

Toward Strategic Public Procurement in Latin America and the Caribbean

Case studies that promote:

- ✓ micro, small and medium-sized enterprises
- ✓ gender equality
- ✓ a triple-impact economy
- ✓ family agriculture

This publication is a supplement to the *Handbook for the Inter-American Network on Government Procurement (INGP): Implementing Sustainable Public Procurement in Latin America and the Caribbean*



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March 2020

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Acronyms and Abbreviations

B Corp	B Corporations
CIA	Central Intelligence Agency
DGCP	Dirección General de Contrataciones Públicas (General Directorate for Public Contracts)
DNCP	Dirección Nacional de Contrataciones Públicas (National Directorate for Public Contracts)
Eoi	expression of interest
FAO	Food and Agriculture Organization of the United Nations
GDP	gross domestic product
GPPD	General Public Procurement Directorate
IDRC	International Development Research Centre
INGP	Inter-American Network on Government Procurement
LAC	Latin America and the Caribbean
MICI	Ministry of Industry and Commerce
MSME	micro, small and medium-sized enterprises
OECD	Organisation for Economic Co-operation and Development
SDG	Sustainable Development Goals
SPP	sustainable public procurement
UNDP	United Nations Developmental Programme

1.0 Introduction





1.0 Introduction

This publication builds on the *Handbook for the Inter-American Network on Government Procurement (INGP): Implementing Sustainable Public Procurement in Latin America and the Caribbean* (Casier et al., 2015).

The handbook was published in 2015 with the support of Canada's International Development Research Centre for the INGP. It aimed to raise awareness and advance the implementation of sustainable public procurement (SPP) in Latin America and the Caribbean (LAC).

Since then, LAC has made a lot of progress: many national development plans include SPP, criteria have been developed to purchase more green and sustainable goods and services, and the discussion on SPP is taking place at subcentral levels and agencies. There is also increased use of sustainability labels (One Planet Network, n.d.).

However, the transformational shift that public procurement requires to be a strategic lever for sustainable development has not happened.

The next step is to lift the procurement function from an administrative to a more strategic government instrument. With public procurement representing, on average, between 15% and 20% of GDP, governments have an opportunity to direct this public spending to respond to shortcomings in the economy and society. This can ultimately help countries achieve the Sustainable Development Goals (SDGs).

SPP is therefore more than just using social and environmental criteria in tender specifications. It is about rethinking and redefining what citizens need and how those goals can be achieved in the most cost-effective manner. This shift in mindset from procurement as a back-office function to a public policy one requires a systemic approach to identify the key stakeholders and define interventions for reforming and improving institutions, skills and frameworks that currently govern procurement.

Figure 1 illustrates the current state of interventions that we have seen in the LAC region. It also indicates what procurement reform in the LAC region should focus on next to make full use of the strategic potential of public procurement.

This report uses four case studies from the region to illustrate how to accomplish public procurement reform. Each has transformed public procurement to deliver a broader government strategy and to bring better value for money for citizens. After a description of the case studies, this report will conclude with key lessons for adapting a systemic approach to successfully implementing SPP.

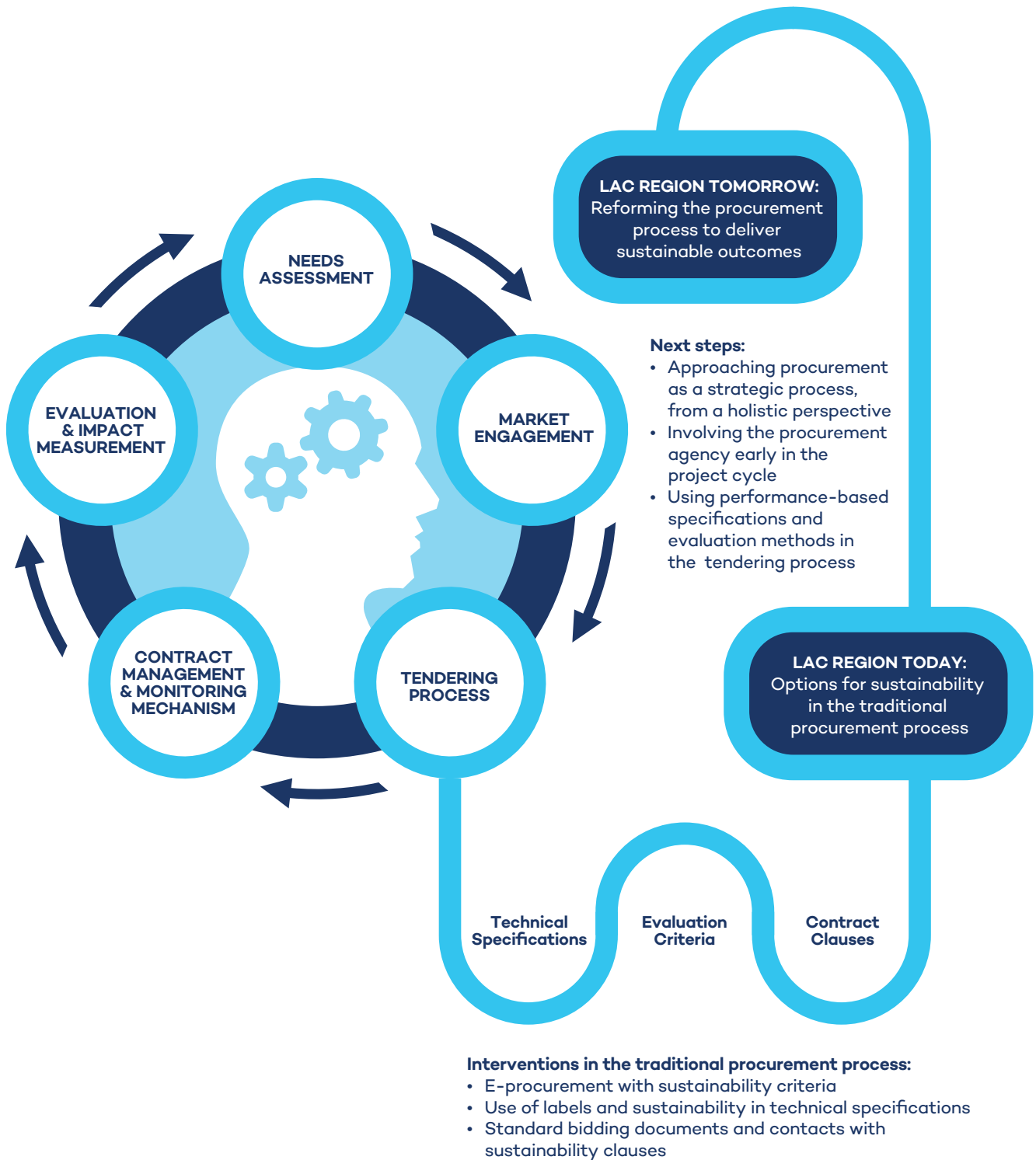


Figure 1. Strategic public procurement reform

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2.0 Case Studies

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2.0 Case Studies

2.1 Public Procurement from Micro, Small and Medium-Sized Enterprises in the Dominican Republic

2.1.1 Background

The Dominican Republic is a Caribbean island with a population of 10 million inhabitants, where 50% of the population receives less than one fifth of the GDP. Income inequality, unemployment and underemployment have been long-term challenges for the country (Central Intelligence Agency [CIA], n.d.b).

Public procurement in the Dominican Republic accounts for approximately 12.2% of the GDP (CIA, n.d.b). In 2017, the total government spending was approximately USD 4.175 million (Dirección General de Contrataciones Públicas [DGCP], 2018).

2.1.2 Public Procurement Targeted at Micro, Small and Medium-Sized Enterprises

Micro, small and medium-sized enterprises (MSMEs) are the main drivers of employment in the LAC region (DGCP, 2018). They are also key suppliers of goods and services in the economies. In the Dominican economy, there are 1,473,354 MSMEs representing 38.6% of the GDP (Ministerio de Industria y Comercio y MIPYMES, 2016) and 54.5% of the overall employment in the country (FondoMicro, 2017).

In 2012, President Danilo Medina launched a national policy to support MSMEs, as they are a source of decent work and an essential driver for poverty alleviation. Furthermore, the National Development Strategy 2030 (Law 1-12) expressly requires legislative action to strengthen procurement from MSMEs.

High-level political support from the president led the DGCP to include the promotion of MSMEs as one of the three main objectives in its 2013–2016 National Multiannual Public Sector Plan and subsequently its 2016–2020 plan. Since then, the number of MSMEs supplying the government grew by 300% (personal communication, Dahiana Celine Goris [DGCP], September–October, 2019).

2.1.3 The Procurement Strategy and Reforms

The DGCP strategy chose a systemic approach to increase MSMEs' access to the procurement market:

- It broadened the group of stakeholders participating in the procurement system to include not only the procurement agents but also MSME suppliers, coordinators of sectoral ministries (e.g., Ministry of Industry and Commerce) and citizens for the monitoring and collection of feedback on procured goods and services. Working with a larger group of stakeholders provided better coordination and expanded the number of stakeholders making efforts to achieve the same goal.
- It undertook a series of activities that all contributed to a shift in the procurement system (explained further below).

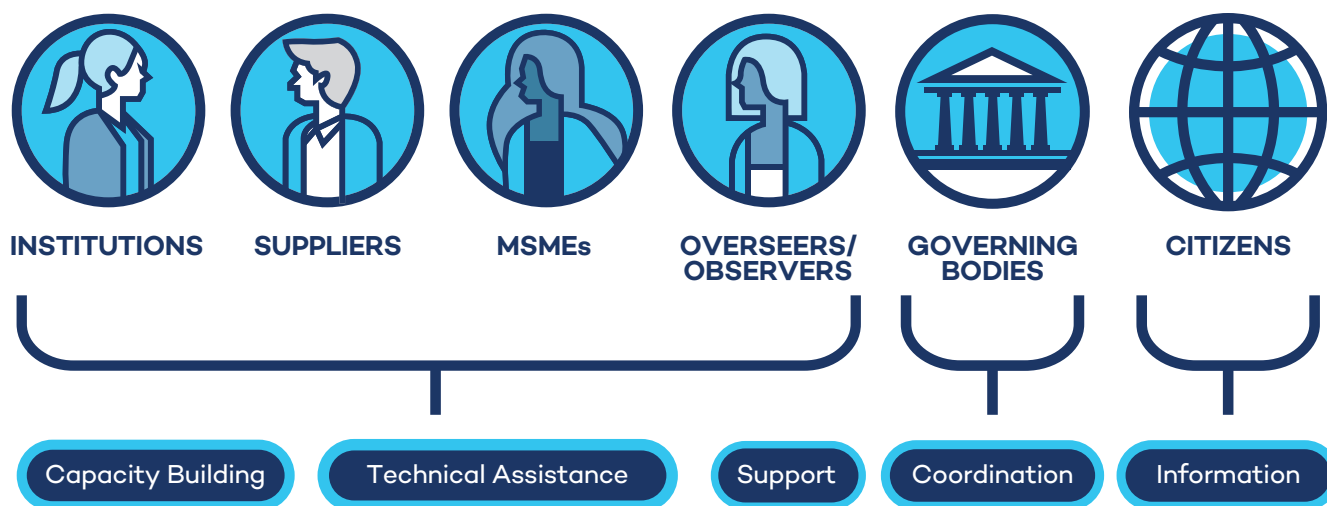


Figure 2. Understanding the stakeholders and their role in increasing MSMEs’ access to the procurement market.

Source: personal communication, Dahiana Celine Goris (DGCP), September–October, 2019

Preliminary Studies

The DGCP commissioned several studies to better understand the challenges of MSMEs in public procurement. These studies included:

- **An institutional assessment** that showed challenges such as the lack of organization between government stakeholders, institutions not complying with public procurement legislation and procurement processes not being published (DGCP, 2014).
- **A market assessment** to understand the variety and availability of products and services offered by MSMEs (BID et al., 2015).
- **A market access barriers assessment** that found that the informal economy, low levels of business association and a lack of understanding of business opportunities are the most important barriers for MSMEs to enter the public procurement market (personal communication, Dahiana Celine Goris [DGCP], September–October, 2019).

Based on the assessments, the DGCP developed its Institutional Strategic Plan. One of the priorities in the plan was the establishment of a preferential procurement program for MSMEs.

Preferential Procurement for MSMEs

A series of legal instruments and policies established a preferential procurement program for MSMEs to increase their participation in the procurement process.

- Law 340-06 on Procurement and Contracting of Goods, Services, Works and Concessions (the “Procurement Law”) includes a principle of participation that explicitly considers MSMEs’ participation. It also expressly permits preferential procurement from MSMEs.



- Law No. 488-08 establishes a Regulatory Regime for the Development and Competitiveness of MSMEs. It requires government agencies to procure 15% of all goods and services from MSMEs and obliges 20% of this percentage to be from women-led MSMEs. The Dominican procurement system is currently in compliance with this percentage in practice, even giving a larger share to microenterprises (personal communication, Dahiana Celine Goris [DGCP], September–October, 2019). These mandatory quotas in legislation are an essential part of the preferential program.
- Decree 543-12 implements the Procurement Law. It provides for setting aside 20% of the institutional budget for procurement from MSMEs. These institutions are also allowed to receive partial offers from MSMEs for public tenders that are funded through the remaining 80% of the procurement budget. MSMEs need certification to participate in the procurement process. The certification is issued by the Ministry of Industry and Commerce.

Addressing Access Barriers Through Other Mechanisms

In addition to the quota system of the preferential procurement program, the government also encourages MSMEs to participate in consortia and/or associations that submit a bid. In the most recent legislation, procurement agents can divide large tenders into lots and permit MSMEs to submit partial offers. This helps MSMEs' access to public procurement because, while they often do not have the financial and human resource capacity to deliver large contracts, they can deliver parts of them without having to cover the full scope of procurement alone.

Finally, procurement agents can opt for issuing a specific bidding procedure for MSMEs prior to issuing a general call for tenders. If the procuring agent indicates that the call is designated for MSMEs, interested bidders fulfilling this requirement can submit an expression of interest (EoI) within a period of five business days. The procurement agent must receive a minimum of three EoIs from MSMEs to ensure a competitive bidding process. If that requirement is not fulfilled, the call will be opened to all interested bidders, including large companies.

Capacity Building and Technical Assistance

The Procurement Law strikes a balance between encouraging MSME participation and recognizing their limited financial and technological capacities. It therefore also sets the objective of “elevating their competitive capacities.” The DGCP started a campaign across the country to incentivize MSMEs' participation in public procurement. As a result, 35,231 MSMEs participated in capacity-building activities; 15,000 of those were women-led (personal communication, Dahiana Celine Goris [DGCP], September–October, 2019).

The capacity building focuses on legal frameworks, standard tender documents and the use of the online procurement platform. The DGCP, together with other government institutions, has tried to reach all regions of the country, especially the poorest regions.

To complement capacity-building efforts, the DGCP offers technical assistance to guide suppliers and procurement agents on specific public tenders. This assistance is an important instrument for MSMEs to overcome their skepticism in contracting with the public sector and helps them to take the first step in becoming government suppliers.



Use of the Online Procurement Platform and New Information Technologies

The DGCP informs public procurers about products and services offered by MSMEs on an online procurement platform.¹ The online platform provides MSMEs with access to the necessary information on the calls requesting their products and services. In July 2019, 292 public institutions were registered users of the online platform that featured 104,011 offers and 56,258 awarded contracts (personal communication, Dahiana Celine Goris [DGCP], September-October, 2019). Suppliers can also use the mobile application (Android and iOS) ComprasRD to check for open calls.

MSME Registry

The public procurement process is linked to a database of formal and informal MSMEs that provides public procurers with relevant information about MSMEs. The database is hosted and updated by the Ministry of Industry and Commerce (MICI) and the National MSMEs Promotion and Support Council (Government of the Dominican Republic, 2012). Public procurers must check the registry each time a tender is launched to examine the MSME offers in that sector. This market research activity informs procurers about the existing goods and services that MSMEs are offering. It also cross-feeds information between DGCP and MICI. When informal MSMEs register to be a supplier and access the public market, MICI is able to identify them and support them in the formalization process.

Communication Strategy

Each government entity publishes its annual procurement plan in the DNCP online platform. In addition, they must send their annual procurement plan to the National MSMEs Promotion and Support Council so it can create and promote publicity and outreach that allow MSMEs to identify business opportunities with the state and prepare their offers with due time.

Tailored Payment Processes

Adjusting payment processes is key to responding to the financing needs and constraints of MSMEs, which are usually unable to finance large amounts of production in advance. To respond to this challenge, the procurement entity must pay the awarded MSME an initial advance of 20% of the value of the contract, to strengthen their investment capacity against the presentation of a guarantee.

The DNCP reviewed payment terms and processes to respond to MSMEs' need to receive timely payments. A new process was established that certifies, prior to the procurement process, whether a government entity has enough resources to pay in advance for that specific procurement. A call for tenders cannot be issued without this certificate, which is published on the online procurement platform to inform MSMEs (Government of the Dominican Republic, 2017).

¹ This catalogue is also available on the DGCP webpage: <https://comunidad.comprasdominicana.gob.do/Public/Tendering/ContractNoticeManagement/Index>



2.1.4 Challenges

Despite the success of the program and the increased rate of MSME participation in public procurement, challenges remain. Efforts to address these are ongoing and include promoting more fiscal registration of MSMEs and formalization, avoiding concentrated offers by only a few suppliers, promoting MSME registration in the procurement system, developing more transparent technical specifications and assessment criteria, and continuous market research on MSMEs.

The Institutional Strategic Plan 2018–2020 builds on the successes of involving more MSMEs in public procurement in the Dominican Republic. It includes the establishment of an online platform for capacity building, upgrading the existing online procurement platform, territorial expansion of the MSMEs program to encourage municipalities to procure from them, and further promotion of integrating MSMEs into the value chain of large government suppliers.

2.1.5 Conclusions

In the Dominican Republic, political support for the integration of MSMEs in public procurement has certainly contributed to procurement agencies exceeding targets and quotas from the preferential programs. By now, MSMEs are at the centre of Dominican public procurement. Their participation grew from 9,555 MSMEs in 2012 to 36,538 in July 2019, a growth of more than 380% (personal communication, Dahiana Celine Goris [DGCP], September–October, 2019).

The country and the DGCP have been proactive in using a diverse arsenal of tools and mechanisms to promote MSMEs as preferred government suppliers. These include quotas and capacity building, for example. That diversity results in large-scale impact. The “Dominican Strategy” is now being replicated in Honduras, El Salvador, Panama and Guatemala.

This case study shows that political will from the highest levels can shift traditional public procurement to a strategic function that delivers the best value for money. It also demonstrates how public procurement can be used strategically as a policy instrument to address societal challenges. MSMEs are key actors in the economy for creating new employment opportunities and reducing poverty in regions where they are located. Therefore, the targeted allocation of public budgets for procuring goods and services from MSMEs helps to address unemployment and poverty challenges, and strengthens local economies.





2.2 Public Procurement From Family Agriculture in Paraguay

2.2.1 Background

Paraguay is a landlocked country with a population of 7 million people (CIA, n.d.c). Agriculture and livestock are the most important economic sectors, with agriculture alone representing 17.9% of the GDP in 2017 (CIA, n.d.c).

Despite the growth of the agricultural sector, the poverty rate has not fallen among smallholder farmers. Education levels are low among producers, and smallholder farmers have difficulties accessing markets, credit and technology to sustain and scale their businesses (Food and Agriculture Organization of the United Nations [FAO], 2019a).

This case study focuses on using public procurement to support Paraguay's small-scale and family-driven agriculture, which represents around 90% of the Paraguayan farmers (World Bank, 2019). This support aims at reducing poverty, supporting sustainable livelihoods and ensuring food security.

2.2.2 Public Procurement Targeted at Family Agriculture

The main goal of Paraguay's family agriculture policy is poverty alleviation. The FAO defines family agriculture as "a means of organizing agricultural, forestry, fisheries, pastoral and aquaculture production which is managed and operated by a family and predominantly reliant on family labor, including both women's and men's. The family and the farm are linked, co-evolve and combine economic, environmental, social and cultural functions" (FAO, 2014).

A number of combined factors make family agriculture an important area of focus for the Paraguayan government: (i) 40.2% of the population in Paraguay lives in rural areas; (ii) 33.8% of the rural population lives in poverty (FAO, 2019b); (iii) family agriculture represents 90% of all agricultural activity in Paraguay; and (iv) the growth of commercial agriculture in rural areas in the last decade has not benefited family agriculture (World Bank, 2019).

In 2015 the government decided to link programs for poverty alleviation in the agriculture sector to the school feeding programs for public schools through public procurement by procuring food from family agriculture. An important step for the procurers of the food program was to understand the meaning of "family agriculture." They started with the Ministry of Agriculture's definition of it as "a rural productive activity carried out using family workforce for the production of a property" (personal communication, J. Gamarra, September 2019).

Suppliers had to meet certain conditions to qualify for the family agriculture program:

- The producer and their family are directly responsible for the production.
- The majority of the family's income comes from agriculture production on the property.
- The majority of the workforce is the producer's family.
- The productive unit cannot hire more than 20 day-labourers during the harvesting period.
- Land must be smaller than 50 hectares in the eastern region or 500 hectares in the western region of the country.



With a clear target and a policy at the centre of the government development plans, public procurement became a strategic tool, a driver of the larger agriculture policy.

2.2.3 Public Procurement to Support Rural Poverty Alleviation

Based on the success of linking school feeding programs with family agriculture, the government took further steps to strengthen the links between public procurement and family agriculture. Figure 3 gives an overview of the different programs, initiatives and legislative reforms.



Figure 3. Overview of programs, initiatives and legislative reform for the procurement from family agriculture

*DNCP: *Dirección Nacional de Contrataciones Públicas* (National Directorate for Public Contracts)

In 2013 the government launched the National Program for Poverty Alleviation. Within this program, the Sowing Opportunities (Sembrando Oportunidades) initiative was created. The initiative aims to increase the income and access to social services of families in vulnerable conditions. In relation to family agriculture, the initiative focused on creating opportunities for market access, including the public procurement market (Republic of Paraguay, n.d.). A decree for a simplified procurement process was adopted to facilitate the procurement of healthy and fresh food from family agriculture for lunches and snacks at schools (Government of Paraguay, 2013). The success of the initiative led to the introduction of public procurement from family agriculture in hospital canteens and other public entities.

In 2014, the DNCP enacted a resolution to implement a simplified process for family agriculture procurement, as described below. This combination of programs and initiatives formed the Family Agriculture Public Procurement Program (Government of Paraguay, 2014).

2.2.4 The Procurement Strategy and Reforms

Regulatory Reforms

Before the reforms, the procurement process did not encourage the participation of small-scale suppliers, who lacked the administrative and financial capacity to submit offers for public contracts. Decree 1056/13 and Resolution No. 178 reformed the procurement process to permit direct procurement and simplified indirect procurement when procuring from family agriculture producers. This simplification of the procurement process enabled the participation of small-scale family producers in public tenders.



Through the regulation, two procurement methods were designed:

- (i) **Direct procurement:** The procuring agency can buy defined family agriculture products directly from the producer or organization of producers registered in the National Registry of Family Agriculture. The individual suppliers must present a copy of their identity card, and producer organizations must present their incorporation documents (duly registered) with a list of their members. The Ministry of Agriculture and Livestock determines the price references per crop, which include transport and labour costs.

When this procurement method is used, the best price from the suppliers located closest to the client gets priority. If the demand cannot be fully covered by the local producers, supplies of family producers from nearby areas are procured next. When there is still demand from the procurement agency, then a new tender will be opened to satisfy the demand. The procurement agency places a purchase order (created with the help of the DNCP), and payment follows within 30 days of delivery.

Despite not being mandatory, the simplified procurement processes are widely used.

- (ii) **Indirect procurement:** The procuring agency obliges its suppliers (e.g., catering companies) to buy a minimum percentage of the contract value from family agriculture producers. In these circumstances, the family agriculture producer is the second-tier supplier and does not directly contract with the procurement agency. School feeding programs are obliged to follow this procurement method by requesting from their contracted catering service companies proof that they bought from a family producer. This upstream supply chain requirement is included as a qualification criterion in the tender documents.

Each agency can establish the percentage that catering companies need to comply with in terms of sourcing supplies from family agriculture producers (available production and quantities of local producers). The supplier then must choose producers from the Family Agriculture Registry and describe the products, zones and estimated quantities being produced based on the seasonality of the product. The percentage of supplies to be sourced from family agriculture producers is an award criterion.

The regulatory reforms apply to all procurement agencies in the country, at both central and local levels.

Strategic Public Partnerships

A Family Agriculture Public Procurement Interinstitutional Technical Roundtable of seven main public institutions supports the Family Agriculture Public Procurement Program (personal communication, Gamarra J., September 2019). This group includes:

- DNCP
- Ministry of Agriculture and Livestock
- Ministry of Health and Social Welfare, through the National Institute of Food and Nutrition
- Ministry of Education and Sciences



- Treasury
- Economic and Social Development Secretariat
- Vegetable and Seeds Quality and Health Secretariat, among others.

This interagency roundtable works together to raise awareness and to build public and private capacities to implement the Family Agriculture Public Procurement Program.

Awareness Raising and Capacity Building

Capacity-building efforts were organized in five regions (the districts of Caaguazú, Yegros, General Higinio Mirinigo, Tavaí and S.J. Nepomuceno). The technical group in charge of capacity building included the DNCP, the Ministry of Education and Sciences, the Ministry of Agriculture and Livestock, and the National Institute of Food and Nutrition. Workshops included sharing information with producers regarding the simplified and indirect procurement methods and strengthening suppliers' capacities to respond to market demands. One hundred and sixty producers and 150 trainers (técnicos extensionistas) attended the workshops.

Public agents, including municipal authorities and procurement agents, also received training on the preferential program and how to buy from family agriculture. This training also included awareness raising on the importance of using procurement to support family agriculture and alleviate poverty.

Business Dialogues

The Ministry of Agriculture and Livestock has been carrying out business dialogues in the prioritized regions with participants from the public sector—the companies that were awarded contracts through indirect procurement and family agriculture organizations. It has been important for companies to understand the offerings of local family agriculture producers. In exchange, family agriculture organizations were able to better understand the needs of the companies. The business dialogues thus fostered a better collaboration throughout the supply chain (personal communication, Gamarra, J., December 2019).

2.2.5 Challenges

In 2014 the government encountered irregularities in the new procurement processes. First, they found that intermediaries between the producers and public agencies were costly and hamper the economic benefits for producers, so new regulations were enacted to eliminate intermediations. Producers now have to be registered under the Family Agriculture Registry, which can be consulted by procurement agencies. The government also imposed a maximum quote per producer from which procurers could buy to avoid a concentration of offers from a small number of producers (FAO, 2015).

Producers have found that the publication of price references is often delayed, which makes it difficult for them to prepare bids in a timely manner. Further, the producers have also been critical of the price references, as they do not reflect differences in the cost of production across the country.



2.2.6 Conclusions

At the start of the initiative to use public procurement for supporting family agriculture, the initial intention was to enable support through the school feeding programs. The success of that program led to its expansion to hospitals, penitentiaries and other local public agencies that buy food and could benefit from the program. It also started as an optional criterion in tenders. After its success, supply from family agriculture producers was made mandatory for all public food procurement.

The government allocated PYG 40,149,863,110 in 2017 and PYG 33,291,614,825 in 2018 (approximately USD 6 million and USD 5 million, respectively) of its purchasing power to family agriculture products. In July 2019, the National Registry of Family Agriculture had 252,761 registered producers (Dirección de Censos y Estadísticas Agropecuarias, 2019). In 2016, for example, 16% of food procurement was family agriculture products.

The Paraguayan government identified several multiplier benefits resulting from the procurement of family agriculture, including better market access to family agriculture producers, cheaper prices in comparison with the previous school catering service (USD 1.3/child versus USD 3/child) (personal communication, J. Gamarra, December 2019) and local job creation in catering service companies.

The family agriculture program shows that public procurement can lead to addressing a larger societal goal, like reducing poverty. It requires a dedicated effort of different public agencies—those involved in procurement and those with the substantive knowledge of the sector it aims to support.





2.3 Public Procurement from B Corporations in the Province of Mendoza (Argentina)

2.3.1 Background

Mendoza is the capital city of Mendoza province in Argentina. It has approximately 120,000 inhabitants (Government of Mendoza Municipality, 2018). The city made a strong commitment to the SDGs and has been investing in sustainable urban renovation, including exterior lighting, roads, parks, and spaces for recreational activities and sports. The United Nations chose Mendoza as one of the cities to pilot measuring progress on the SDGs in relation to the various investments it made. Sustainability has also become a guiding principle for the city's public procurement (personal communication, Franco De Pasquale, August and November 2019; personal communication, Soledad Noel, June and August 2019).

This case study takes a closer look at Mendoza's public procurement process and how sustainability as a guiding principle has pushed for its reform.

2.3.2 Public Procurement Targeted at B Corporations

In 2018 Mendoza launched an initiative to buy goods and services from triple-impact companies—companies producing positive economic, environmental and social impacts—certified as B Corporation (B Corp) or equivalent.

The B Corp community is a group of small and large companies that “use profits and growth as a means to a greater end: positive impact for their employees, communities, and the environment” (B Corporation, n.d.). B Corps create positive social and environmental value and follow high management and transparency standards (B Corporation, n.d.). They are an important ally for SPP because they generate a positive impact in any of the following categories (Government of Mendoza Municipality, 2018):

a) Environmental solutions:

- (i) Offer of products/services that generate positive environmental impacts.
- (ii) Production processes that generate positive environmental impacts.
- (iii) Training to enhance the impact.

b) Social solutions:

- (i) Inclusion of vulnerable communities through the creation of transformative employment and/or inclusive value chains.
- (ii) Access to basic products/services for vulnerable communities (housing, health, education, energy, access to water).
- (iii) Training to enhance the impact.



Sistema



Sistema B Label

In April 2012 a movement called Sistema B was created in Latin America. Sistema B is the Latin American platform for the global B-Lab certification. It offers companies certification when they prove, through an assessment, a commitment to continuously improving their positive environmental and social impacts and to operating with high management and transparency standards. They then become B Corps. There is a community of over 500 B Corps in the region that are active in many industries, including textiles, technology, recycling, food and beverages, among others.

The Sistema B platform offers more than just access to the B-Lab certificates. It also provides knowledge sharing and capacity building for B Corps on measuring and managing their environmental and social impacts. Sistema B also offers a self-assessment tool that permits companies to assess whether they meet B-Lab certification requirements.

Through SPP, the city incentivizes local companies to integrate sustainability across the company and generate a positive impact.

2.3.3 Mendoza Leadership in Support of SPP

In 2018 the Municipality of Mendoza chose a strong focus on sustainability, entrepreneurship and innovation for its city development (CAF, 2018). As a result, it set up the Mendoza +B platform to create synergies between B Corps in Mendoza, the Sistema B platform, and the Innovation and Sustainable Development Directorate of the Province to work for “an economy in which success is measured by the common benefits for people, society and nature” (Sistema B, n.d.; Mendoza +B, n.d.). The Mendoza +B platform offers to measure companies’ impacts and exchange and build capacities to become a triple-impact company. Together with the Mendoza Emprende initiative of the University of Cuyo (Mendoza Emprende, n.d.), the Mendoza +B platform forms the entrepreneurial system of the city and drives positive environmental and social change in the local economy.

With these initiatives in place and political support for sustainability, the municipality empowered its procurement agencies to support the city’s new vision. The 2018 municipal legislation (Ordinance) confirmed that public procurers are now “part of the B ecosystem with the power to generate key tools and instruments to promote and foment the birth and growth of triple impact entrepreneurs and companies as part of the policy to address social and environmental great challenges in the country” (Government of Mendoza Municipality, 2018).

The municipality chose to use its public procurement system as an enabler for implementing a triple-impact economy by introducing reforms that allowed procuring agencies to prioritize goods and services from triple-impact companies.



2.3.4 The Procurement Strategy and Reforms

The procurement team at the municipality worked on four combined pillars of action to promote the procurement of goods and services from triple-impact companies:

- Institutional capacity building
- Public–private roundtables and capacity building for suppliers
- Tender documents
- Municipal legislation.

Institutional Capacity Building

In 2018, the General Public Procurement Directorate (GPPD), the institution in charge of the procurement of goods and services of the Province of Mendoza, realized that public procurement agents had very little or no knowledge of SPP and sustainability in general. The GPPD initiated a series of workshops on sustainability, SPP and supporting triple-impact companies through public procurement more specifically. Public procurers from 11 municipalities (out of 18) in the province attended the workshops. Extending the participation to other municipalities was important to scale the demand for goods and services from triple-impact companies. The workshops helped to create support for the triple-impact vision among public procurers. They also trained local councillors on the existing scope for sustainability within the current legislation (personal communication, F. De Pasquale, August and November 2019).

Public–Private Roundtables and Capacity Building for Suppliers

In a second stage, the GPPD focused on capacity building for suppliers. Indeed, it is good practice in SPP to inform and prepare the market players about the triple-impact criteria that will be included in future tenders (Casier et al., 2015, p. 29).

GPPD carried out two activities:

- (i) Informing suppliers in the suppliers’ registry via email about the new sustainability (triple-impact) criteria that will be included in future tenders.
- (ii) Public–private roundtables: at events (innovation “laboratories”) held by the provincial Ministry of Innovation, the GPPD held various conversations on B Corps. The Mendoza +B program provided the institutional and logistical support for these events, which also ensured transparency and inclusiveness toward the private sector. They trained the companies on submitting public tenders and announced that the public sector would be buying their goods and services if they can demonstrate a positive (triple) impact. In 2018, the GPPD trained 1,500 suppliers. This support created a strong foundation for suppliers to engage in government contracting.

These activities ensured that GPPD would not launch tenders with triple-impact criteria without a supplier market to respond to them. GPPD’s explicit aim was to share information with the private sector about the upcoming priorities in the procurement process in a transparent manner through the facilitation of the Mendoza +B program.



Tender Documents

After the series of capacity-building activities and dialogues, the GPPD decided to fully integrate the triple-impact vision into the procurement process and into the tender documents. Importantly, while B Corp and Sistema B can be used as certificates that prove the triple impact of suppliers, any equivalent information that corresponds to proving triple impact will also have to be accepted by the procurement entity to ensure fair competition (see Art 2. of the Municipal Legislation below).

The Department of Health and Security of the Municipality launched a pilot tender for footwear. The tender included a preferential point system to reward triple-impact suppliers. That shifts the traditional evaluation mechanism away from the lowest price to the best value across the life cycle. While this first tender was not awarded to a triple-impact company in the textiles industry, it allowed procurement agents to put in practice the preferential system. This pilot practice was important because subsequent tenders resulted in successful bids from triple-impact companies.

One of these companies, Xınca, participated in the earlier public-private dialogues and, as a result, had registered themselves in the suppliers' registry to receive information on future tenders. At the same time, the Department of Health and Security and the GPPD received market intelligence during the dialogues on the growing triple-impact potential in the local textiles industry, which encouraged them to include the demand for triple impact in the tender. In this case, they were willing and able to pay a price premium because the positive impacts of the company contribute to the SDGs and the implementation of the Mendoza +B vision. In other words, the positive spillover effects of procuring from a B Corp company offset the slightly higher price that the procuring agency paid (Casier et al., 2015, p. 9).

Municipal Legislation

After the success of the footwear pilot tender, the GPPD drafted an overarching municipal ordinance on triple-impact criteria for municipal procurement. The ordinance was adopted in July 2018.

Box 1. Key elements of the 2018 Ordinance

Art. 1 declares that the “B Ecosystem, B-corporations and ‘procurement of triple impact’” is of municipal interest. The B Ecosystem encompasses all platforms, initiatives and actors that share the +B vision.

Art. 2 mandates the inclusion of triple-impact criteria as award criteria. Proof of compliance can be “B-Lab certification, SDG quality certifications or any other national or international certification ‘that verifies triple impact activities through a model of social and/or environmental impact.’”

Finally, the ordinance provides for a price preference mechanism for triple-impact suppliers. Bids from these suppliers will be preferred up to a price difference of 3% compared to cheaper bids that do not meet the triple-impact criteria. For triple-impact MSMEs, the price difference can go up to 5%.



Other Related Initiatives

There is an effort in Argentina to enact the law of collective benefit and interest corporations (*Ley de Sociedad de Beneficio e Interés Colectivo*), which identifies triple-impact companies as a new form of corporate organization. The bill was presented in November 2016 to the National Chamber of Deputies and aims to promote the development of a B Corp ecosystem. This legislative initiative inspired the municipal ordinance. Its (pending) approval would also give the implementation of the ordinance an extra boost.

2.3.5 Conclusions

A combination of strategies strengthened the implementation of the triple-impact vision through public procurement in Mendoza: the GPPD took a systemic approach and combined a number of small strategies to maximize impact. Every intervention—from capacity building to dialogues, to pilot tenders and the municipal ordinance—was small in isolation but of strategic importance toward the successful outcome: to create public sector demand for more sustainable goods and services and ensure the capability of suppliers to respond with competitive offers to such public tenders.

Municipalities can work closer than other jurisdictions with suppliers, especially with MSMEs. They can develop SPP good practices that are replicable in other municipalities, provinces or even at the national level. Mendoza’s experience is currently being “exported” to other municipalities and to the provinces of San Juan (San Juan+B), Córdoba and the city Esquel (personal communication, F. De Pasquale, August and November 2019; personal communication, S. Noel, June and August 2019).

Political leadership and the prioritization of sustainability facilitates the reception of SPP strategies: the private sector receives clear indications of what the priorities are, and public procurers are encouraged to adopt new practices and be less risk-averse to change. In this case, the existence of the Mendoza +B platform and the innovation ecosystem, with programs like Mendoza Emprende involving the University of Cuyo, contributed to the buy-in of both the private and public sectors for the vision of a sustainable economy.

Market dialogues allow public procurement agents to understand what the market is prepared to offer. Having a third party, such as the Ministry of Innovation, organize these encounters enhances transparency in the tendering process and can avoid distortion of future procurement competition (Casier et al., 2015, p. 18).

The procurement regulation spells out the Government of Mendoza’s objective to support triple-impact companies: the municipal ordinance grants additional points to triple-impact companies. While it does not make criteria mandatory, it sends the market a signal of the type of suppliers the government is prioritizing. This incentivizes companies to shift to “use profits and growth as a means to greater end.” It is also typically one step prior to using sustainability as a mandatory qualification criterion (Casier et al., 2015, p. 19). Procurement regulation permits the introduction of new optional criteria, such as triple-impact criteria, moving away from lowest price to “best value” criteria (Government of Mendoza, 2014).



2.4 Public Procurement From Women-Owned or Women-Led Enterprises in Chile

2.4.1 Background

Chile is one of the fastest-growing countries in Latin America, with a population of 18.7 million people (World Bank, n.d.). It was the first Latin American country to join the Organisation for Economic Co-operation and Development (OECD) in 2010. Inequality and basic services such as education and health remain a key challenge for the government. Public procurement accounts for 14% of the GDP (CIA, n.d.a).

In Chile, 51% of women participate in the labour force compared to 74.2% of men (UN Developmental Programme [UNDP], 2019). Women in Chile spend 42 hours a week on unpaid work, compared to 19 hours a week for men (UN Economic Commission for Latin America and the Caribbean, 2015). While the estimated gross national income per capita for men is USD 28,922, it is only USD 15,211 for women. Strikingly, although Chile ranks number 42 on the Human Development Index, it ranks 62 in the Gender Development Index (UNDP, 2019 p. 312).

In this case study, we will analyze Chile's SPP efforts, which have largely focused on supporting women and women-led companies through public procurement.

2.4.2 Public Procurement Targeted at Women-Owned or Women-Led Enterprises

There is a positive correlation between gender equality, increased economic competitiveness and higher ranking in the Human Development Index (World Economic Forum, 2018). A 50% reduction in the gender gap in the global labour force could mean an increase of 6% in GDP by 2030 (Thévenon et al., 2012). In Chile, GDP could increase by 0.65% if 100,000 additional women become part of the labour force (Berlien et al., 2016).

Chile has committed to the SDGs, including SDG 5 on achieving gender equality, the Convention on the Elimination of all Forms of Discrimination Against Women and the implementation of OECD recommendations such as the 2013 OECD Recommendation of the Council on Gender Equality on Education, Employment and Entrepreneurship and the 2015 OECD Recommendation of the Council on Gender Equality in Public Life. These commitments have provided the high-level policy direction for making women empowerment a key priority in Chile's fight against poverty.

The Social Responsibility Council for Sustainable Development's Plan 2015–2018 under the Ministry of Economy also included goals related to the incorporation of gender dimensions and the implementation of OECD recommendations (ChileCompra, 2018). At that time, there was strong and explicit support in the government to pursue gender-related goals.

In 2015, 25% of all registered companies in Chile were owned by women, 22% of all companies had female general managers, and only 8% of large companies² had female general managers (Ministerio de Economía, Fomento y Turismo, 2015).

² "Large" companies have more than 200 employees and annual sales above approximately USD 3.3 million.



ChileCompra, Chile’s procurement authority, undertook research on the importance of women-owned and women-led companies for employment creation and providing a stable income. They found that 64% of their current female suppliers are the main breadwinners, 28% started a business to complement family income, 60.5 % of the female suppliers are creating jobs, and 87.3% of the female suppliers are entrepreneurs (Dirección Chile Compra, 2019).

In 2014, ChileCompra undertook a gender assessment with the NGO Comunidad Mujer. The assessment showed that female suppliers represented only 36% of all suppliers delivering to the public sector and were awarded only 26% of the total contract value of public procurement. The main causes of this lack of participation included not knowing what opportunities existed in the public market, limited opportunities to access technological platforms, limited access to finance and the cost of preparing tender documents (Banco Interamericano de Desarrollo, 2018). On the other hand, there were barriers in the public procurement system itself. These barriers included weak awareness on gender issues among procurement agents, complex tender documents, publicity of tenders and contract implementation (Comunidad Mujer, 2019).

In 2015, ChileCompra developed an action plan to promote the access of women-owned and women-led companies to the public procurement market. These are defined as companies that are at least 50% owned by women who also have administrative decision-making power.

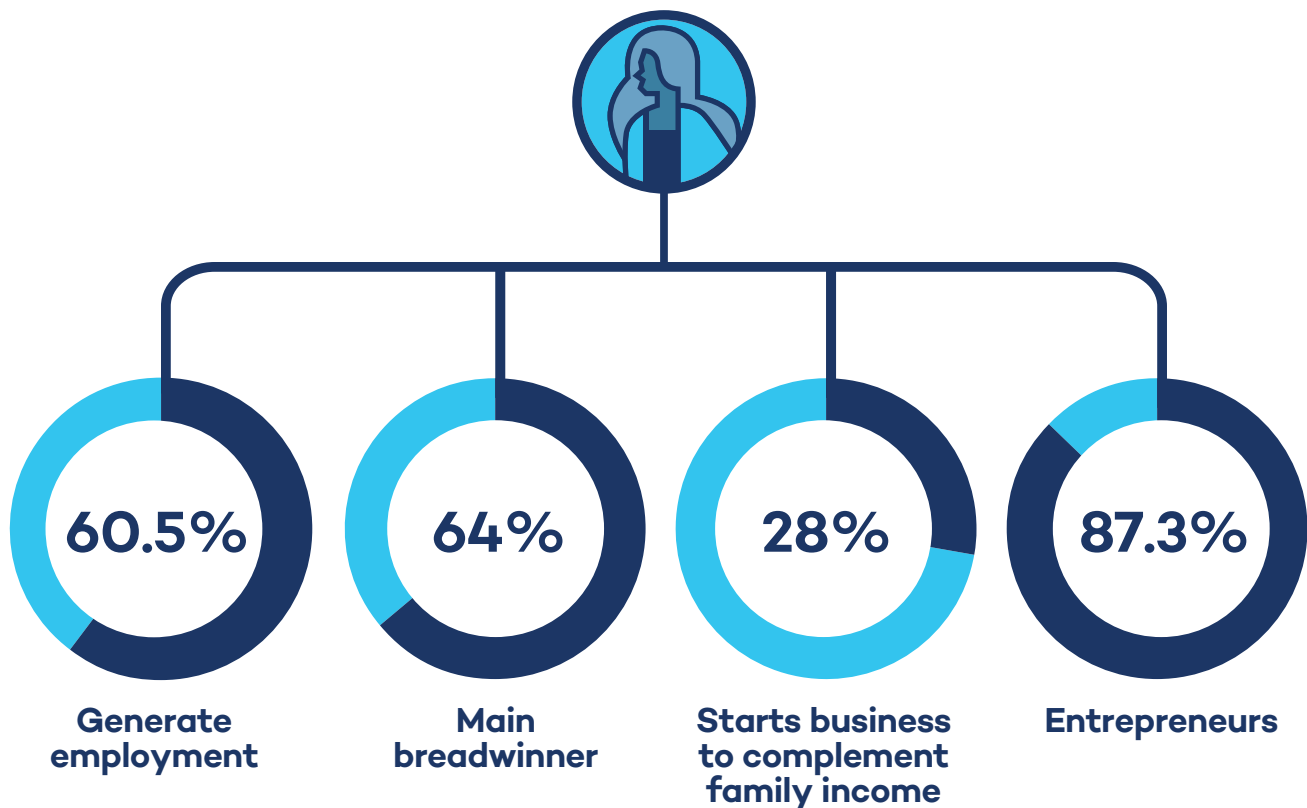


Figure 4. Contribution of women to the Chilean economy

Source: Dirección ChileCompra, 2019.



2.4.3 The Procurement Strategy and Reforms

ChileCompra's action plan to increase the participation of women-owned and women-led suppliers in public procurement consists of three components (ChileCompra, 2018):

- (i) **Strengthening the demand for goods and services supplied by women-owned or women-led suppliers:** This includes working with procurement agents on the promotion of procurement from women-owned companies.
- (ii) **Strengthening the offer:** The objective is to support women-owned MSMEs, including by identifying them and strengthening their management skills.
- (iii) **Knowledge management and creation of networks:** This component was meant to:
 - a. Generate data to monitor the progress of the action plan and to understand the needs of women suppliers.
 - b. Generate inter-institutional and international networks, such as UN She Trades and the partnership with the Multilateral Investment Fund of the Inter-American Development Bank, to promote women in business in the Chilean economy.

Several initiatives have encompassed these components.

Revised Procurement Regulation and a New Directive

The Public Procurement Regulation (Regulation to Law No. 19.886) was amended to permit social impact evaluation criteria for tenders. This includes criteria on female participation in public procurement. Directive No. 20 (2015) offers recommendations and guidance on the interpretation of the public procurement legal system to support women-owned enterprises. The guidance includes the following:

- (i) **Examples of evaluation criteria:** The directive promotes evaluation criteria in favour of women-owned companies and companies that have gender policies and/or equal opportunity conditions. For the evaluation of the tenders, additional points can be allocated to the bids that meet these criteria. Examples provided include offers by women suppliers or women-owned companies, companies that promote gender equality or increased participation of women in the labour force, or suppliers that can demonstrate that their company has women in decision-making positions.
- (ii) **Tiebreaker criteria:** Additionally, when there is a tie between two or more bids in an evaluation, the bid with the highest points in gender evaluation criteria will be awarded the public contract.
- (iii) **Gender criteria in direct procurement:** For small direct procurement (below a certain threshold), procurement agents can select women (individuals) or women-led microenterprises (less than 10 employees and below approximately USD 80,000 in annual sales).



Women Company label



Sello Empresa Mujer

To facilitate the implementation of gender equality criteria in the public procurement process, ChileCompra launched a label that certifies women-owned companies. Procurers can give a point-based preference to labelled companies in the evaluation of the tenders (ChileCompra, 2018).

The Sello Empresa Mujer (“Woman Company Label”) is attributed to companies that are at least 50% owned by women who also have administrative decision-making power. The label is validated through the Woman Company Certificate under the Chilean Suppliers Registry (ChileCompra, 2019b). Currently, 65,181 individual women and 271 women-owned companies are carrying the Sello Empresa Mujer (personal communication, Claudia Ahumada, 2019).

Capacity Building for Public Procurers and Suppliers

ChileCompra implemented the following capacity-building programs for women-owned and women-led enterprises:

- Face-to-face and virtual training on the development of hard and soft skills for businesses. This includes technological knowledge, understanding public procurement and public sector opportunities, and management and leadership skills.
- A mentoring program for women-owned businesses across the country.

ChileCompra also implemented capacity-building activities for public procurers to increase awareness of the importance of gender equality and how to implement it through public procurement. An online course allowed broad outreach on the new “gender approach to public procurement.” Additionally, gender-related questions were added in the annual public procurer accreditation test.

Over the period 2017–2018, more than 14,000 women and more than 140 public procurers and civil servants received training. This raised awareness and reduced gender biases in public procurement activities (ChileCompra, 2019a).

Public Procurement Platform

ChileCompra hosts the largest e-procurement platform in the country, trading more than USD 12 billion per year and representing 4.2% of the GDP. Each year, 850 public agencies buy from 123,000 suppliers through 276,000 tenders, issue 2,363,000 purchase orders and receive more than 1 million offers (ChileCompra, 2018).

E-procurement facilitates access to public procurement for all suppliers, and, with capacity-building efforts, it now facilitates access for women-owned and women-led businesses. It eases access to information about ongoing tenders, tender documents and the required procedures, and makes that information available on a centralized platform (ChileCompra, 2019a).



2.4.4 Challenges

In 2018 women participated in 36% of public procurement tenders (ChileCompra, n.d.). The contract value for transactions with women-owned or women-led companies increased by approximately USD 1,500 between 2013 and 2017. While participation is at 36%, it remains challenging to increase the percentage of awarded contracts to women-owned or women-led suppliers. In 2013, 21% of the procurement transactions included women-owned or women-led companies; in 2018, that percentage merely increased to 25.3%.

2.4.5 Conclusions

Investing in women suppliers benefits the socioeconomic development of the country. In 2019 ChileCompra received the United Nations Public Service Prize in the category “Promoting Gender Responsive Public Services to Achieve SDGs” for its program More Women in Public Procurement (ChileCompra, 2019a). ChileCompra also joined the United Nations She Trades Initiative. This initiative aims to add 3 million women-led companies to the international market by 2021 (SheTrades, n.d.). ChileCompra contributes to that goal through their work.

ChileCompra’s focus on including women in the formal economy through public procurement demonstrates a new approach to delivering value for money for taxpayers. Through its various interventions, from a revised legal framework to capacity building on technological tools and business skills, ChileCompra scaled the participation of women not only in public procurement but also in the economy and international trade more broadly. The focus of ChileCompra on this strategic issue expressly supports Chile’s gender commitments as part of the SDGs. It ultimately increases social and economic equality while contributing to poverty eradication.



3.0 Lessons Learned





3.0 Lessons Learned

This section captures some of the cross-cutting lessons learned about strategic public procurement reform from the four case studies, despite their variety in scope, sector and issues. The introduction of this paper referred to the need for a systemic approach to public procurement reform, to make it a strategic driver of government policies. Early reforms of SPP were often too narrowly focused on one part of the procurement cycle alone and focused on “greening technical specifications.”

These four case studies illustrate that taking a systemic approach—with strategic interventions in institutions, regulations, frameworks and skill-sets of various stakeholders related to public procurement—can shift a public procurement system from an administrative function to a strategic one. The strategic use of public procurement also helps to fulfill its potential to address societal challenges. These can be different from country to country and region to region but, overall, strategic use of public procurement will be an important enabler of delivering on the SDGs.

The following are the key ingredients of strategic public procurement reform:

1. The definition of public policy priorities as a precursor to public procurement reform

There are strong policy priorities present in all four case studies. These priorities were defined prior to identifying procurement as a tool for delivering these objectives and commitments. Chile and Mendoza have strong commitments to the OECD Recommendations on gender and the SDGs, respectively. In the Dominican Republic, the political weight of the president’s focus on MSMEs has played a significant role. And in Paraguay, family agriculture has been a priority focus to reduce rural poverty. The prioritization of these issues originates from other policy arenas than public procurement and are later integrated as strategic objectives into procurement policies and practices.

2. Evidence-based assessments to identify barriers, challenges and interventions for reform

The case studies from the Dominican Republic and Chile demonstrate the value of investing resources in assessing the current design and functionality of the procurement system. They also show how certain elements and processes impede the access of MSMEs and women-owned enterprises to the public sector. Because government agencies decided to invest resources into collecting and evaluating statistical data and feedback of procurers and suppliers, they were able to identify the wider barriers and capacity-related issues of MSMEs and procurers. These were subsequently considered as issues to be tackled by procurement reform strategies.



3. Capacity building

Building the capacity of both procurement agencies and suppliers is a key and inevitable intervention to successful reform. Capacity building of procurement personnel has to lead to an understanding of the specific priority a government wants to address, why procurement has an essential role to play and how to empower procurement as a strategic element of the solution instead of it simply being an administrative process. Capacity building for suppliers, on the other hand, has to focus on helping suppliers to understand the processes and requirements of the procurement system. Capacity-building activities can also bring the public and the private sectors together to discuss challenges and solutions.

4. The use of technology to eliminate access barriers

In the case of the Dominican Republic and Chile, technology plays an essential role in giving access to new suppliers. Participating in procurement processes can be a frightful experience for its administrative burden. MSMEs and individual suppliers usually do not have the resources to deal with clients that require burdensome bureaucratic processes. Putting in place information and communications technology systems and data management software has simplified procurement processes and made them more efficient.

5. An enabling legal framework

New legislation or amendments are not always necessary to introduce sustainability to the procurement process. However, in these case studies, legislation is strategically used for different purposes: to communicate new policy goals (e.g., Mendoza's support to triple-impact companies), to impose preference for certain suppliers (e.g., Dominican Republic MSMEs, family agriculture producers in Paraguay) or proposed recommendations on procurement strategies and interpretations of the law to support a group of suppliers (e.g., Chilean women-owned and women-led businesses).

6. Procurement agencies leading beyond authority

Procurement agencies in the four case studies went beyond their traditional procurement authority and mandate. They provided tailored payment processes for MSMEs in the Dominican Republic, meeting the key struggle for these companies to bid for public tenders. In Chile, they were engaged in skills building for women. These procurement agencies went beyond their direct sphere of influence and beyond their formal mandate to ultimately improve their procurement outcomes and impacts. This is an important key feature of strategic public procurement.



7. Interagency collaboration and a multistakeholder approach

Collaboration between agencies has proven to be key when repurposing procurement as an instrument to achieve societal targets. In Paraguay, the involvement of the Ministry of Agriculture and the Ministry of Industry and Commerce helped to create an understanding within procurement agencies of family agriculture and MSMEs. In Mendoza, collaboration with the university was important to bring knowledge to the procurers on broader societal issues.

8. Reform is not a one-time effort but a continuous process that needs to be monitored and redirected based on feedback

When procurement strategies are developed to deliver on societal goals, it is important to evaluate the performance of actions that are implementing the strategy. This requires defining key performance indicators and collecting data. For example, in Chile, this helped to monitor progress in relation to the action plan.

9. Know your supplier

Gathering data from the targeted suppliers creates baseline information on what they produce or offer, their timing and their constraints in responding to demand. Market assessments, such as in the Dominican Republic, or public–private dialogues, such as in Mendoza, are strategic tools used to fully understand the offer.

10. The importance of communication strategies

A dedicated communication strategy will help to disseminate opportunities for contracting with the public sector to a wide range of suppliers. Furthermore, a communication strategy and efforts such as in the Dominican Republic help to emphasize the importance of public procurement, raise the profile and help upgrade the branding of the procurement profession (Casier et. al., 2015).

The LAC region has made important progress on SPP in the last decade. Public procurers and their agencies should seize the opportunity to reform public procurement to deliver on the SDGs.



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