confirm Budget
4. Select Proc. Methods
5. Receive & Manage Bids
6. Evaluate Bids
7. Negotiate (if needed)
8. Award Contract
9. Manage the Contract
10. Close the Proc. File
The PPADA, 2015 has been in force since January 7th 2016

Change from PPDA, 2005 to PPADA, 2015 was to ensure the procurement legislation is in line with the Constitution and the PFM Act, 2012

Treasury circular on Procurement -02-2016.pdf

The Act has 18 parts;

The Act defines the persons to perform specific roles in relation to procurement (who), how the roles are exercised (process / procedure) and the timelines for various steps in the process (when)
GUIDING PRINCIPLES S.3

a) National values and principles provided for under Article 10;
b) Equality & freedom from discrimination provided for under Ar.27;
c) Affirmative action programmes (Articles 55 & 56);
d) Principles of integrity under the Leadership and Integrity Act, 2012
e) Principles of public finance under Article 201;
f) Values and principles of public service (Article 232);
g) Principles governing the procurement profession, international norms;
h) maximization of value for money;
i) Promotion of local industry, sustainable development & protection of the environment;
j) Promotion of citizen contractors.
The Act applies to all State organs & public entities with respect to—

- procurement planning;
- procurement processing;
- inventory and asset management;
- disposal of assets; and
- contract management.
INSTITUTIONS UNDER PPRA

- Roles & Responsibilities

- The National Treasury
- The Public Procurement Regulatory Board
- Public Procurement Administrative Review Board
- Director General Office
- Accounting Officer
- Procurement Officer
Formulate, evaluate, promote & research on national & county public procurement and asset disposal policy

Develop policy guidelines for the efficient procurement management & disposal system

Design & prescribe an efficient procurement management system for the national & county governments to ensure transparent procurement and asset disposal as contemplated by Article 227 of the Constitution:

Provide technical assistance on procurement & assist in the implementation & operation of the public procurement and asset disposal system;
Role of the National Treasury S.7.

- carry out general research, develop and promote electronic procurement strategies and policies in both the national and county governments;
- carry out review of procurement and supply chain management system to assist procuring entities;
- develop and review policy on procurement of common user items in the public sector both at national and county government levels;
- develop policy on the administration of preference and reservations scheme and registration of target groups under preference and reservations scheme as prescribed;
- facilitate affirmative action for disadvantaged groups in accordance with the Constitution and advance their participation in the procurement process;
- develop and review policies and guidelines on the management of assets;
- issue guidelines to public entities with respect to procurement matters.
Monitor, assess and review the public procurement and asset disposal system to ensure that they respect the national values and the Constitution (Article 227).

Monitor the public procurement system and report on the overall functioning of it and present to the Cabinet Secretary and the county executive member for finance in each county.

Enforce any standards developed under the Act;

Monitor classified procurement information, including that of specific items of security organs and make recommendations to the Cabinet Secretary;

Monitor the implementation of the preference and reservation schemes by procuring entities;
prepare, issue and publicize standard public procurement and asset disposal documents and formats to be used by public entities and other stakeholders;
provide advice and technical support upon request;
to investigate and act on complaints received on procurement and asset disposal proceedings
research on the public procurement and asset disposal system and any developments arising from the same;
advice the Cabinet Secretary on the setting of standards including international public procurement and asset disposal standards;
develop and manage the State portal on procurement and asset disposal and ensure that it is available and easily accessible;
monitor and evaluate the preference and reservations provided for under this Act and provide quarterly public reports;
Create a central repository or database that includes—

i. complaints made on procuring entities;

ii. a record of those prohibited from participating in tenders or those debarred;

iii. market prices of goods, services and works; Procurement - MPI JUNE 2017.pdf

iv. benchmarked prices;

v. State organs and public entities that are non-compliant with procurement laws;

vi. statistics related to public procurement and asset disposal;

vii. price comparisons for goods, services and works; and

viii. any information related to procurement that may be necessary for the public;
Composed of the following:

- a chairperson nominated by the Cabinet Secretary and appointed by the President;
- four members who shall be appointed by the Cabinet Secretary after nomination, through a fair process, by—
  i. the Law Society of Kenya;
  ii. the Institute of Certified Public Accountants of Kenya;
  iii. the Kenya Institute of Supplies Management;
  iv. the Association of Professional Societies in East Africa,
- two persons nominated by the respective organizations representing— the youth; and persons with disabilities;
- the Cabinet Secretary or his or her representative; and
- the Attorney-General or his or her representative.
PPR Board Functions S.12

a) ensure the proper and effective performance of the functions of the Authority;
b) approve and ratify the policies of the Authority;
c) oversee the management, control and administration of the assets of the Authority;
d) receive any gifts, grants, donations or endowments made to the Authority;
e) determine the provisions to be made for capital and recurrent expenditure, and for the reserves of the Authority;
f) open bank accounts for the funds of the Authority in accordance with PFM Act;
g) subject to the approval of the CS, invest any of the Authority funds;
h) co-operate with other organizations undertaking functions similar to its own, whether within or outside Kenya.
Reviewing, hearing and determining tendering and asset disposal disputes;
and
perform any other function conferred to the Review Board by this Act, Regulations or any other written law.
The Authority shall provide secretariat and administrative services to the Review Board
DG of the Authority appointed by the CS on the advise of the Board

DG shall be the CEO of the Authority & the Secretary to the Board

DG shall hold office for a term of 3 years but shall be eligible for re-appointment for a further term of three years.

DG shall be responsible for the day to day management of the affairs of the Authority and shall be answerable to the Board in the performance
PART IV- POWERS TO ENSURE COMPLIANCE

- 35- Investigations:
- 36- Power of Investigators
- 37- Investigation Report
- 38- Order by the Director General
- 39- Request for Judicial Review
- 40- No Investigation if issue is before the Judicial Board
- 41- Debarment Debarred Firms.htm
RESPONSIBILITIES OF ACCOUNTING OFFICERS S-44

- Shall be **primarily responsible** for ensuring the public entity complies with the Act and the Regulations
- Shall **establish systems and procedures** to facilitate systematic & structure decision making in procurement
  - Establishment of a procurement unit staffed by procurement professional
  - Internal procurement procedures manual
  - Appointment of various committees / teams e.g. Tender Opening Committee, Tender evaluation committee, Inspection and acceptance committee, project management team, Disposal Committee
- Ensure annual procurement and disposal plans are prepared
ACCOUNTING OFFICERS.... CONT'D

- Ensure procurement and disposal processes comply with the PPAD Act
- Ensure compliance with sections 68, 147, 148, 149 of the PFM Act
- Approve and sign all contracts
- Ensure segregation of responsibilities
- Submit to the Authority procurement plan demonstrating the application of the pref. & reservation scheme within 60 days after commencement of financial year
- Ensure procurement is within the approved budget.
- Maintain procurement records for each procurement for 6 yrs
An Accounting officer shall ensure that an ad hoc evaluation committee is established from within the members of staff, with the relevant expertise where technical expertise is required from outside the organization, such expertise may be obtained from other procuring entities

An evaluation committee established shall—

1. deal with the technical and financial aspects of a procurement
2. consist of between 3-5 members appointed on a rotational basis comprising heads of user department and two other departments or their representatives and where necessary, procured consultants or professionals;
3. have as its secretary, the person in charge of the procurement function
4. complete the procurement process for which it was appointed and no new committee shall be appointed on the same issue unless the one handling the issue has been procedurally disbanded;
5. adhere to Articles 201(d) and 227 (1) of the Constitution.
The inspection and acceptance committee shall immediately after the delivery of the goods, works or services—

a) inspect and where necessary, test the goods received;

b) inspect and review the goods, works or services in order to ensure compliance with the terms and specifications of the contract; and

c) accept or reject, on behalf of the procuring entity, the delivered goods, works or services.

The inspection and acceptance committee shall—

a) ensure that the correct quantity of the goods is received;

b) ensure that the goods, works or services meet the technical standards defined in the contract;

c) ensure that the goods, works or services have been delivered or completed on time, or that any delay has been noted;
PROCUREMENT UNIT RESPONSIBILITIES

- Head of PU shall render professional advice to the Accounting Officer - s47(2)
- Maintain and update lists of registered suppliers contractors & consultants – s57
- Provide Secretariat services to tender evaluation committee S46 (4)(c)
- Prepare, publish and distribute procurement opportunities & documents
- Propose membership of tender opening, evaluation, negotiation and disposal committees for appointment by Accounting Officer
- Prepare contract documents and procurement correspondence e.g. letters of notification, termination letters
- Maintain & archive procurement and disposal records
- Manage inventory (s161) etc …… (see regulation 8)
- Offer professional Advice to the Accounting Officer
RESPONSIBILITIES OF THE USER DEPARTMENTS

- Prepare and submit departmental procurement plan thro’ PU
- Initiation of procurement / disposal process – requisitioning
- Specification of requirements
- Maintain contract records
- Participate in Inspection & acceptance of good / services
- Participate in contract management
- Identification of items for disposal
A County Treasury shall be the organ responsible for the implementation of public procurement and asset disposal policy in the county.

Set up the Procurement function which shall:

✓ implement public procurement and asset disposal procedures;
✓ coordinate administration of procurement and asset disposal contracts;
✓ coordinate consultations with county stakeholders of the public procurement and asset disposal system in liaison with the National Treasury and the Authority;
✓ advise the accounting officers of county government entities on public procurement and asset disposal matters;
✓ co-ordinate county government monitoring and evaluation of the supply chain function of county gov’ts including ensuring compliance;
✓ promote preference and reservation schemes for residents of the county to ensure a minimum of twenty percent in public procurement at the county;
✓ Administer a scheme of service for county government procurement and supply chain management officers and capacity build.
INTERNAL ORGANIZATION

PART V

- 44—Responsibilities of the accounting officer.
- 45—Corporate decisions and segregation of responsibilities.
- 46—Evaluation Committee.
- 47—Procurement function. – **Staffed with Procurement professionals**
- 48—Inspection and acceptance committee.
- 49—Sector-specific procuring and disposal agencies.
- 50—Consortium buying.
- 51—Procuring agents or asset disposal agents.
- 52—Transfer of procuring responsibility to another public entity or procuring agent
- **Tender Committee is abolished**
General Procurement and Asset Disposal Principles- Part VI

- Procurement Planning:
  - Annual plans aligned to budget. For multi year to be aligned with MTEF.
  - Annual Disposal of Assets Plan
  - Procurement to commence subject to availability of funds
- No Splitting of procurement except as prescribed
- Eligibility Criteria – confirm membership status of professionals
- List of Registered suppliers – Use of list from professional associations
- Limitation on contracts with state and public officers – Only the Entity
- Tender security – An amount not more than 2% of tender value
- Form of communications, electronic procurement and asset disposal. – IFMIS
- Inappropriate influence on evaluations,
- Confidentiality, particularly on evaluation
- Procurement records – Six Years
- Procurement approvals – No retrospective approvals

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BASIC PROCUREMENT RULES
Part VII

- 70—Standard tender documents.
- 71—Registration of suppliers.
- 72—Responsibility for complying with Act, - Contractors/suppliers/consultants
- 73—Initiation of procurement process – User Department
- 74—Invitation to tender - Advertise in portal, website, county Newspaper
- 75—Modifications to tender documents – Addendums and extension of period
- 76—Modification of bids. By the Supplier and in Writing
- 77—Submission and receipt of tenders.
- 78—Opening of tenders.
- 79—Responsiveness of tenders.
- 80—Evaluation of tenders.
Clarifications.
82—No correction of errors. **Price on the Form of Tender is Final**
83—Post-qualification. – **Due Diligence**
84—Professional opinion. To accompany the evaluation report
85—Recommendation for contract awards.
86—Successful tender.
87—Notification of intention to enter into a contract.
88—Extension of tender validity period. **Only once for 30 days**
89—International tendering and competition.
PROFESSIONAL OPINION

- Must capture the evaluation report as secretariat comments
- Head of PU must review the evaluation report - comment on all aspects of the evaluation of a tender.
- Must be based on the review of the evaluation report
- Must be conclusive
- Must be signed by head of PU
a) Open tender;  
b) two-stage tendering;  
c) design competition;  
d) restricted tendering;  
e) direct procurement;  
f) request for quotations;  
g) electronic reverse auction;  
h) low value procurement;  
i) force account;  
j) competitive negotiations;  
k) request for proposals;  
l) framework agreements;
OPEN TENDER

- National – 14 days
- International – 21 days
STAGES IN OPEN TENDER PROCESS

1. Prepare specifications
2. Prepare Tender document
3. Advertise & sell Tender Document
4. Preparation & submission by tenderers
5. Opening of Tender
6. Tender Evaluation
7. Contract award
8. Contract Preparation
9. Signing of contract
10. Performance Of contract
RESTRICTED TENDERING

- Is the tendering process by direct invitation to a shortlist of pre-qualified, pre-registered or known contractors, and is subject to a specific prior approval by the Tender Committee:

- It is an appropriate method of procurement, and is only permitted to be used, where:
  - The requirement is of a specialized nature or has requirements of public safety, or public security which make an open competitive tender impossible;
  - Urgent – open tender not practical
  - Open tender has failed to bring an award of contract
DIRECT PROCUREMENT

- **Single Source (Direct) Procurement:** A *method of procurement in which the PE determines not to use competitive procurement on grounds of urgency or some other legal principle and negotiates a contract with a single supplier or contractor.*

Direct procurement from a contractor without competition is *subject to a specific written approval* being granted by the Tender Committee upon the submission of reasons for the method.

- **Appropriate when:**
  - Purchase is *urgently* needed for remedial works, provided this is restricted to the minimum requirement to meet the urgent need until a procurement by other methods can be fulfilled; or
  - The works can only be provided by one source for *physical, technical or policy reasons* e.g. requiring the use of proprietary techniques that are obtainable only from one source.
National security organs and other procuring entities that deal with procurements of classified nature shall manage their procurements and disposals on the basis of a dual list maintained by the respective procuring entity as prescribed.
Use of Request for Proposal Method
Use of **terms of reference** the expected **milestones** or performance benchmarks to be realized throughout the consultancy period and the related **timelines**.

May Use Expression of Interest:

- Advertise in tender portal, website and 1 paper of county-wide circulation
- Shortlist a min of 6 offers, if less then 3 – **Check with Professional Association**
- Issue RFP to the shortlisted offers
- Quality and Cost Based Selection (QCBS) is the Preferred method of evaluation
- Provide estimated budget or time
- No contract variations except where the scope is varying but not to the extend of changing the terms of reference
- No award of more than one contract of related assignment

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134—Preparation of contracts
✓ Contracts **above Ksh. 5 Billion** to be cleared by the AG. CS to brief cabinet - except Parliament and Judiciary

135—Creation of procurement contracts.
✓ Written contracts after **14 days** from date of award

139—Amendments or variations to contracts.
✓ Request to be recommended by the Evaluation Committee to AO for approval
✓ Variations to be considered after **12 months**
✓ Variation for Goods and services 15% and works 20%, cumulative not to exceed 25%

142—Performance Security – **Not more than 10% of contract value before signing**

146—Advance payment.
✓ 20% of contract sum granted under exception circumstance, security to be provided
✓ May be considered as a **LOAN** if not used for its intended purpose

150—Contract administration.
✓ Head of Procurement/Technical dept. to issue certificate of Acceptance to the AO

151—Complex and specialized contract implementation team.

152—Contract monitoring - **Monthly Reports by Head of Procurement to the AO**

154—Contract close out. – **Head of procurement to issue Certificate or Technical Department in case of Complex Procurement**
Preferences & Reservations
Part XII

- Reserve 30% of procurement in the Annual Procurement Plan to Youth Women and Persons with Disability. – **Submit to the Authority 60 days after start of FY**
- Ensure that payment is made to an A/c where the target group **is a signatory**
- Reporting every **Quarter** on contract awards under P & R Scheme

**Preferences**

- manufactured articles, materials or supplies wholly mined and produced in Kenya
- manufactured articles, materials and supplies partially mined or produced in Kenya or where applicable have been assembled in Kenya
- firms where Kenyans are shareholders. (51%) Evaluation of these firms to consider preferences on a graduating scale, as prescribed

**Application of P & R**

- Disadvantaged groups
- Micro, small and medium enterprises
- Identified regions

Mandatory requirement for International firms to **source 40%** of supplies from local contractors, and **transfer technology**, where applicable
General penalty and sanctions
A person convicted of an offence under this Act for which no penalty is provided shall be liable upon conviction—

a) if the person is a natural person, to a fine not exceeding **four million shillings** or to imprisonment for a term not exceeding **ten years** or to both;

b) if the person is a body corporate, to a fine not exceeding **ten million shillings**.
INVENTORY CONTROL, STORES & ASSET MANAGEMENT

- Only goods/works/services which have been inspected and accepted are recorded in the inventory of a PE
- Inventory management should prevent loss/wastage & ensure continuity in supply
- An inventory management system must be established
- All inventory, stores & assets received must be taken on charge prior to usage – for accountability
- Quarterly inspection of stores, quarterly and annual stock taking by head of PU
- Issuance of items must be based on a requisition from user
GENERAL REQUIREMENTS TO NOTE....

- All communication must be in **writing**
- All approvals /authorizations relating to procurement must be in **writing**
- There must be a **separate, complete** file for **each** procurement / contract
- Procurement / contact file is **complete only if** it contains all the documents/ records and correspondence relating to that procurement / contract
- Procurement records must be maintained for **6 years**, then archived
- **Retrospective** procurement approvals are prohibited except for urgent needs
- Delegation of responsibility by AO or head of PU must be in **writing**
- Responsibility for each procurement & disposal approval rests with AO & individual officers involved
## WHERE CORRUPTION CREEPS IN PROCUREMENT

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<th>PROCUREMENT STAGE</th>
<th>POTENTIAL SOURCES OF CORRUPTION</th>
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<td>Announcements</td>
<td>No central public place for announcements. Imprecise specifications. No bulk purchases.</td>
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<tr>
<td>Eligibility to bid</td>
<td>Imprecise criteria. Inability to demonstrate track record.</td>
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<td>Tendering</td>
<td>Unpublished or imprecise procedures for each type of tendering and for choice of tendering.</td>
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<td>Evaluation/Award</td>
<td>Role of intangible factors and influences.</td>
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<td>Appeals/reviews</td>
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AREAS COMMONLY BREACHED BY PUBLIC ENTITIES

- Use of direct procurement
- Use of restricted Tender
- Use of RFQ
- Use of Low value procurements
- Evaluation of bids
- Notification of bidders
- Termination of Procurement proceedings
- Variation of contracts – focus on works & services
- Payment - for non delivered goods / services
- Disposal – focus on motor vehicles
CONCLUSION

- Public procurement can form vital tool for improving service delivery;
- Public procurement laws and regulations need to be reformed to comply with the provisions of the Constitution and best practice;
- Adequate opening up of Public Procurement has the benefit of enhancing value of procurement through benefits of:
  - Increased competition; and
  - Enhanced compliance on accounts of increased public scrutiny.
- Private sector potential is massive and untapped – Government facilitation of Private Sector participation in terms of enforcement of procurement laws key to effective engagement.
Thank You!