



Presentation of the study of the Permanent Secretariat of the Latin American and Caribbean Economic System (SELA):

**“Public procurement as a tool for development in Latin America and the Caribbean”
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Chapter 1. PUBLIC PROCUREMENT AND ITS ECONOMIC IMPACT

1.1 As a development tool

a) This chapter analyzes the importance of public procurement, as an activity reserved to the State, in the gross domestic product (GDP) of Latin American and Caribbean (LAC) countries. The concept of public procurement has evolved to be understood as a development tool that enables the incorporation of vulnerable sectors of society into the overall economic process, and to generate not only expenses for the State, but much of the dynamism of the domestic economy, with effects on employment generation, channelling of investment and productive development.

b) Public procurement requires a comprehensive public policy design between state institutions – and not only specialized national authorities in the area – and private sector organizations, the main source of suppliers; administrative decentralization has proved to be very efficient.

c) At the national level, the legislation on public procurement of Latin American and Caribbean countries only provides for 40% of sustainable procurement, reducing to 19% the regulations that apply the concepts and requirements of sustainability in public procurement.

1.1 As a development tool - Continued

d) The State, through its purchasing power, has an irreplaceable capacity to influence the design of development public policies, promoting the production and marketing of more appropriate goods and services in social, environmental and economic terms.

e) In LAC, public procurement accounted for 10-15% of public spending for the period 1990-2009.

TABLE 1
Share of public procurement in world GDP

| Region | % GDP |
|---------------------------------|-------|
| European Union | 21,66 |
| World | 17,87 |
| Sub-Saharan Africa | 17,82 |
| BRICS | 17,59 |
| Middle East and North Africa | 16,59 |
| United States | 15,68 |
| Latin America and the Caribbean | 15,52 |
| China | 13,71 |
| Asia Pacific | 13,01 |

1.2 SMEs: the main supplier of the State

- a) Small and medium-sized enterprises (SMEs) are the leading bidders on goods and services in LAC. These sectors are the largest employers in the region, between 30 and 50%, with significant variations from country to country. In Mexico, they generate 52% of GDP and 72% of jobs; in Ecuador, they represent 99% of registered suppliers (2013).
- b) The importance of SMEs for regional employment, and national production is an essential factor to ensure policy design for insertion in the public procurement system.
- c) The data for the countries in the region is limited, but the share of sales of SMEs to the State is estimated between 14% and 50%. In Peru, for example, the participation of SMEs amounted to 34.2% in 2012.
- d) The application of ICTs in public procurement processes has a positive impact on the efficiency of the contracting public institutions.



Chapter 2. INTERNATIONAL INITIATIVES

2.1 Multilateral instruments

The revised Government Procurement Agreement (GPA) is the most relevant international legal instrument dealing with the issue and maintaining a multilateral nature. No LAC country is part of the GPA, and only four are Observers: Argentina, Chile, Colombia and Panama; and none of them has expressed a desire to join it.

However, the wide range of Free Trade Agreements (FTA) between the countries of the region and developed economies, most of them part of the GPA, include commitments and standards on public procurement arising from this agreement that have modernized the existing rules in the region.

2.2 Extra-regional integration context

European Union (EU)

- a) EU Directives in the matter of public procurement are intended to eliminate the preferential treatment granted to national companies with a protectionist attitude.
- b) The European Code of best practices to facilitate the access of SMEs to public contracts enables contracting institutions of Member States to fully use the potential of the regional Directives on public procurement. This Code acknowledges obstacles for SMEs to enter the market of public procurement (amount of contracts, access to information, administrative burden, terms of payment, etc.)



Chapter 3. INITIATIVES IN THE CONTEXT OF REGIONAL INTEGRATION

3.1 Regional Free Trade Agreements

- a) The Dominican Republic-Central America Free Trade Agreement with the United States (CAFTA-RD) is a standard applicable to trade flows between Central American countries and the Dominican Republic in the area of public procurement.

- b) The entry into force of CAFTA-DR led to domestic regulatory and administrative changes to adapt its principles and mechanisms in countries such as Honduras, Guatemala and Dominican Republic.

- c) The Partnership Agreement between Central America and the EU includes chapters on public procurement and promotes technical cooperation and assistance for the exchange of information on rules related to public procurement.



3.2 Subregional integration mechanisms

- a) ALBA-TCP has taken concrete steps to foster the integration of public procurement, particularly in the health sector, and a system that prioritizes local production as an instrument for development among the member countries, which come from the three subregions of LAC.

- b) The Pacific Alliance, SICA, CARICOM and the OECS have established technical groups with the purpose of promoting business and the development of public procurement through joint programmes, in particular in the health sector.

3.3 Rural contribution to development

- a) One of the aspects that CELAC and FAO promote is family farming (FF), which includes agricultural, livestock, forestry, fishery, and aquatic production, which despite the great heterogeneity among countries, and within each country, has the following main characteristics: i) limited access to land resources and capital; ii) prevailing use of the family work force; and iii) it constitutes the main source of income of the family nucleus.



b) FF has promoted the convergence of social and economic vulnerable systems to achieve development through public procurement, meeting such needs as food security by supporting small producers through national food programmes.



Chapter 4. NATIONAL PROCEDURES

4.1 Status of general rules

- a) National procurement processes have shown in recent years an international trend of convergence on core principles such as open and effective competition, transparency, e-commerce and quality-price ratio (*value of money*).
- b) In Latin America and the Caribbean, public procurement systems have undergone reforms in their legal and institutional framework since the last decade of the last century.
- c) Venezuela has also established the concept of Communal Procurement Committees, composed of members of the community who may select contractors, establishing mechanisms for monitoring and accountability.

4.2 Transparency and e-Government

- a) Transparency in public procurement contains three elements: advertising to interested suppliers, limited discretion to bidders, and a monitoring system.
- b) A novel regional experience is the Citizen Observatory on Public Procurement, established in the Dominican Republic to promote efficiency and transparency in the public procurement system.
- c) Electronic government may be seen as one of the main instruments of modernization of the State, and is the result of the strategic and intensive use of ICTs in the internal relations of its own entities and also in public sector relations with citizens and businesses, either in the supply of public services or government procurement processes.
- d) Electronic public procurement has proven to be one of the most effective and efficient tools for good governance of the procurement process. ICTs have radically changed public procurement procedures.



4.2 Transparency and e-Government – Continued

e) The use of technological resources in public procurement systems in the region is, together with e-commerce, a challenge and an opportunity for public sector reforms in many countries in the region.

d) Although the use of ICTs in public procurement remains a relatively new policy area in most developing and emerging economies, 70% of purchases in Latin America and the Caribbean are already published and advertised on the Internet.

Conclusions

- a) Public procurement is a strategic activity for the State that combines environmental, technological, social and commercial elements, promoting the incorporation of vulnerable social sectors as a tool for national development.
- b) SMEs are the State's main potential supplier. Therefore, policies to ensure their participation in public procurement processes, through specific programmes leading to the development of their competitiveness and ability to export, should be promoted. SMEs should be treated separately in policies of inclusion in and access to public procurement markets.
- c) An appropriate public procurement system requires that competition be included in its regulations. Moreover, it is necessary to promote cooperation among procurement bodies and authorities and competition authorities.
- d) The professionalization of public officials in charge of implementing the public procurement policy is an opportunity and a challenge for the countries of the region.



Conclusions – Continued

f) Public procurement has been negotiated with a group of countries in the region under free trade agreements, mainly with extra-regional partners.

g) Unlike other regions, mainly Europe, Latin America and the Caribbean do not have a binding umbrella instrument on public procurement. However, recent initiatives have been presented in the different subregional schemes for regional integration, such as ALBA-TCP, the Pacific Alliance, the OECS, MERCOSUR and SICA, which represent a modernization of public procurement systems based on existing international standards.

Thank you!

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