**TC Document**

1. **Basic Information for TC**

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| * Country/Region: | REGIONAL |
| * TC Name: | Partnership for Designing and Implementing Digital Transformation in public procurement between LAC and Korea |
| * TC Number: | RG-T3499 |
| * Team Leader/Members: | Calderon Ramirez, Ana Cristina (IFD/FMM) Team Leader; Choi, Jae Young (IFD/FMM); Dezolt, Ana Lucia Paiva (IFD/FMM); Harper, Leslie Elizabeth (IFD/FMM); Kevish, Maria Lorena (IFD/FMM); Negret Garrido, Cesar Andres (LEG/SGO) |
| * Taxonomy: | Research and Dissemination |
| * Operation Supported by the TC: |  |
| * Date of TC Abstract authorization: | 10 Jul 2019 |
| * Beneficiary: | Regional (IDB borrowing member countries) |
| * Executing Agency and contact name: | Inter-American Development Bank |
| * Donors providing funding: | Public Capacity Building Korea Fund for Economic Development(KPC) |
| * IDB Funding Requested: | US$500,000.00 |
| * Local counterpart funding, if any: | US$0 |
| * Disbursement period: | 36 months |
| * Required start date: | December 2019 |
| * Types of consultants: | Individual Consultants and Firms |
| * Prepared by Unit: | IFD/FMM-Fiscal Management Division |
| * Unit of Disbursement Responsibility: | IFD-Institutions for Development Sector |
| * TC included in Country Strategy: | No |
| * TC included in CPD: | No |
| * Alignment to the Update to the Institutional Strategy 2010-2020: | Institutional capacity and rule of law |

1. **Objectives and Justification of the TC**
   1. The main objective of this Technical Cooperation (TC) program is to contribute to public procurement strengthening in Latin America and the Caribbean by promoting the use of digital technologies, application of innovative mechanisms for contract design and management, and implementation of capacity building initiatives to strengthen the skills and knowledge of procurement officials.
   2. In the face of shrinking budgets governments need to overcome technical and allocative inefficiencies for improving the management of their resources[[1]](#footnote-1) and they are realizing that significant savings can be gained by well-organized and managed procurement systems. Public procurement constitutes 29.8 percent of spending in Latin America and the Caribbean and 32.5 percent in the OECD.[[2]](#footnote-2) For example, in 2016, Latin American and Caribbean (LAC) governments spent approximately US$450 billion in the purchase of goods, services and works. Over the past two decades several countries in the LAC region have made great strides to reform their procurement system. Currently, this important activity is usually organized following a common legal frame, ruled by a public procurement entity or agency, and intensely implementing information and communication technologies. In addition, some of the easiest ways to deliver savings have been achieved in the region due to the creation of demand aggregation mechanisms (such as framework agreements and pooled procurement) or the implementation of reverse auctions for common items, and in some extent the transition to the use of e-government procurement platforms for electronic bidding.
   3. However, while procurement as a function has undoubtedly already contributed to improving public spending efficiency, progress has been inconsistent across the board, and further savings and efficiencies remain to be unlocked. For example, according to the latest IDB flagship publication “Better spending for better lives” (2018), it is estimated that around 10 to 20 percent of investment in publicly funded construction projects may be lost through mismanagement and corruption. Waste in procurement on average was estimated from 0.9 percent to 2.6 percent of countries’ GDP.
   4. The most common challenges[[3]](#footnote-3) to overcome this issue have been:
   5. First, the limited knowledge of the potential application of new technologies. This includes the limited systematization of information on the latest developments for improving designing and management of procurement process, or on the potential application in the public arena of private sector’s new digital tools such as predictive procurement, strategic sourcing and automatize risk management, or on research- based initiatives to understand for example suppliers’ behavior when rules of the game are modified.
   6. Second, the lack of institutions (formal rules and organizations) to deal with an integral and interoperable digital model of public procurement is another challenge. In terms of rules, it can be argue that on one hand regulatory frameworks have limited scope; as many of them only cover a very small proportion of all the procurement (i.e public works, public private partnerships) and do not consider the procurement of state—owned enterprises, decentralized bodies, public trusts and subnational governments; as well as these legislations favors too many exceptions in terms of procedures therefore competitive processes are frequently more the exception than the rule. In terms of governance, effective governance structures must be in place and act as a foundation for the implementation of modernization efforts. However, there are still countries that need to strengthen their regulatory and monitoring entities, some of them do not oversee the entire procurement system, or they lack capacity in terms of human, economic and physical resources. These organizations are critical to ensure policy coherence and coordination that in turn, will help to align actions and resources with a view to achieving the common goal of improving public procurement systems and enabling a suitable environment for digital modernization to happen.
   7. Third, gaps in strategic planning for innovation are also identified as a stumbling block. Digital technology and efficient tools implemented via dedicated e-procurement platforms, not only need to be informational but fundamentally transactional, but also promote other digital innovations to secure transparency and competition. Also, there is a need to have reliable and useful data in order to automatize processes, which are a key component of 4.0 technologies. For instance, by collecting data in structured formats, the resource-intensive processes of manually reporting data, manually sampling and testing for inaccuracies, and manually generating relevant reporting from the system can be eliminated, and these resources can be dedicated to other functions within the context of improving the public procurement system.[[4]](#footnote-4) In addition, the implementation of innovative tools for performance monitoring, such as artificial intelligence, need proper data to prevent bid rigging[[5]](#footnote-5) or to identify red flags in complex processes.[[6]](#footnote-6)
   8. Finally, the region faces the challenge of the lack of human capital to implement innovative solutions. This includes the shortage of staff that is trained in cutting-edge topics in public procurement. A much-needed task is to support the efforts in transforming public clerical roles into highly qualified and technical personnel capable of deciding strategies, selecting innovative methods, establishing and implementing courses of action, while considering the risks, the operational context and the dynamics of market to obtain better performance of procurement processes.
   9. As a response to these challenges, this TC will support governments in the region[[7]](#footnote-7) in strengthening their public procurement systems through the promotion of digital innovation, the development of a body of knowledge about the new opportunities and tools that can promote fiscal efficiency, modernization of institutions and regulations especially on regards of coverage and use of competitive methods, and building capacity activities for officials and other stakeholders in areas such as planning, management and supervision of public procurement activities.[[8]](#footnote-8)
   10. In addition, the TC will provide an opportunity for applying and sharing lessons learned from more advanced countries such as Korea. For example, the KONEPS, an integrated e-procurement system, has contributed substantially to the efficiency, effectiveness and integrity of public procurement in Korea. It is estimated that KONEPS generates administrative savings of approximately UU$8 billion per year[[9]](#footnote-9) and it will be useful to learn from its past experiences[[10]](#footnote-10) and challenges.
   11. This TC will contribute to the Updated Institutional Strategy (GN-2933-5) regarding the cross-cutting theme "Enhancing institutional capacity and rule of law " as it will support the modernization of procurement practices and increase the knowledge about innovative solutions in this area. This is also aligned to the goals of enhancing commitments on transparency, integrity and governance and convening actors for open government and transparency while levering technology. Thus, the program is also aligned to the IDB Group Corporate Results Framework 2020-2023 (GN-2727-8) regarding the cross-cutting issue of improving Institutional capacity and Rule of Law in IDB member countries as it will support the strengthening of agencies in digital technology and managerial capacity; enabling Government Efficiency and preventing corruption in public In procurement. In addition, the program is consistent with the main goals of the Public Capacity Building Korea Fund for the Development (KPC), which aims to support activities in the areas of fiscal management as well as in capacity building and modernization of public procurement systems. It will also contribute to the updated Strategy for Strengthening and Use of Country Systems (GN-2538-31) in terms of helping countries and local governments to close gaps with international standards and adopting best practices and to support innovation and the use of technology in public procurement. The program will also contribute to the Bank operational agenda on fiscal policy and management, as it is aligned to the Fiscal Policy and Management Sector Framework Document (GN-2831-8) in relation to its goal of building institutional capacities to improve the efficiency of public resources.
2. **Description of components/activities and budget[[11]](#footnote-11)** 
   1. **Component I: Knowledge development and research** **(US$100,000)**. This component is aimed at building a body of knowledge about cutting edge practices, technologies, tools and methodologies for public procurement. It will include the preparation of research products such as: (i) diagnostic on the state of public procurement technologies; (ii) study on the performance review of procurement processes in the region (i.e. the use of competitive methods); and (iii) case studies[[12]](#footnote-12) publication on public procurement at the sector level (i.e. education, infrastructure and health).
   2. **Component II. Institutional strengthening (US$100,000)** This component will support the modernization of the institutional frameworks, both in terms of rules and organizations necessary for a proper environment for a successful implementation of digital innovation. This includes for example (i) the preparation of a diagnostic on regulatory frameworks that assesses coverage of legislation in the region and the use of exceptions instead of competitive methods; (ii) the drafting of an organizational assessment about procurement institutions; and (iii) the creation of action plans for the modernization of entities that are in charge of public procurement regulatory and monitoring functions at the national or subnational levels.
   3. **Component III: Action plans and strategies on procurement management** **(US$100,000).** This component will support governments in the preparation and implementation of targeted activities with the purpose of improving procurement management practices,[[13]](#footnote-13) as well as the design and application of digital solutions for public expenditure at the sector level. The component will focus on: (i) the implementation of pilots and targeted activities[[14]](#footnote-14) aimed at improving efficiency of procurement process and procurement cycle;[[15]](#footnote-15) and (ii) the preparation of a strategy for improving sectoral procurement in areas such health[[16]](#footnote-16)or public works.
   4. **Component IV: Capacity building and dissemination (US$200,000)**. This component intends to the development of highly skilled human resources in the public procurement area by supporting the implementation of technical events, visits and trainings that can foster south-south cooperation. The Korean Public Procurement Service (PPS) will be a critical partner in the implementation of this component as it has been operating for more than 50 years as the central procurement agency of Korea. It is recognized as one of the most advanced organizations among peers in the area of procurement. It also manages an e-procurement platform (KONEPS) that is recognized as a very successful model on the technological side. The component will include: (i) the coordination and dissemination of all the products of this TC[[17]](#footnote-17); and (ii) a technical workshop to enhance knowledge of public officials regarding technologies and innovation.
3. **Budget**
   1. The total funding required for the program amounts to US$500,000, which will be financed by the Public Capacity Building Korea Fund for Economic Development (KCP).

**Table1. Indicative Budget (in US dollars)**

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| --- | --- | --- | --- |
| **Activity/Component** | **IDB/Fund Funding** | **Counterpart Funding** | **Total Funding** |
| **Component I** | **100,000** | **0** | **100,000** |
| **Component II** | **100,000** | **0** | **100,000** |
| **Component II** | **100,000** | **0** | **100,000** |
| **Component III** | **200,000** | **0** | **200,000** |
| **TOTAL** | **500,000** | **0** | **500,000** |

1. **Executing agency and execution structure**
   1. Given the substantial experience and knowledge that the IDB has regarding the design and implementation of the type of products that are under the scope of this TC, its regional dimension and the lack of adequate regional entities with capacity to carry out the Bank will be the executing agency through the Fiscal Management Division (IFD/FMM), which is in accordance to the GN-2629 Appendix X literal (d). Technical and fiduciary responsibility of this TC will be led by the team leader (Ana Cristina Calderon, Public Procurement Sector Specialist) who will coordinate with: (i) the counterparts in the Governments; (ii) FMM specialists in the country-offices (COFs) in which technical or financial assistance will be granted; and (iii) with the Inter-American Network on Government Procurement (INGP).
   2. Also, FMM’s comprehensive partnership with the INGP will facilitate LAC countries’ leveraging and maximizing resources as well as promoting cooperation and optimization of existing initiatives and resources. In addition, the TC provides inputs that complement countries' efforts to modernize their public systems that are usually financed with their own resources. This program will build on the Bank’s experience in other projects and analytical work to improve the efficiency and innovation of public procurement and through the use of ICTs among them: the regional Asia-Latin American e-Government Procurement Initiative (ATN/KR-14664-RG); the Digitalization of Public Procurement: Promoting Innovation, Gender inclusiveness and Transparency at the Sub-National Level program (ATN/AA-16486-RG); and the Colombian Citizen Service Efficiency Project (3154/OC-CO) that supported the preparation and implementation of innovative tools for procurement.
   3. **Procurement.** The activities to be executed within the scope of this operation will follow: (a) for the contracting of individual consultants, the Bank project team will observe Human Resource selection procedures (AM-650); (b) in the case of non‑consulting services contracts, the Corporate Procurement Policy and Procedures (GN‑2303-20) will be applied; and (c) for consulting firms, the Policy for the Selection and Contracting of Consulting Firms for Bank-executed Operational Work (GN‑2765‑1) and its Operational Guidelines (OP-1155-4) will be used.
2. **Major issues** 
   1. For the activities to be successful, this program will require on-going participation and commitment on behalf of the Governments. There is a risk that competing priorities will slow the process down. This will be mitigated by ensuring countries ownership of the process from the beginning. There is also the possible risk of limited response of beneficiary entities to participate in due to the limited knowledge of the program or its benefits. This will be mitigated by building awareness of the project among beneficiary entities through a close collaboration with the [Inter-American Network on Government procurement (INGP)](http://www.ricg.org).
   2. In addition, a significant effort will be required to build the necessary capacity in the region, particularly the time required on the part of public officials. This risk will be mitigated by providing training that is highly relevant to the work and careers of the participating officials. To that regard following actions will be carried out: (i) preparation and implementation of customized training for the LAC context; (ii) raising public awareness of the need for strengthen public procurement systems; and (iii) maintaining a continuous dialogue with the governments.
3. **Environmental and Social Strategy** 
   1. No negative environmental impact is anticipated from this technical cooperation. Based on the Environment and Safeguards Compliance Policy (OP-703) and the [Safeguard Screening Form](http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=EZSHARE-1788771129-11) this technical cooperation has been classified as [category "C”](http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=EZSHARE-1788771129-11).
4. **Exceptions to the Bank policy**
   1. No exceptions to Bank policy are foreseen for the execution of this TC.

**Required Annexes:**

[Results Matrix - RG-T3499](https://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=EZSHARE-1788771129-5)

[Terms of Reference - RG-T3499](https://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=EZSHARE-1788771129-3)

[Procurement Plan - RG-T3499](https://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=EZSHARE-1788771129-4EZSHARE-1788771129-4)

1. Carola Pessino and Juan Carlos Benitez (2019). Blog: [*Hacia un gasto inteligente para América Latina y el Caribe*](https://blogs.iadb.org/gestion-fiscal/es/hacia-un-gasto-inteligente-para-america-latina-y-el-caribe/)*.*  [↑](#footnote-ref-1)
2. Inter-American Development Bank (2018). [Better spending for better lives: how Latin America and the Caribbean can do more with less.](https://flagships.iadb.org/en/DIA2018/Better-Spending-for-Better-Lives) [↑](#footnote-ref-2)
3. Some of these topics can be found in the latest report of the Inter-American network on government procurement for the annual international conference (2018) and in the OECD & IDB publication Government at a glance 2017. [↑](#footnote-ref-3)
4. OECD (2016) [Towards Efficient Public Procurement in Colombia: Making the Difference.](https://www.oecd-ilibrary.org/docserver/9789264252103-4-en.pdf?expires=1554906919&id=id&accname=ocid194302&checksum=9E7CFD7810889098A18247153E68F3C2) [↑](#footnote-ref-4)
5. Drawing information directly from the [Korean e-procurement system](http://dx.doi.org/10.1787/9789264249431-en) (KONEPS), the Bid Rigging Indicator Analysis System (BRIAS) looks to data elements including bidding price, the number of participants, and the competition method, and applies a formula that generates a potential bid-rigging score. [↑](#footnote-ref-5)
6. DOZORRO artificial intelligence is of the new system of civic control over public procurement and identify possible wrongdoings in public procurement. [↑](#footnote-ref-6)
7. This included national and subnational level of government in the region. [↑](#footnote-ref-7)
8. Prior to the design, preparation or implementation of these activities the TL will verify that Governments that participate in the program provide request letter or non -objection letters. [↑](#footnote-ref-8)
9. OECD (2016), [The Korean Public Procurement Service: Innovating for Effectiveness](https://doi.org/10.1787/9789264249431-en), OECD Public Governance Reviews, OECD Publishing, Paris.  [↑](#footnote-ref-9)
10. For instance, in the operation CCLIP-PROFISCO II (BR-X1039) in Brazil, subnational governments are working towards improving their procurement systems and could be part of this training to understand good practices on the topic. [↑](#footnote-ref-10)
11. Beneficiaries will be allowed to request Bank’s support in any of these components. Given this demand-driven characteristic, FMM will perform on a case-by-case basis a proper analysis of the situation and proposal (especially for action plans and pilots), applying the following criteria, to determine the eligibility and priority of the interventions: (i) alignment. Activities should be aligned with the current country strategy, country programming document or FMM sector framework; (ii) impact: activities that result in greater outcomes in terms of closing gaps and achieving international good practices; (iii) relevance: activities that are relevant to the objective and components that are included in this TC; (iv) funding: activities that cannot be supported by another source of financing or that have not participated previously in the training that will be provided (specially for component 3) and these should be targeted interventions and should not exceed USD$30,000 individually. [↑](#footnote-ref-11)
12. This activity will follow a multiple case study methodology, based on information-oriented approach and theoretical replication (Yin, 2014). This will imply that the cases selected will predict contrasting results and practices. In addition, at the outset of the study, a purposeful sampling strategy (i.e. snowball or critical case) will be prepared. Methodologically, initially it is expected that the cases selected are those that (i) have been under researched; (ii) have an innovative character (iii) are aligned to the scope of the TC; and (iv) have enough data available and in which fieldwork is feasible. [↑](#footnote-ref-12)
13. Based on methodologies such as MAPS and MD-GEFIS, FMM is developing a toolkit, that based on a maturity model, countries will be able to identify and create strengthening plans, that could be potentially implemented through this operation. [↑](#footnote-ref-13)
14. For this activity a problem centered approach will be implemented during the execution of pilots, and it will consider the restrictions to/requirements for scalability and/or sustainability of the solutions to be implemented. [↑](#footnote-ref-14)
15. This will include strategies to create red flags indicators and overcome inefficiencies during the procurement cycle such as artificial low prices, overruns and market concentration. [↑](#footnote-ref-15)
16. In Brazil, thanks to IDB support Fiscal Management Strengthening Project of the State Rio Grande do Sul (2371/OC-BR), that designed a digital solution to improve the management of health expenditure through the creation of a price reference model for medicines based on the information from electronic invoicing. [↑](#footnote-ref-16)
17. This activity as indicated in the procurement plan and terms of reference will include activities related to the proper supervision of products and monitoring of financial and physical outputs of the TC. [↑](#footnote-ref-17)