

FIDIC 2007

Procurement Regulation of
Consulting Services in a Knowledge
Economy

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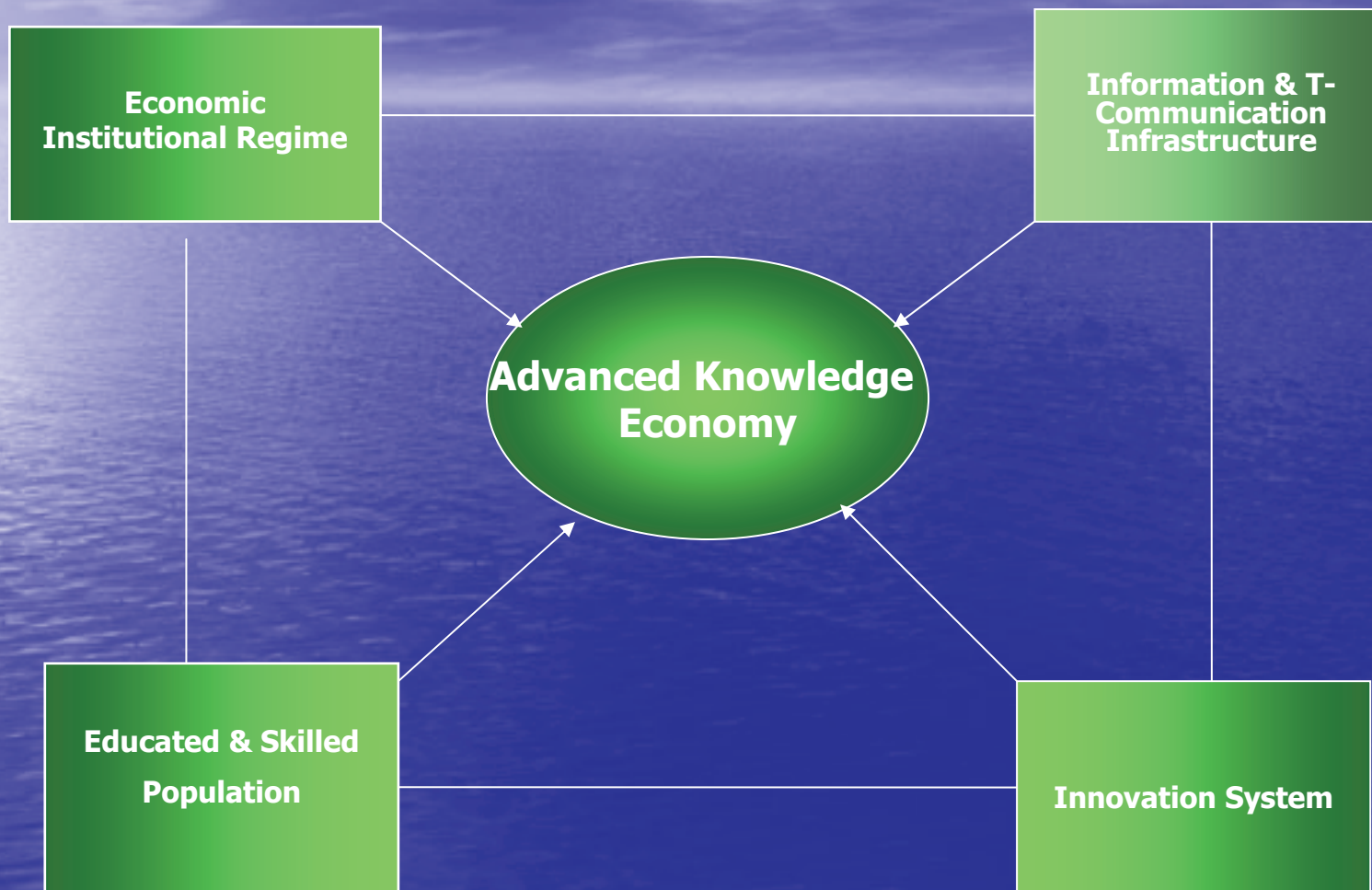
Knowledge Economy: Procurement Regulation of Consulting Services

Consulting Services Procurement Regulation

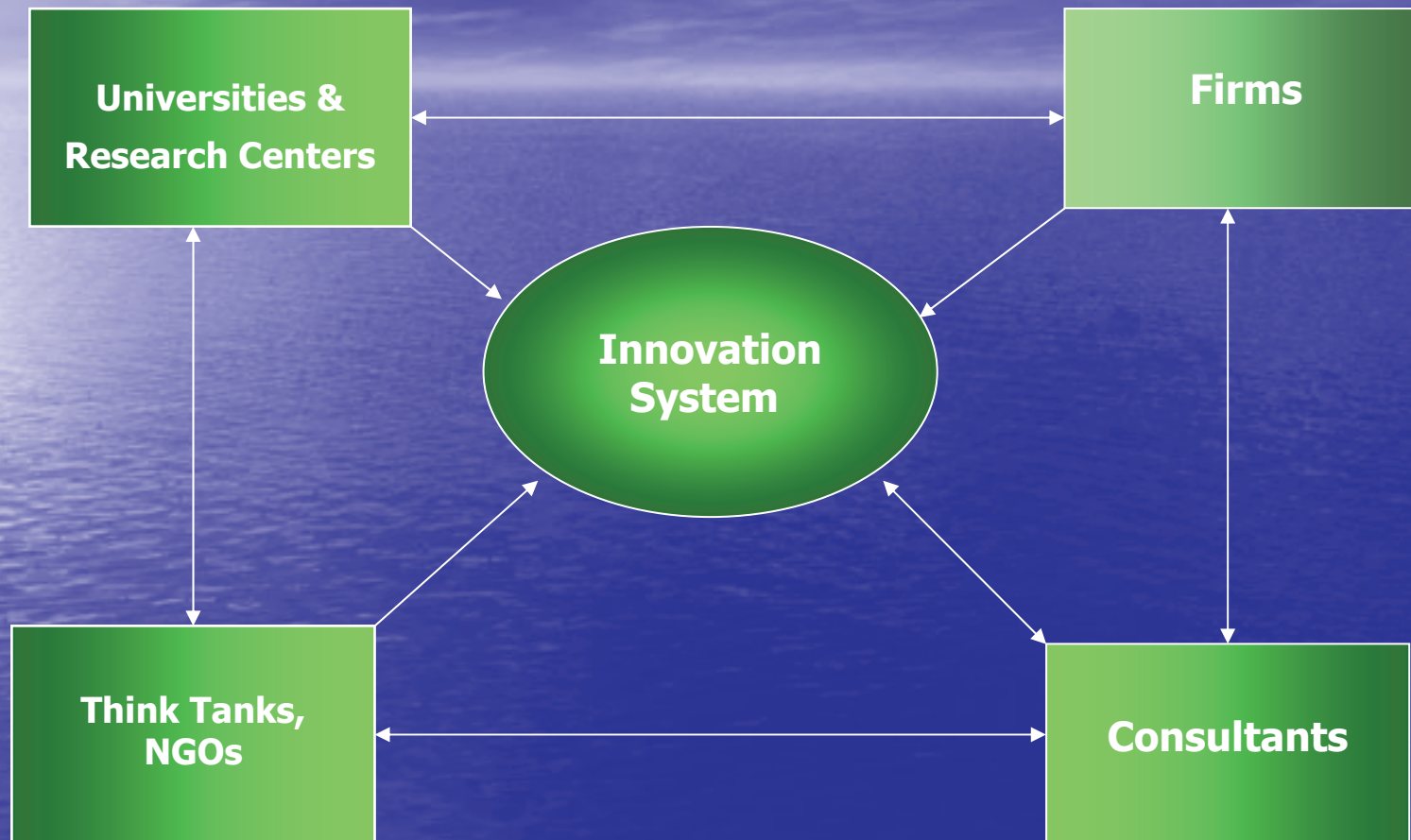
Why is it important to have it

What is needed to design a suitable one

Knowledge Economy: Procurement Regulation of Consulting Services



Consulting Services Sector in the Knowledge Economy



Why are Consultants Emerging?

In the Private Sector, Consultants

- drive the dissemination of innovation
- allow “economics of knowledge” for competitive investment and strategic decisions

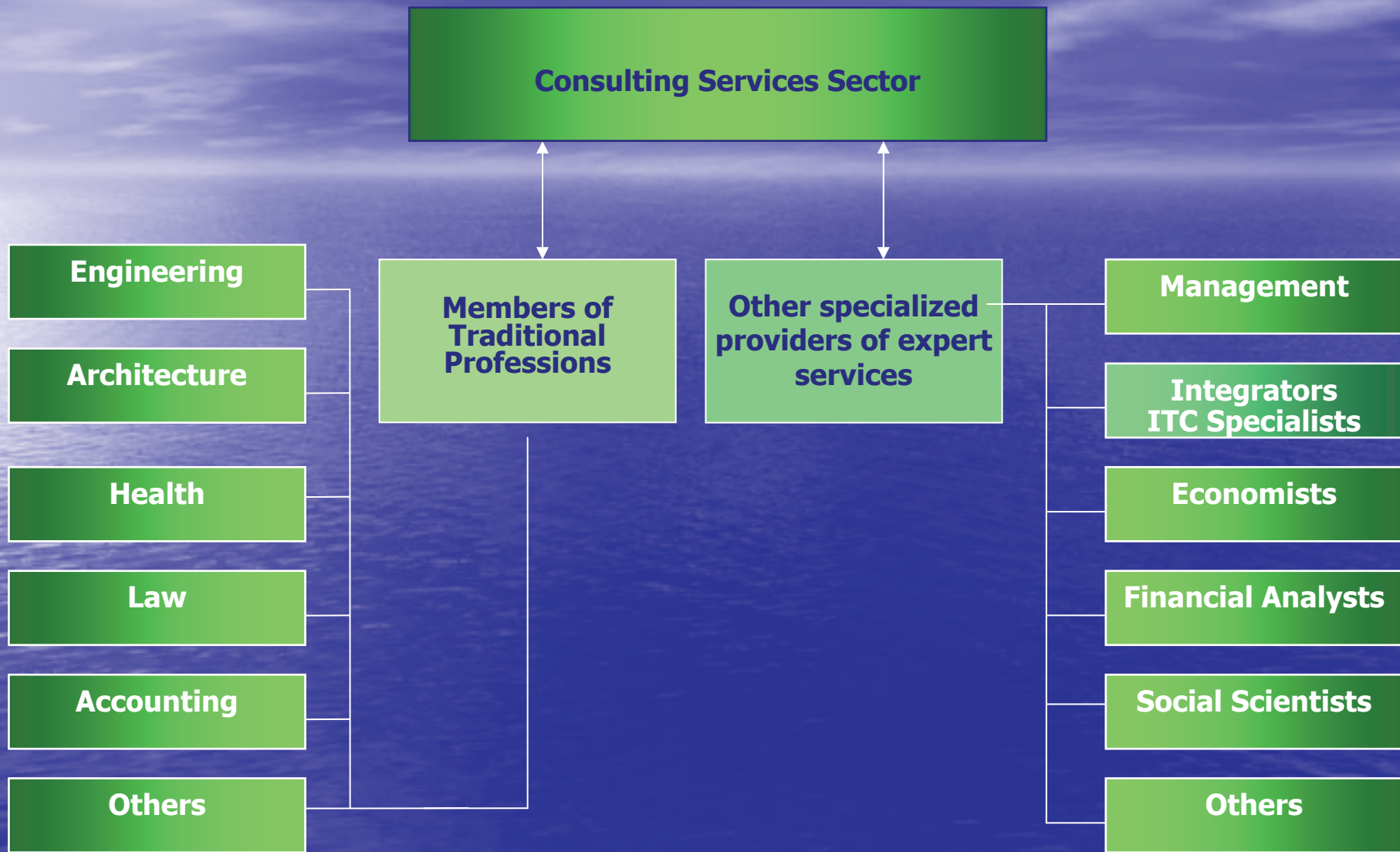
In the Public Sector

- align tax payers’ demands with PS projects
- provide “impartial advise” and legitimize transparent public choices

At Country Level

- add stability to the institutional/economic regime
- contribute to TFP and country competitiveness

Consulting Services Sector in the Knowledge Economy



Consulting Services Assessments

- Consultants are fastest growing segment of the service sector in Canada, Netherland, Australia, UK,US, Canada
- In Japan, Germany, France productivity gains (95-05) were slower than in the US although investment in R&D and patent registrations are higher. Reason: slow horizontal transfer of knowledge
- In many World Bank borrower countries consulting sector has been in decline starting the late 70ties, in others it fails to take off. It needs to search for reason.
- Bank "Country Consulting Services Assessment (CSA)" in Colombia, Mexico, Vietnam, Pakistan, Turkey

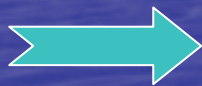
Consulting Services Assessments

Key Findings

Lack of vision and policy, no institutional framework, defective procurement regulation, weak PA capacity, unstable PA demand

Weaknesses result in

Low service quality, dysfunctional operating environment, no innovation, decreasing competitiveness, stagnant productivity, frustrated middle class and brain drain



Professional Poverty Traps

Procurement Regulation in a Knowledge Economy

Consulting Services Sector Action Agenda

Action Items

- Vision, strategy, policy
- Procurement Regulation
- Operating environment and sustainability
- PA Capacity
- Consultants Capacity
- Demand Creation and outsourcing strategy
- Role of Associations
- Role of Academia and R&D

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Item 2: Procurement Regulation

CSA recurrent finding “ineffective regulation” beset by two problems: asymmetry of information, agency problems

As a result: Government is not served with needed services

- Competition is mostly on price
- Unstable ethics
- Formal compliance but inefficient contract allocation

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Effective regulation = Efficient contract allocation under following considerations:

- Quality
- Efficiency and Economy
- Open and fair Competition
- Transparency
- Policy Objectives: national industry development

Market & institutional failures deny efficient solutions

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On Quality:

- Many regulate consulting services by least cost selection, Colombia, Pakistan, Turkey
- Some use Quality and Cost Based Selection
Viet Nam, Mexico, Turkey, EU

In both groups one observes competing services treated as homogeneous. Price competition dominates the selection process:

- Consulting business soon becomes unsustainable

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On open and fair competition:

- Resistance to the concept of short listing and correct clustering
- Legislations confuse short listing with prequalification
- Undiscriminating rules discourage participation of the best consultants

On transparency:

- Regulations focus on formal transparency norms
- Transparency of evaluators is neglected

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On development of national consulting sector:

- Discourage creation of consulting firms red tape, rigid labor codes, capital requirements
- Ring fence the domestic market impeding circulation of independent knowledge
- Price competition impeding sustainability
- Allow unfair, even predatory practices

Should procurement regulation include this consideration?

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On the role of Multilateral Institutions:

Leading in the application and diffusion of best practices, for how long?

Evidence show that MDBs need to refresh their regulation to suite characteristics of an advancing knowledge economy

Global competitiveness and local focus are keys

The evolution of best practices in the consulting industry: the regulatory response is lagging

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Suggested general characteristics of an effective regulation in knowledge driven economy

- Clear purpose and principles with logical links to the rules for decisions
- Internalize sector and market principles by:
 - a) Recognizing aspirations of consultants
 - b) Recognize importance of professional and ethical resources of public agents
 - c) Link selection methods to ToR, to project risk features, and use price factor wisely
 - d) Regulate "Glocalization"