

## TC Document

### I. Basic Information for TC

▪ Country/Region:	REGIONAL
▪ TC Name:	Digitalization of Public Procurement: Promoting Innovation, Gender inclusiveness and Transparency at the Sub-National Level
▪ TC Number:	RG-T2962
▪ Team Leader/Members:	Leslie Harper (IFD/FMM), Team Leader; Ana Lucia Dezolt Paiva; Lorena Kevish and Ana Cristina Calderon R (IFD/FMM); Maria Teresa Villanueva (SCL/GDI); Javier Davila (VPC/FMP); Adriana Salazar (VPC/FMP); and Viviana Maya (LEG/SGO).
▪ Taxonomy:	Research and Dissemination
▪ Operation Supported by the TC:	
▪ Date of TC Abstract authorization:	31 Mar 2017.
▪ Beneficiary:	Regional <sup>1</sup>
▪ Executing Agency and contact name:	Inter-American Development Bank [Contact Name]
▪ Donors providing funding:	Transparency Fund (AAF)
▪ IDB Funding Requested:	US\$300,000.00
▪ Local counterpart funding, if any:	US\$0.00
▪ Disbursement period:	36 months
▪ Required start date:	15 November 2017
▪ Types of consultants:	Individuals
▪ Prepared by Unit:	IFD/FMM-Financial & Municipal Mgmt
▪ Unit of Disbursement Responsibility:	IFD/FMM-Financial & Municipal Mgmt
▪ TC Included in Country Strategy (y/n):	No
▪ TC included in CPD (y/n):	No
▪ Alignment to the Update to the Institutional Strategy 2010-2020:	Cross-cutting themes: Institutional capacity and rule of law and Gender equality and diversity

### II. Objectives and Justification of the TC

- 2.1 The main objective of this technical cooperation program is to increase efficiency, gender inclusiveness<sup>2</sup> and transparency of public procurement in sub-national governments in Latin American and Caribbean (LAC). This will be achieved through improved practices and solutions related to digital innovation in public procurement, as well as the development of knowledge in this area.
- 2.2 There is a growing demand in LAC for strengthening and increasing the use of country systems, especially in public procurement. As 10% to 15% of global Gross Domestic Product (GDP)<sup>3</sup> on average is processed through these systems, their efficiency can generate significant fiscal savings and play a critical role in the

<sup>1</sup> This program will develop a body of knowledge on the topic of public procurement at the subnational level. The criteria for selection include countries that are highly decentralized with public procurement at the local and/or regional levels (for example Argentina, Brazil, Colombia and Mexico) and submit a formal request letter. The latter will be obtained by the team leader of the program.

<sup>2</sup> The promotion of gender inclusiveness in public procurement in this program refers to facilitating the participation of women-owned businesses in the public procurement market. For more information see paragraphs 2.4, 2.7 and footnote # 7.

<sup>3</sup> Source: [WTO and government procurement](#).

development process. Recent events in the region also underscore the importance of strengthening transparency in public procurement at all levels, including a way of preventing corruption.

- 2.3 In the case of subnational governments, starting in the 1980s, many countries in the region decentralized a significant portion of their expenditures, particularly in the areas of health and education. At the local level, the public sector plays a significant role as a consumer of goods, services and public works, representing around 24.6% at the state/provincial level and 32.3%<sup>4</sup> in terms of total government spending. In addition, given its size and importance in the economy, the way that public procurement is carried out has a major impact on the provision of public services (such as health, infrastructure, transportation), fiscal management and transparency.<sup>5</sup>
- 2.4 Additionally, public procurement can be used as a tool for achieving secondary policy objectives such as increasing economic opportunities for non-traditional actors, including women. However, women have not benefitted as much as they could from this marketplace. Even though they represent one third of the small and medium-sized enterprises of developing countries, they only account for a small fraction of government goods and services contracts. This is particularly the case at the subnational level.<sup>6</sup>
- 2.5 Some of the main challenges in public procurement at the subnational level are related to the following issues: (i) lack of transparency resulting from the failure to disseminate and publish procurement information; (ii) inefficiencies in procurement procedures and insufficient technological infrastructure; (iii) weak institutional capacity in the procurement entities and deficiencies in developing and retaining human capital with professional background and skills in the area; (iv) significant obstacles for the participation of women in the public procurement market at this level;<sup>7</sup> and (v) increased risk/perception of corruption .<sup>8</sup>
- 2.6 To this regard, there is extensive literature related to tools and strategies that can be applied to overcome such challenges. For example, Mihaly Fazekas (2014)<sup>9</sup> demonstrates how innovative tools can be used as an instrument to

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<sup>4</sup> OECD (2016) Government at a Glance: Latin American and the Caribbean 2017. Chapter 9

<sup>5</sup> According to the WB study "The dynamics of centralized procurement reform in a decentralized state. Evidence from Indonesia," (2014), policymakers tend to pay very little attention to the implementation of procurement reform in decentralized settings. Additionally, the focus of donor agencies and government efforts has been to monitor the implementation of procurement reform based on compliance at the central level.

<sup>6</sup> Kirton, Raymond (2013) Gender, Trade and public procurement policy; International Trade Center (2014) empowering women through public procurement.

<sup>7</sup> Common challenges that have prevented women from accessing and successfully participating in the public procurement market place include a lack of awareness and access to information on bidding opportunities, cumbersome and complex procurement procedures, large contract sizes, unreasonable technical and financial qualifications requirements, insufficient time to assemble proposals and a lag in payments.

<sup>8</sup> Kirton, Raymond (2013) Gender, Trade and public procurement policy; International Trade Center (2014) empowering women through public procurement.

<sup>9</sup> Fazekas, Mihaly (2014) The Use of 'Big Data' for Social Sciences Research: An Application to Corruption Research CASE.

- identify high level corruption through the analysis of big data, while Basheska (2011)<sup>10</sup> argues that there is a need to emphasize the development of better economic conditions, in terms of the income of citizens to avoid fraud. Brunetti and Weber (2003)<sup>11</sup> indicate that if there is a high quality of bureaucracy, the system will be more transparent. To that regard Piga (2014)<sup>12</sup> states that it is important to strengthen the teams that are in charge of monitoring contract conditions and performance in order to increase transparency and efficiency.
- 2.7 As a response to the above-mentioned challenges, this program will build on the area of improving the capacity of those who work on public procurement at the subnational level<sup>13</sup> through the development of an innovative body of knowledge and tools<sup>14</sup> that can enable the public procurement systems to increase efficiency, transparency and gender inclusiveness in the use of public resources.
- 2.8 This technical cooperation is innovative as it not only will support public procurement strengthening at the subnational level, but also combine cutting edge digital tools that will take into account low capacity environments to achieve both primary and secondary policy objectives (i.e. the inclusion of more women in public procurement).
- 2.9 The program will contribute to the Updated Institutional Strategy (AB-3008) with regard to the cross-cutting themes "Institutional Capacity" and "Gender equality and diversity" as it will support the modernization of procurement entities at the sub-national level and promote the participation of women in public procurement markets. It will also contribute to the Strategy for Strengthening and Use of Country Systems (GN-2538) in terms of help countries closing gaps with international standards and adopting best practices. Finally, the program will contribute to Gender Action Plan for Operations 2017-2019 (OP-1600-1). The program is also aligned with the Transparency Fund's objective to strengthen the institutional capacity of the Bank's borrowing member countries to design and implement transparency and anti-corruption policies, mechanisms, and tools. Specifically, the project aligns with the Fund's Open Government pillar, which, among other things, supports activities aimed at supporting transparency and integrity policies in public procurement, budget execution and civil service.
- 2.10 This program will contribute to the Bank's operational agenda at the subnational level by building a foundation of knowledge that will include diagnostic assessments, tools and strategies. This information will be key for identifying new

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<sup>10</sup> Basheska B. Economic and political determinants of public procurement corruption in developing countries: an empirical study from Uganda. *Journal of public procurement*.

<sup>11</sup> Brunetti and Weber (2003). A free press in bad news for corruption. *Journal of public economics*

<sup>12</sup> Piga and Tatrai (2016). *Public procurement Policy*. Routledge.

<sup>13</sup> According to the OECD (2014) a key challenge for sub-national governments is implementing procurement transparency practices. This is especially due to the lack of capacity to manage public procurement integrity principles, in small regions or municipalities, which in general do not have many officials trained to manage procurement issues, or where decentralization has outpaced capacity for developing internal control systems.

<sup>14</sup> Innovative tools include for example: electronic reverse auctions, inclusive e-catalogues, and the use of preferential procurement or awarding criteria based on inclusiveness.

areas and clients that could be supported by the Bank, as well as analytical inputs for loan preparation and subsequent evaluation.

### III. Description of activities/components and budget

- 3.1 **Component I: Research and knowledge management (US\$80,000).** The objective is to develop a core foundation of knowledge on the current state of public procurement at the subnational level. This component will include: (i) a diagnostic assessment on public procurement practices at the sub-national level (including transparency, gender inclusiveness and digital technologies) and (ii) a study on innovative practices in public procurement at the subnational level. The countries that will be included are those that are highly decentralized with public procurement at the local and/or regional levels.
- 3.2 **Component II: Strategic planning and capacity building (US\$150,000).** The objective is to provide innovative tools for public procurement. This component will include: (i) strategic plans for improving public procurement at the sub-national level that will provide a needs assessments and actions plan for the topic; (ii) a toolkit<sup>15</sup> on how to manage procurement at the sub-national level, with a section on how to promote the participation of women in the public procurement market; (iii) a training program on the use of the toolkit (target audience: procurement officers and heads of procurement at the subnational level); and (iv) one pilot implementation of the toolkit.<sup>16</sup>
- 3.3 **Component III: Dissemination (US\$70,000).** The objective of this component is to disseminate the knowledge generated by the program among the countries of the region. It will include: (i) a technical seminar to create awareness of the importance of the topic and to review lessons learned and common challenges in the implementation of public procurement at the subnational level in the first year of the program to build country buy-in; (ii) panels on topics related to the scope of this TC at the Inter-American Network on Government Procurement (INGP) conferences that will be held in 2018 and 2019; and (iii) the publication of the results of the program.<sup>17</sup>
- 3.4 The total funding required for the program amounts to US\$300.000. The Transparency Fund will provide funding for the amount of US\$300.000.

**Table1. Indicative Budget (US\$)**

Activity/Component	IDB	Counterpart	Total
<b>Component I.</b> Research and knowledge management	80,000	0	80,000
<b>Component II.</b> Strategic planning and capacity building	150,000	0	150,000
<b>Component III.</b> Dissemination	70,000	0	70,000
<b>Total</b>	300,000		300,000

<sup>15</sup> Most of manuals and toolkits designed with the support of the IDB focused on the Public procurement at the national level or on the fiduciary aspects to comply with IDB policies (in the case of project procurement). This will be the first toolkit that considers the subnational perspective. It will be available to the public.

<sup>16</sup> Potential candidates for the pilot must meet the criteria indicated in footnote #1  
The importance of the topic and the knowledge generated by the TC activities will be made widely available on the INGP website.

#### **IV. Executing agency and execution structure**

- 4.1 This TC will be executed by the Bank and supervised by the Fiscal Management Division (IFD/FMM) in coordination with relevant Bank divisions such as GDI, FMP and country offices. The justification for this execution structure is that this is a regional program relevant to all countries in LAC. Bank execution is required as it will enable the program to consider the variety of experiences and lessons learned from the countries.
- 4.2 **Procurement.** For the contracting of individual consultants, and non-consulting services the Bank project team will observe Human Resource selection procedures (AM-650); as well as in the case of non-consulting services contracts, the Corporate Procurement Policy and Procedures (GN-2303-20). In the case of consulting firms, the Policy for the Selection and Contracting of Consulting Firms for Bank-executed Operational Work (GN-2765-1) will be used.

#### **V. Major issues**

- 5.1 There is a risk that other priorities will take precedence in the participating governments over the activities of the TC. To mitigate this risk, the project team will work closely with the members to ensure their active participation from the very beginning through activities associated with the INGP and subnational counterparts and networks. The INGP is one of the strongest regional public procurement networks in the world, with monthly activities that promote the building of knowledge and capacity in the area of public procurement reform. See [www.ricq.org](http://www.ricq.org) for more information.
- 5.2 Additionally, there's a risk that while heads of procurements at the subnational level may be onboard with the adoption of policies and good practices in public procurement market, the political support to implement these policies may be varied across the region. This risk will be mitigated through Component III of the project, whereby emphasis will be placed on disseminating knowledge gained through Components I and II. Project results will be published, and the knowledge will be featured and widely disseminated at various high-level conferences throughout the region to build awareness among policy decision-makers.
- 5.3 **Sustainability.** The sustainability of the results of this program will be ensured by the multiplier effect caused by countries successfully designing and adopting innovative public policies. Additionally, the program includes a comprehensive set of dissemination activities to facilitate the impact of the outputs developed by this initiative. In addition, the TC will be incorporated in the activities of the INGP, which will contribute to their sustainability.

#### **VI. Exceptions to Bank policy**

- 6.1. This TC not involve exceptions related to Bank's policies.

#### **VII. Environmental and social strategy**

- 7.1 In view of the nature of the operation and under Environment and Safeguard Compliance Guidelines and Policy (OP-703), this program was classified as a category "C" operation and does not need environmental assessments or social consultations.

**Required Annexes:**

[Annex II: Results matrix - RG-T2962](#)

[Annex III: Terms of Reference - RG-T2962](#)

[Annex IV: Procurement Plan - RG-T2962](#)

**DIGITALIZATION OF PUBLIC PROCUREMENT: PROMOTING INNOVATION, GENDER  
INCLUSIVENESS AND TRANSPARENCY AT THE SUB-NATIONAL LEVEL**

**RG-T2962**

**CERTIFICATION**

I hereby certify that this operation was approved for financing under Transparency Fund (AAF) through a communication dated 07/10/2017 and signed by Mutsuura, Goro. Also, I certify that resources from said funds are available for up to **US\$300,000.00** in order to finance the activities described and budgeted in this document. This certification reserves resources for the referenced project for a period of ~~four (4) calendar months~~ counted from the date of eligibility from the funding source. If the project is not approved by the IDB within that period, the reserve of resources will be cancelled, except in the case a new certification is granted. The commitment and disbursement of these resources shall be made only by the Bank in US dollars. The same currency shall be used to stipulate the remuneration and payments to consultants, except in the case of local consultants working in their own borrowing member country who shall have their remuneration defined and paid in the currency of such country. No resources of the Fund shall be made available to cover amounts greater than the amount certified herein above for the implementation of this operation. Amounts greater than the certified amount may arise from commitments on contracts denominated in a currency other than the Fund currency, resulting in currency exchange rate differences, for which the Fund is not at risk.

Certified by:	<u>Rivera, Sonia M</u> GCM Chief Grants and Co-Financing Management Unit ORP/GCM	<u>11/10/2017</u> Date
Approved by:	<u>Fretes Cibils, Vicente</u> Division Chief Financial & Municipal Mgmt IFD/FMM	<u>11/15/2017</u> Date