

Efficiency and transparency in the public sector



IDB

Advances in public procurement in
Latin America and the Caribbean

2002-2012



This document analyses the impact of reforms in public procurement in the Region in the past ten years, and summarizes “Efficiency and Transparency in the public sector. Advances in public procurement in Latin America and the Caribbean 2002–2012”, was prepared by the Inter-American Development Bank (IDB), in cooperation with the Inter-American Network for Government Procurement (RICG in Spanish) and the Organization of American States (OAS).



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Efficiency and transparency in the public sector: advances in public procurement in Latin America and the Caribbean 2002–2012/Javier Dávila Pérez, Tomás Campero, Félix Prieto, Mariana López Fernández, Edwin Tachlian-Degras.

p. cm.

1. Government purchasing—Management—Latin America. 2. Government purchasing—Management—Caribbean Area. I. Dávila Pérez, Javier. II. Campero, Tomás. III. Prieto, Felix. IV. López Fernández, Mariana. V. Tachlian-Degras, Edwin. VI. Inter-American Development Bank. Operations Financial Management and Procurement Services Office. VII. Title.

IDB-BR-129

In today's world, a small business owner in Costa Rica or El Salvador does not need many contacts to access business opportunities with the public sector through the internet. A reporter, a member of parliament or a civil society organisation in Jamaica or the Dominican Republic can easily monitor the results of public tenders on the Web, and does not have to engage in extensive research to find out who was awarded a contract and at what price. Remote medical facilities in southern Chile or in the jungles of Ecuador have been able to purchase medicines required by the local population for up to 50% less than the initially allocated budget. In Uruguay, suppliers no longer have to deal with cumbersome paperwork, added costs and delays to present their bids in most public tenders. Equally, a foreign company can be easily incorporated and participate in public tenders in Peru, enjoying the benefits of mechanisms such as transparency systems in internet arbitration procedures. Small and medium-sized enterprises in Brazil or Paraguay can compete on the same footing in virtual auctions, and are equally able to secure a majority stake in the market. The same applies to Mexico, where the intelligence systems in public procurement are now electronic and free of charge, enabling businesses to improve their bids with the public sector without having to set up the type of research departments commonly found in large corporations.

These results are largely due to reforms in the public procurement systems in Latin America and the Caribbean in the past ten years. The systems operate through new electronic platforms, and include rules and regulations for

the procurement of public goods, services and works, and the consolidation of supply chains and suitably-staffed procurement offices.

Public procurement in these countries accounts for an average of **15% of GDP**, equivalent to **US\$800 billion** a year in the Region, rendering it a strategic tool for achieving national development goals. The quality of those systems is directly related to the efficiency and transparency of public spending, the country's reputation and the development of businesses, particularly small ones.

The Origin of the Reforms

A number of issues have triggered reforms in the Region. The most important ones were the economic crises and the integration and free trade agreements in the 1990s, which drove the attention of the authorities towards public procurement and incentivized change; the arrival of the internet and new information technologies, which favored efficiency and transparency, which were previously incompatible terms; and the consolidation of democracy and public elections, which reduced the tolerance for corruption and inefficiency. Under this new scenario, though at different stages, countries in the Region implemented reforms that followed similar patterns.





The four key achievements

Although the pace and progress of procurement reforms has varied from country to country, all of them have improved in terms of transparency and efficiency in public procurement. It is worth highlighting that **70% of public contracting is published on the internet**, allowing any company to participate in business opportunities equating to approximately **US\$560,000 million**. These reforms have also led to considerable savings in public spending in the Region, with over **US\$30 billion in 2012** in the procurement of goods and services contracts alone.

About **US\$560 billion** (70%) of public contracting is published on the internet.

The positive impact of reforms is also reflected in an increase in business opportunities for SMEs and in employment generation, greater confidence in the public sector and more effective State action in public spending.

In some countries, the number of participants in public tenders **tripled**.

Transparency

Almost all of the 19 countries in the Region that significantly reformed their public procurement systems in the last decade

¹ Argentina, Belize, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Jamaica, Mexico, Nicaragua, Panama, Uruguay, Paraguay and Peru.

have prioritized the area of transparency, which fundamentally aims to favor easy and widespread access to information and participation in public tender processes. To achieve this, they modified regulations, raising the level and the quality of supervision, and established simpler access rules to eliminate entry barriers and ensure that anyone could participate. These measures were further enhanced by the implementation of systems for internet publication of business opportunities and the results of public tender processes. Equally, training, marketing and change management mechanisms were set up to encourage a new business culture among public servants and suppliers. Electronic observatories and complaints systems improved monitoring and claims issues, generating incentives for good behavior and better response times in resolving incidents. Although there are still challenges, there has been significant progress.

Efficiency

It is increasingly more common for governments in Latin America and the Caribbean to use advanced procurement systems to benefit from economies of scale and scope. The Region is one of the most advanced in the adoption of electronic solutions such as reverse auctions and framework agreement catalogues. Additionally, the implementation of technological platforms for contract and supplier registers and quotation systems helps to eliminate or reduce

In 2012, countries in the Region saved 13.7% in the public procurement of goods and services, equivalent to **US\$33 billion**.

The use of electronic catalogues for framework agreements has led to a **40% reduction** in inventory, infrastructure and product management costs.

requirements and procedures for presenting tenders, as well as improve management processes in public offices. This leads to more efficient procurement, simplifies inventory management for companies and for the State, and significantly reduces public spending.



Sustainability

The majority of countries have started to use public procurement to boost environmental, social and economic development, due to the size and scale of public contracts and their potential multiplier effect. Public procurement has proven to be especially effective in protecting vulnerable sectors, encouraging innovation in goods and services, supporting SMEs and protecting the environment. Within the range of initiatives adopted by governments in the Region, it is worth highlighting measures such as target setting

About **50%** of **tenders** include **environmental protection** requirements and conditions for both companies and products.

The market share of MSMEs in the public procurement of goods and services has ***doubled, reaching 60%.***

for contracts awarded to SMEs; the creation of specialized business centers for strengthening training and advisory services; the use of trade fairs for suppliers; the approval of regulations addressing benefits and workers' rights in public tenders; the development of criteria and requirements for selecting environmentally friendly companies and products; and the implementation of energy efficient programs. Though limited and varied, results do reflect a positive trend in terms of sustainable development.

Effectiveness

Public contracting is not an end in itself for the State, but rather the means to achieve its goals and satisfy public demand. Most reforms therefore aim towards the highest possible levels of effectiveness in providing goods and services necessary for adequate public management.

Delivery times for goods and services contracted by public sector entities were ***reduced by 50%.***

Reducing delivery times for medicines, issuing tenders for building roads, or guaranteeing the timely supply of quality computers for public sector schools are among some of the countries' specific objectives. The standardization of tender processes and documents, the implementation of electronic systems, the development of new supplier registers or training programs for procurement officers, and access to information on trends and future needs are all initiatives that have led to successful reforms. These measures have allowed suppliers to the public sector to reduce unit production costs by planning (synchronizing orders) and by identifying the quality needs of the public sector, resulting in more effective public procurement.

Challenges

Greater transparency, efficiency and sustainability, as well as greater savings, are undoubtedly the main achievements of a decade of reforms in public procurement in Latin America and the Caribbean. These positive results prove the value of reforms as an investment, achieving accumulated savings of approximately US\$100 billion in the procurement of goods and services in the entire Region, between 2002 and 2012.

The efficient use of public resources is an incentive for further investment in this area and for the improvement of the quality

The number of voided tenders (no bids received) ***decreased by 30%.***



of life of the local population. The main challenges identified for the future are:

- Full implementation of reforms in countries which have been slower to adopt measures, particularly in the areas of the fight against corruption and the promotion of efficiency, where there is a greater need for institutional and legal reforms and the implementation of information technologies.
- Consolidation and institutionalization of reforms in the countries that have made most progress, to avoid setbacks in an area with complex incentives. It is necessary to continue with career development initiatives for public procurement officers, so that procurement units will have certified professionals on staff.
- Finally, it is also important to be innovative and create adequate strategies that respond to demands for transparency from citizens and companies, and take advantage of the potential of public procurement for improving policy in other areas. The use of databases to standardize processes or provide business intelligence to companies and public agencies could improve the quality of public contracting. Equally, using public procurement for boosting business, innovation, and protection for the environment can positively impact economic and social development in the Region.

The IDB supports these efforts through the implementation of its **Strategy for Strengthening and Use of Country Systems**, by supporting ongoing public procurement diagnostics and targeted strengthening initiatives. The IDB also relies on those national procurement systems that comply with international standards, which, although having differing levels of progress, exist today in 60% of countries in the Region.

In close collaboration with the Inter-American Network for Government Procurement (INGP) and the Organization of American States (OAS), the IDB continues to maintain global and regional strategic alliances, to ensure that Latin America and the Caribbean countries participate in the global debates.





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