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GovRisk

The International Governance & Risk Institute

Historical Evolution of Public Procurement Systems

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PP* in the past

- Systems developed under protectionist policies
- Centralized states, obsolete economic models
- Inefficiency – less value for money
- Overprices of at least 20%
- Inefficiency, perceived as corruption
- Multiple Institutions involved
- Bureaucracy – increases opportunities for corruption
- Obsolete legal systems

* **Public Procurement**

PP in the past

- Loss of efficiency – increased opportunities for corruption
- Weak judiciary and control entities
- Acquisitions perceived as a simple procurement process and not as a matter of state policy
- Widespread perception of inefficiency and corruption
- Corruption cost = another 20% of overprice

PP in the past

- The projects emphasized decentralisation, which has a great impact on the PP processes
- Decentralisation without strategy
- Poorly studied impact
- Question: What is desentralized and how?
- Example: purchasing and procurement in the health sector

Recent Reforms

- Evil effects on the reforms of the 80s and 90s
 - Great loss of human capital
- Myth of the reduction of the state - New roles:
 - Privatizations
 - Concessions
 - Decentralization
- Governments privatize, decentralize and grant concessions at the same time
- Are they able to do it?

Beginnings of the State Reforms

- Projects in almost all countries
- Usually, the PP is a marginal issue
- When included, it is approached as a procedural reform
- Generally, absence of:
 - Integrated overview
 - Regulatory agency in charge of the subject
 - Training and certification of buyers

Trends: 1990 - 2010

| Terms | 1990 | 2010 | Comentarios |
|------------------------------------|-------------------------------------|--|--|
| Legal Framework | Obsolete | Legal Reform Best Practices | Economic importance Anti-corruption fight about regulation? |
| Institutional Framework | Weak Few entities Centralized | Strong All decentralized entities | Powerful regulatory agencies High level |
| Civil Society Participation | Limited | Active | In some cases, legal mandate |
| e-GP | Non-existent | All (even though) at different levels of development | Great economic impact E-Government strategies still precarious in many countries |

PP Laws in LAC

| Country | Law | Modifications |
|------------------|------------|----------------------|
| • Argentina | 2001 | |
| • Chile | 2003 | 2010 |
| • Colombia | 2011 | 2012 |
| • Dominican Rep. | 2006 | |
| • Ecuador | 2008 | |
| • El salvador | 2000 | 2011 |
| • Jamaica | 1999 | 2008 |
| • Mexico | 2000 | 2012 |
| • Paraguay | 2002 | |
| • Panama | 2006 | 2011 |
| • Peru | 2012 | |

New Approach

- FTAA discussions by the end of 90's include a PP component
- In some countries the PP is part of a comprehensive vision, of government's strategic reform and development of e-government
- Dialogue among countries of this hemisphere is beginning

Hemispheric Network

- In 2005 the Inter-American Network on Government Procurement is created (www.ricg.org)

“The RICG is an initiative born within the OAS to serve the entities responsible for public procurement of the countries Organization. Thanks to the network , they can share experiences , initiatives and common interest issues in the field of public procurement .

Network members organize different cooperation and dissemination activities in the countries of the region. By sharing experiences , network members are able to access a South-South cooperation and cooperative mechanisms such as internships, technical visits, consultations, joint projects”

New Approach

- Reform projects with PP components in almost all countries
- IDB - WB (high percentage of the portfolio)
- This issue is no longer marginal
- Integrated financial systems include a PP component

New Approach

- Establish or strengthen the role of regulatory authorities, such as:
 - ❑ ChileCompra
 - ❑ Panamá-compra
 - ❑ OSCE (Peru)
 - ❑ ONCAE (Honduras)
 - ❑ ACCE (Uruguay)
 - ❑ Colombia-Compra-Eficiente

Trends – Institutional Framework

- Many entities serve as example for other countries and greatly assist the development of newly established entities (both bilaterally and through the Network)
- Important training programs are developed at network and country level
- There is a cohesive collaboration at regional level in several aspects: harmonization of procedures, common classification systems and other.

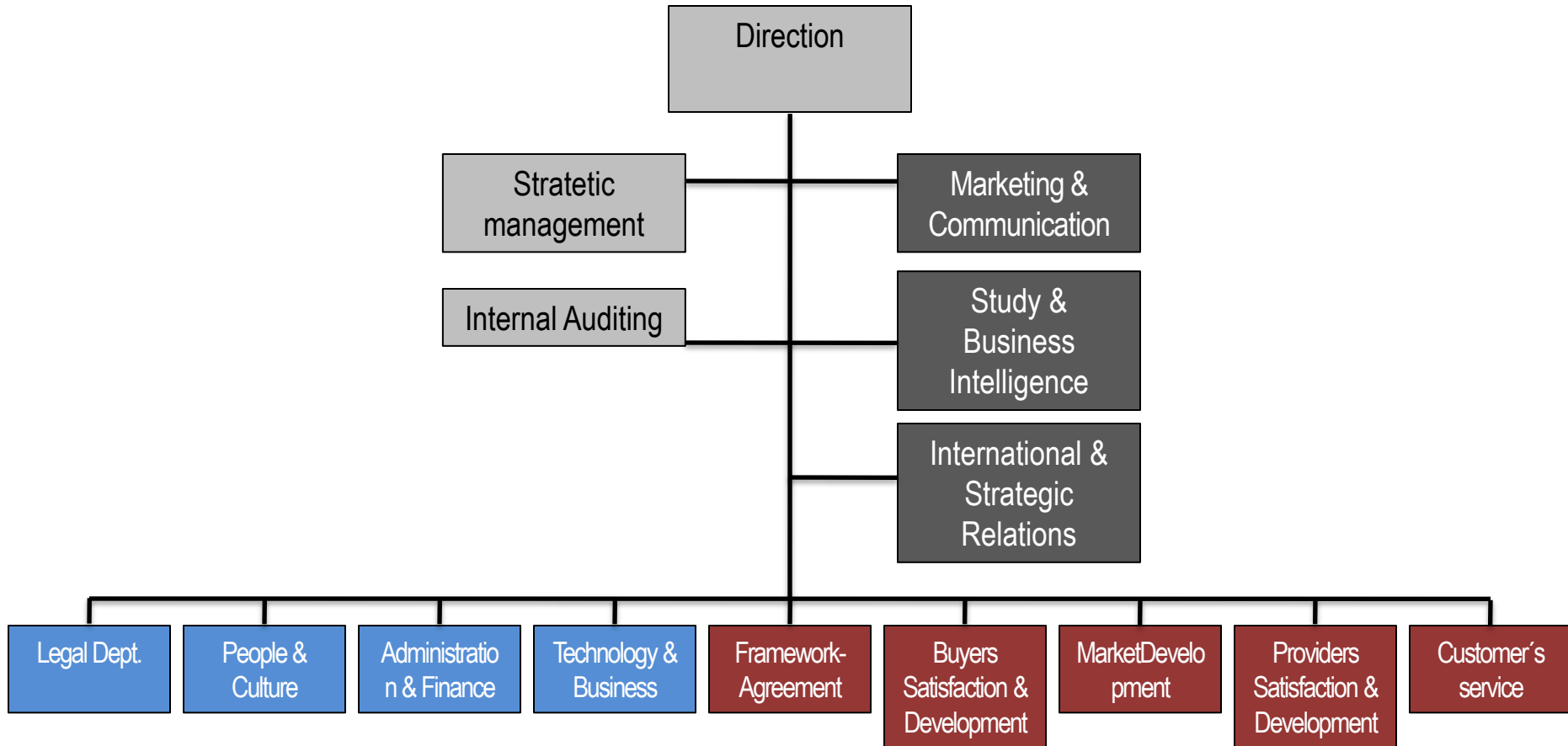
Organization of ChileCompra



- Budget: USD12 millions/year
- Gov. officials: 100 individuals
- Outsourcing: 4 companies, 100 subcontracted
- 1 central office & 15 regional offices
- Agreement with SERCOTEC and others



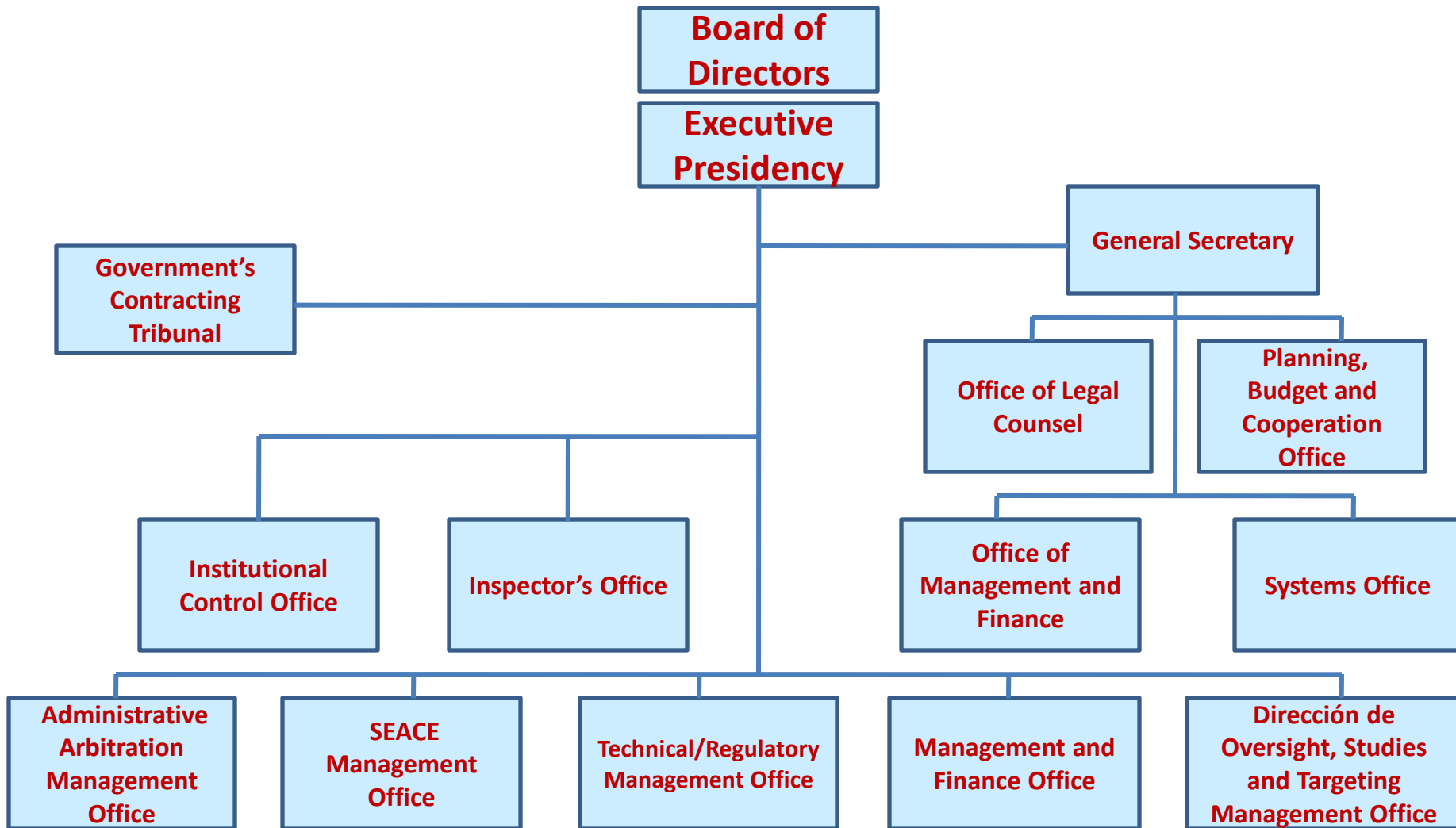
Flowchart: ChileCompra



Peru - OSCE

- Budget 2011: USD 16 millions
- Officials 428
- Internal: 100
- Outsourcing No
- 1 Central Office, 18 regional offices
- Agreement with universities and institutions to increase educational training programs

Flowchart: OSCE

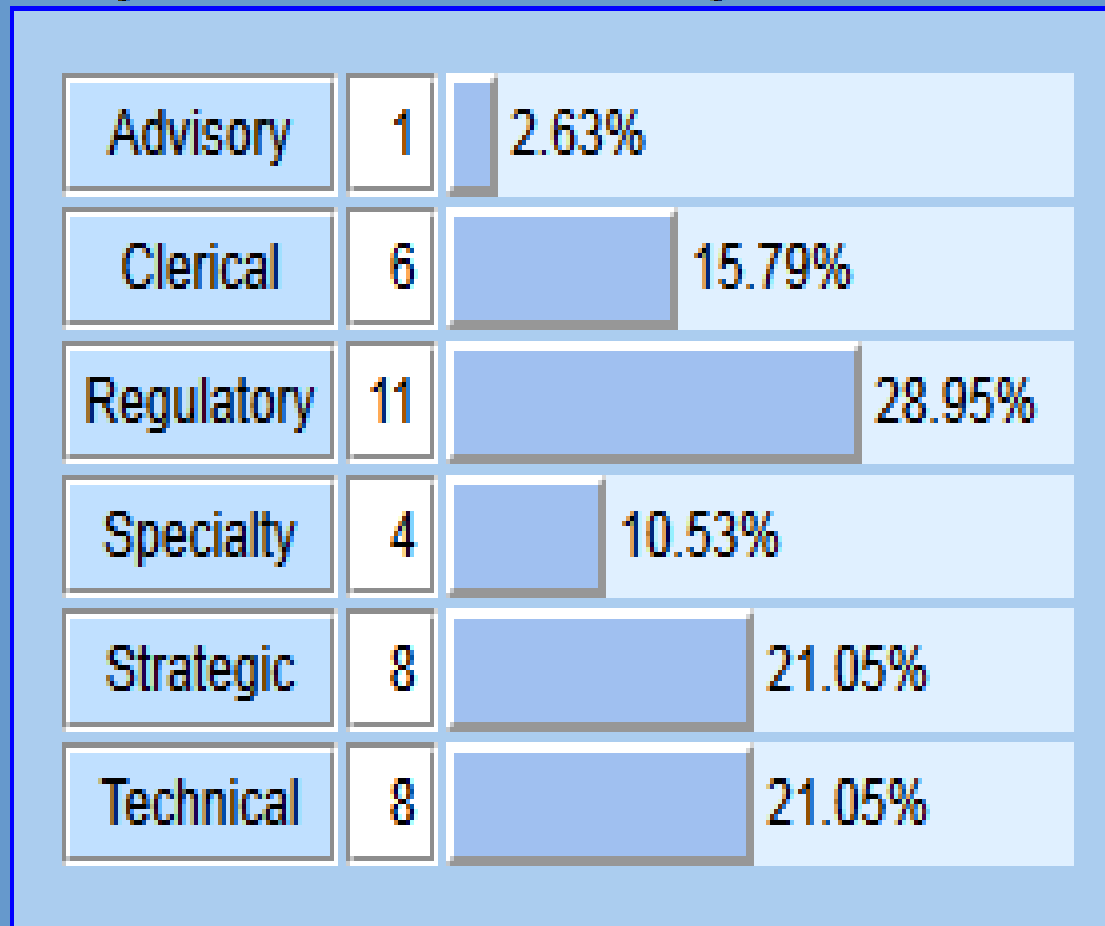


Why is PP important?

- In addition to the volume and economic impact, technology, free trade agreements and demands from civil society have contributed to transform it in a complex, strategic and high visibility theme
- PP has evolved from a simple administrative task or a set of procurement processes to a strategic function of the State

Perception of the procurement role*

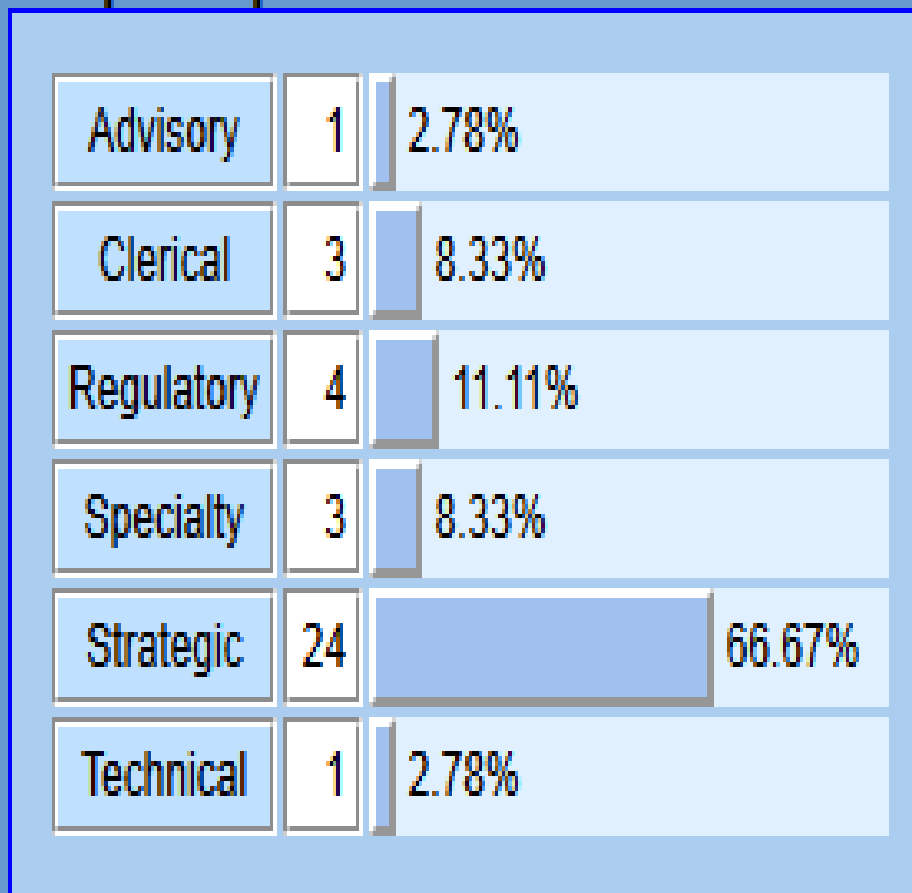
How is the public procurement function perceived today (select one)?



* Procurement Capacity Development Centre (PCDC)

Perception of the procurement role *

Where do you believe the public procurement function will be in 5 years (select one)?



* Centro para el Desarrollo de Capacidades de Adquisiciones (PCDC)

What is public procurement?

- A broad definition recognizes that to purchase is not only to process, acquire and take possession of something, instead is:

The “Art” of acquiring goods, works and services in efficient, effective, and affordable way, and in due time and place

Evolution of PP

- Today's most seminars and meetings on PP, include topics such as:
 - ❑ Relationship between purchases and public spending
 - ❑ TIC as a tool for procurement modernization
 - ❑ Support policies for Micro, Small and Medium Enterprises
 - ❑ Reforms to the Regulatory Framework
 - ❑ Introduction to screening and diagnostic systems
 - ❑ Growth of Institutional Capacity
 - ❑ Sustainable Public Procurement
 - ❑ PP in the international context

Sequence

- The budget
 - The political expression of a government
- Budget Implementation
 - Public Procurement (purchases are always a political issue)
- Acquisitions
 - The art of obtaining goods, strategic works and services
- Best Practices
 - Efficiency, effectiveness, transparency, value for money
- Value for money
 - On time, within the project, at a good price

PP: A comprehensive process

- It is important to remember that PP is a comprehensive process which is not limited to the process that begins with the initial call and ends with signing the contract. It also includes:
 - ❑ Planning, Design, Advertising
 - ❑ Request for bid, Reception and Offers Assessment
 - ❑ Signing of Contract, Warranties, Receipt and Inspection
 - ❑ Quality control, Installation, Testing, Commissioning, Service, Maintenance, etc.
- In other words, a supply chain

Supply Chain

- A term coined in 1982 by Keith Oliver, consultant for the company Booz Allen Hamilton
- It means a systematic and strategic coordination of the traditional functions and tactics of a business or enterprise , as well as through companies or involved entities with the supply chain
- The purpose is to improve long-term performance of companies and the supply chain as a whole process

Supply Chain

- It represents a comprehensive management of the acquisition process, including strategic partnership and shared responsibility
- It allows (among others) the following:
 - ❑ Aggregating demand
 - ❑ Best prices by economies of scale
 - ❑ Integrated financial management
 - ❑ Real time Information and visibility for all actors involved in the process
 - ❑ Inventory management, and
 - ❑ Delivery according to needs

Best Practices

- Best practices have been introduced with the evolution of the systems. It means more than just to buy at good price or generate savings
- It means to acquire goods or services at good price, right moment, corresponding amounts, with services, parts and warranties
- Warranties means not only a good performance but replacement with technology upgrade
- It is required though, to build the right capabilities and to develop a new profession : 'public procurement advisor'

PP at international level

- Important topic which has created great activity at international level
- Its magnitude has led to an anti-corruption conventions approach, integrity pacts and agreements
- OECD, World Bank, IDB, OAS, and other actively involved
- IFIs harmonized procedures and establishes a reciprocal penalties system
- UN establishes a common sanctions regime

PP at international level

- New mechanisms are been discussed, such as:
 - ❑ Auctions – Leases – framework contracts
 - ❑ Públic-Private Partnerships (PPP) – Concessions
- Electronic Systems introduce:
 - ❑ E-Markets– Streamlined porcesses – Auctions

PP at International Level

- It also addresses new issues, such as:
 - ❑ PP and environment
 - ❑ Micro, Small and Medium Enterprises Participation in the PP
 - ❑ Sustainable procurements, others

Sustainable Procurement

- Environmental and social criteria - besides economic interests - are taken into account, as a condition for purchasing and procurement of goods and services
- Organizations follow these processes in order to meet their needs for goods, services, labor and supplies so as to obtain value for money, based on the life cycle. The purpose is to generate profits for the institution itself, for the society and the economy, while minimizing the impact on the environment

Types of Procurement

- **Green Procurement** = take into account the environment impact
- **Ethical Procurement** = Emphasis on aspects related to the production of goods and services , such as working conditions, prices, terms, etc.
- **Social Procurement** = Emphasis on the impact of purchasing on areas such as local development, safety, etc.
- **Responsible Procurement** = It has to do with the attitude from which the purchase is originated involving ethical values that permeate the decision processes in the environmental, social and economic area

Summary

- Nowadays, PP is recognized as a crucial and strategic issue for development at national level
- Large volumes and amounts are known and studied
- Legal frameworks have been developing (although they might be excessively rigid and emphasize control more than management)

Summary

- The institutional framework has been developing, management abilities have increased and improved
- There is excellent dialogue and cooperation at regional level
- There is an increased participation of Micro, Small and Medium Enterprises
- Anti-corruption efforts still is progressing
- e-GP is growing
- Training and certification of buyers is a fact

Thank you very much for your attention!

Questions & Answers

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