Ministry of Finance

Public Procurement Bureau

Red Flags on e-Proc System

-tool for early warning and safeguarding from corruption in public procurement -

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Introduction of the concept

- PPB essentially is the main pillar of the public procurement system and has large scope of competencies, from which the main are legislative/regulatory, advisory and managing of Electronic System for Public Procurement (ESPP)

- In addition to mentioned main competencies, PPB monitors and analyzes the functioning of the national public procurement system, processes statistics on conducted procedures and contracts, performs analyzes, prepares reports and initiates legal and regulatory changes to improve the public procurement system, may exercise administrative control of any public procurement procedure on the basis of an assessment of the risks of violation of the provisions of this Law and by random choice – based on the results of the Red Flag Tool and delivers Red Flags Reports to the relevant institutions for further actions

- Developing the Macedonian Red Flags System involved harnessing the immense potential of the Electronic System for Public Procurement (ESPP), the country's national e-procurement platform owned and managed by PPB

- With the support of SAFE Project and World Bank, in 2017-18 we developed the first version of the indicators!

- Later on, with leveraging advanced business intelligence modeling and algorithms, a total of 26 distinct red flag tools were carefully crafted to detect potential misconduct.

IMPORTANT TO KNOW!

☐ Red Flags System draws its strength from the wealth of data available within the ESPP, allowing it to pinpoint risks associated with misconduct and corruption in public procurement

☐ It is <u>crucial to note</u> that these red flags do not provide conclusive evidence of fraud but rather serve as warning signals, hints, indicators of possible error or mistake, negligence, fraud or irregularities.
   ...BUT THEY ARE NOT CORRUPTION OR FRAUD EVEDENCE BY THEMSELVES!

☐ Based on them further action must be taken by the institutions such as Public Procurement Bureau, State Audit Office, State Commission for Prevention of Corruption, Commission for Protection of Competition, or even State Prosecutors Office in order to investigate or control the possible irregularities

√ Public Procurement Bureau is continuously developing and upgrading this concept. Compared with the initial developed tools within the WB Project, this is upgraded 2.0 version of the module.
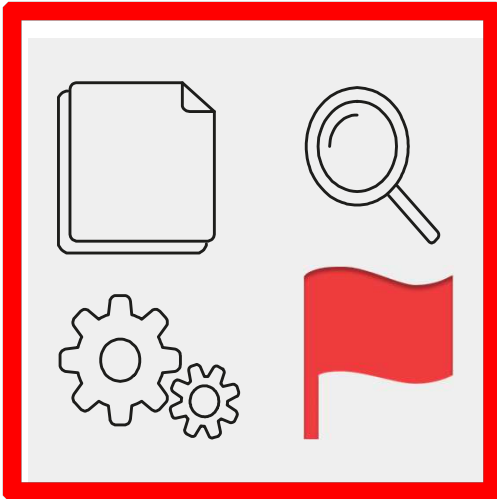
What data is used?

- *ESPP Database – large volume of structured data that can be used and can be easily modeled and utilized*
- *Data from 2010 for the electronic procedures and from the Contract Award Notices*
- *From 2018 – EVERY procedure above 1.000 EUR – all of the documents and Tender Dossiers in electronic form!*

Technical outline

- *Implemented module on the ESPP*
- *Business Intelligence (BI) Modelling Tool*

Methodology and work-flow

PPB has list of 36 potential indicators (and more sub-indicators) provided via the Project with the World Bank. Select the relevant indicators, ensure that we have the available data and ran against the available data via the BI Reporting System

Based on the indicators and algorithms we have developed **26 general different Red Flags Tools**. Run each of the tools and generate report with marked procurement procedures, contracting authorities or economic operator as "potential misconduct".

Prepare detailed reports (periodical and on-demand) with the most relevant findings and deliver it to the relevant institutions for further investigation (State Audit Office, State Anti-Corruption Commission, Commission for Protection of Competition).

INDICATORS — **ALGORITHMS** — **RF TOOLS** — **HUMAN FACTOR** — **FINAL REPORT** — **CONTROL**

Algorithms were developed (code written) - to access the underlying database(s) and to identify the desired indicators. The algorithms, can be run repeatedly or modified as necessary.

Some of the reports are automatic pre-defined, but for some of them it has to be ensured that the final result must be "clean and relevant" (human factor analysis). Conduct the analysis in a manner that reduces the number of "false positives" as much as possible and increase the relevance of the marked indicator.

Based on the reports:
Administrative Control – PPB
Performance Audit – SAO
Individual Proceedings - SCPC

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RF INDICATORS AS AN IMPROVEMENT TOOL – What has been done?

Publicaly Available Reports
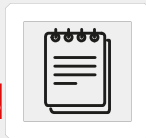
Most important findings were published in 2 annual and 1 semi-annual report – publicaly available!

The findings are JUST RELIABLE BASIS for further analysis and investigation, not evidence or final prove.

Administrative Control by the PPB

The results obtained from the implemented indicators are a good basis for monitoring possible corrupt practices, analyzing the public procurement system, and preventing bad practices. In 2023 PPB has performed administrative control on **50+ procedures** on the basis of the Red Flags 2022.

Administrative control by the PPB

Almost **90%** of the controlled procedures were abolished by the PPB, due to violations of the principles of public procurement such as non-discrimination, competition and proportionality, as well as violation of the provisions of the Law and potential collusion. Recommendations/instructions were issued how the procedures (provisions in tender documentation) to improve/change.

Perofrmance Audit by SAO

Based on the finding of the Red Flags Report 2022, State Audit Office started performance audit on public procurement on several institutions with the worst indicators.

Proceedings by SCPC

State Commision for Preventing Corruption is analysing the Report and preparing further actions.

NGOs

The findings were sent to diffrent NGOs working in this area. These results combined with other analyses, are a good direction for further trend monitoring and an assessment of the real situation with the national PP system.

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RED FLAGS IN KEY STAGES OF THE PROCUREMENT

☐ The red flags tools and indicators are divided within the phases of the procurement process and different areas!

Planning, preparation and Contract notice phase	Procedure and evaluation	Contract award and appeals	Auctions	Collusion and competition	Contract management
4	4	8	4	5	1

NUMBER OF GENERAL RED FLAGS INDICATORS IMPLEMENTED AT THE MOMENT

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List of some key indicators – Red Flags

- Contracting authorities with unusually high proportion of negotiation procedures (single source)
- Contracting authorities with the highest proportion of tenders with one bid
- Contracting authorities with the largest number of procedures with one acceptable from several submitted bids
- Contracting authorities frequently altering contract notice/tender documentation
- Frequent changes in the Public Procurement Plan
- CAs with the highest proportion of cancelled procedures
- Highest awarded contracts via negotiated procedure
- CAs with most modifications to awarded contracts
- High proportion of concentration of awarded contracts (by value) to one or small number of bidders in a specific CA
- *...and others*

One example - Collusion and competition

Indicator 5.1 – High proportion of concentration of awarded contracts (by value) to one or small number of bidders in a specific CA

What does it show?

☐ This indicator and the RF tool, flags the CAs where unproportional high value of the awarded contracts is given to one or very few bidders and presents lists of CAs and details of the contracts/bidders which are marked under this indicator. It targets "the big spenders"!

☐ *Example form 2022 Report*:

- JSC Power Plants of North Macedonia has awarded **742** contracts with value of approx. **100M** EUR and 55% of the total value of the contracts was "divided" among **5 companies** and 25% of total value to **only one company**

- Public Enterprise for State Roads has awarded **87** contracts with value of approx. **46M** EUR and 75% of the total value of the contracts was divided among **5 companies**

- Public Transport Enterprise - Skopje has awarded **169** contracts with value of approx. **32M** EUR and 83% of the total value goes to **only one company**

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Challenges

- [ ] We have implemented:
  - ▪ Every procedure via system,
  - ▪ Red Flags System,
  - ▪ Transparency on highest level,
  - ▪ Access to whole procedure documentation during appeal period,
  - ▪ Publication of each awarded contract or annex,
  - ▪ Open data on the public site,
  - ▪ all data in .csv format
  - ▪ ...and many more tools..

  BUT THAT IS NOT ENOUGH...

- [ ] <u>Technology is enabler and great contributor, data and evidence is in front of us, BUT</u>

- [ ] In fighting corruption strong and decisive action must be undertaken from the **highest level**

- [ ] More public prosecutor cases, more investigations, more court proceedings, and more rulings in order to improve the overall public perception in this area

MORE ON:

Electronic System for Public Procurement:
https://e-nabavki.gov.mk
https://www.youtube.com/watch?v=7MPLeRoxihM

Published RF Reports:
https://www.bjn.gov.mk/category/red-flags-report/

World Bank Blog on Macedonian solution for Red Flags:
https://blogs.worldbank.org/transparent-and-fair-public-procurement-north-macedonia-experience

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thanks!

Any questions?

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