



A regular series of notes highlighting recent lessons emerging from the operational and analytical program of the World Bank's Latin America and Caribbean Region (LAC).

A Lesson in Trust Yields Big Rewards in Panama Procurement: \$20 Million Saved in One Contract in 2009 Alone

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Procurement, the strategic function whereby the government delivers goods and services to its citizens, is an area traditionally fraught with distrust and secrecy.

Always a highly charged topic: where is the money spent and how? Enter two procurement officers from LAC, Joao Veiga Malta and Diomedes (Dio) Berroa, who have witnessed a sea change in the public procurement system in Panama. By utilizing a consistent presence and steady provision of technical expertise and assistance, a trust relationship has developed between the small team and the Government's Procurement Office that has had a powerful and lasting impact on the progress of procurement goals.

The country management unit for Central America as well as LAC senior management have played an important role in this activity. "They identified investment instruments to directly finance the Panama procurement reform, monitoring its development through a set development policy lending loans. Furthermore, they trusted us managing non-lending technical assistance, through which we were able to provide just-in-time and demand-driven strategic policy advice on procurement," remarks Joao Veiga Malta, Senior Procurement Specialist, LAC.

The introduction of *PanamaCompra*, the public e-procurement system, allowed an unprecedented opportunity for transparency, speed and efficiency in the delivery of goods and services to the people of Panama. The *PanamaCompra* electronic system serves not only as an effective means to promote transparency in all government procurement, but also as a business tool for companies interested in competing. "The emergence of *PanamaCompra* changed everything for procurement," states Gustavo A. Guzmán, Director de Políticas y Gestión de Compras of the Republic of Panama. "Suddenly we were able to keep up with today's trend for



improved value and faster program delivery. Our business base became responsive and demand driven, which was an innovation for us.”

However, the procurement office did not want to cast about for technical consultants to implement procurement solutions, they wanted to work with those they knew and trusted to do the job: the Bank’s procurement team.

“With the new e-platform, we worked closely in a technical advisory capacity with the procurement office,” comments Diomedes Berroa, Senior Procurement Specialist. “Suddenly, they did not want to hire consultants to manage e-procurement – they wanted us, personally, to offer technical expertise.”

Joao and Dio were willing to comply in order to build a high level of capacity with the client. The two worked out a service-level agreement with the procurement office with the edict: You do your part and we will do ours. Together they built a partnership with agreed upon milestones. “This kind of just-in-time technical assistance built on trust moves reform,” observes Joao.



Fuel for the Future

It didn’t take long for the partnership to yield astounding results. In its quest to reduce fuel charges on its fleet of vehicles, the government wanted to consolidate the buying of petrol by using bulk purchase. This introduced the issues of storage, price variations and corruption.



The team put together a better plan. With the Bank procurement officers acting as technical advisors, the country procurement office introduced a different model: gas purchasing cards, called “fleet cards”. By linking each car to a specific purchasing card, the office developed a system of charging fuel for government-owned vehicles to specific cards, which tracked the usage, mileage and distance of each vehicle. Cards were issued to individuals assigned to the cars, which ratcheted up the accountability of usage.

The results were outstanding. Panama was able to save \$20 million in petrol in 2009, approximately 50% of the fuel budget. Where 70 government agencies were previously consuming 100% of the budget, 280 agencies are now served while their total consumption has dropped by 10%. The increase in governance has been remarkable.

A Bottom-Up Success

It didn’t take long for the word to spread on the team’s achievements. “We got a request from General Comptroller Gioconda Torres de Bianchini to meet with her senior staff regarding the success of the procurement office,” remarks Joao. “The need for expertise is critical and it is an effective entry point for frank and honest dialogue.” He continues,

“The hands on assistance and expertise have offered a value and reached areas where no other business methods have succeeded, and as a result has given us access to high level decision makers.”

Other countries in the LAC Region, such as Argentina and Guatemala, are taking note and sending letters to the procurement officers with requests for the same type of support. “It’s truly humbling to know that there are so many procurement offices clamoring for this kind of support,” states Dio, “We appreciate their faith in us, and wish there were more assets to accommodate their needs.”

Several positive moves have been undertaken in Panama to shore up the procurement process. One is the new procurement legislation accompanied by the creation of a separate procurement agency (DGCP), which has shifted procurement in Panama into an effective and strategic role with substantial benefits to productivity and governance. For the first time, a central agency provides a mechanism to standardize procurement processes, strengthen procurement governance and engage in strategic procurement planning to support budget execution together with national and agency strategic planning. The existence of a lead agency with the supporting legislation has provided the capacity for the first time to lead reform for the effective application of information technology with the potential to transform procurement, administration and budget execution. “Our clients are learning that procurement is largely a management function rather than regulatory function,” observes Joao.

Procurement: Where the Rubber Hits the Road

By converting government funds into goods and services which directly benefit citizens, public procurement is a strategic function which is the government’s instrument for delivery of these goods and services to its citizens.

When the procurement process is weak, political and community priorities are under-delivered, governance is poor and the public trust is eroded. Without procurement strategy and planning, there

cannot be efficient management, budget planning or control.

At one time, Government buying was simple, involving plain goods, a few services and warehousing. It has now moved from a back office function to a strategic management function with just-in-time purchasing which can involve high value transactions with complex specifications. While this can involve greater risk, it can also generate higher efficiencies.

The strategic importance of the procurement process is being increasingly recognized by governments around the world because weaknesses in the system undermine community and economic benefits from the government. Significant trends have included the integration of national and regional government strategic planning with the budget development processes, which forms the foundation for monitoring and evaluation of the budget. There has also been increasing attention to the methods and processes of delivery of budget objectives.

Hand in hand with the *PanamaCompra* e-purchasing system, is the addition of framework contracts, a new system of public contracts with one or more proponents for the acquisition of products and services with prices and terms determined for a defined period of time.

“People want results, and as a consequence there has been a management trend away from process



and regulation and towards outcome performance,” states Diomedes. Even for the procurement of simple goods and single services there are requirements for improved outcomes in terms of lower prices, better supplier performance and more flexibility in delivery and product specifications. This in turn has led to the development of framework contracts.

Framework contracts require very significant monitoring and evaluation systems to support their management. This requirement for management information has led to greater application of information technology in this area, which has also strengthened governance by automating many of the more mechanical processes and allowed procurement expertise to focus more productively on management issues.

Miles to Go

While astounding progress has been made in Panama procurement in the last 5 years, there still remains a dearth of technological application which is reflected in a lack of timely and comprehensive management information about most components of procurement. This undermines monitoring and evaluation as well as the budget process. Also, insufficient advantage is taken of the capacity to leverage government buying to obtain better prices and to reduce the cost of processes and timelines, and to help offset the shortage of procurement capacity.

With dedicated Senior Procurement Specialists Joao Veiga Malta and Diomedes Berroa on the case, Panama procurement is growing more secure in its technical abilities and is building capacity with confidence.

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“Panama procurement is making a substantial impact with real time, just in time deliverables,” remarks Joao. “The reward is that procurement is moving from a transactional model to a systemic, sustainable reform. Our trust relationship is becoming a legacy for the Bank, and as such, it is trickling into other agencies. Goods and services are being delivered to the people. It’s a good thing.”



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