

May 2011

# Procurement, tied aid and country systems in Bolivia

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# Title

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## Foreword

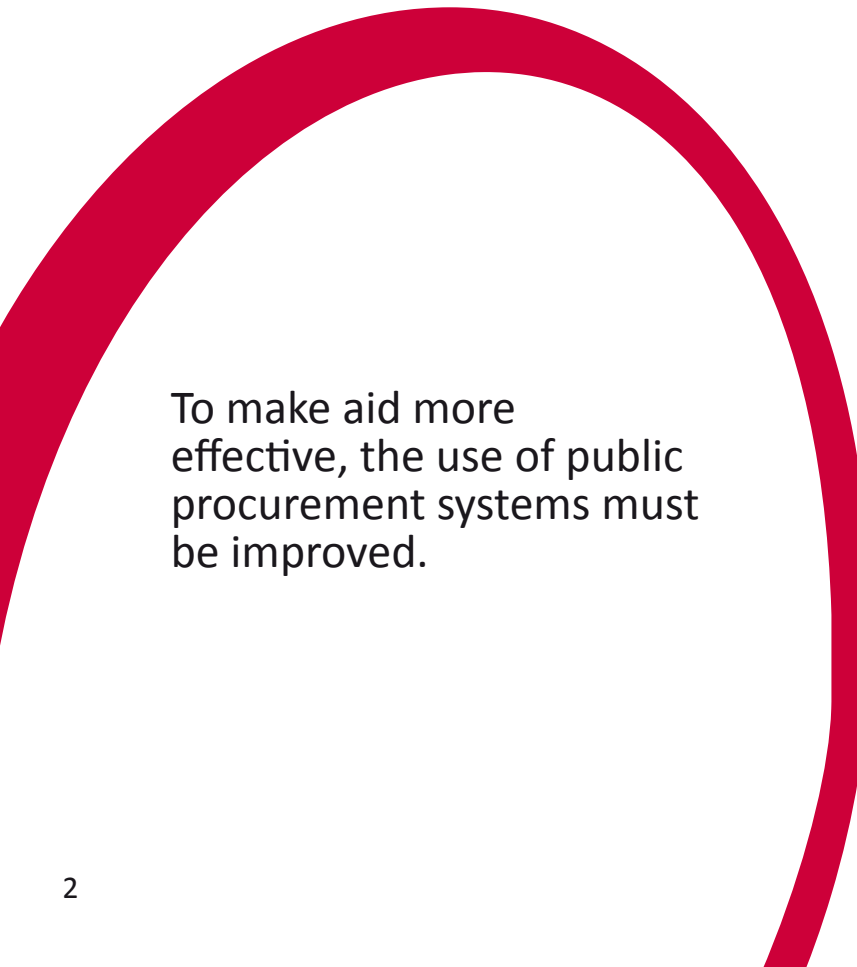
In recent years, Eurodad, its members, and other NGOs have reviewed various aspects of the aid effectiveness agenda. However, there has been little focus on the issue of public procurement, including tied aid. As a result, development NGOs have well-developed positions on topics such as the sources and uses of development funds (0.7%, debt cancellation, etc. and sectors such as education or health), but lack a clear position on how this aid should be used. This report has been prepared with the support of the Fundación Carolina and forms part of a research project based on seven Eurodad case studies. Its goal is to help fill the existing gap by analyzing current public procurement practices and examining to what extent these can be improved to increase aid effectiveness.

In many developing countries, public procurement accounts for over 20% of GDP, making it the largest public expenditure after wages. This makes it an important tool to promote development. In countries that receive a high amount of development aid, procurement expenditure is significantly funded by that aid. For these reasons, donor countries pledged in the Paris Declaration (paragraph 30) and the Accra Agenda for Action

(paragraph 15) to make greater use of national procurement systems. Although the amount of aid delivered through country systems has increased since those commitments were made, the figures are still far from the targets set for 2010. Furthermore, many donors are reluctant to continue along this path.

Another problem is that many donor countries continue to provide “tied” development aid. Tied aid funds for development are dependent on the sale of goods and services from countries that provide funds and exclude those from other states or from the recipient country. Both the Paris Declaration (paragraph 31) and the Accra Agenda for Action (paragraph 18) envisaged an end to this practice; however, the commitments made were rather weak, because the OECD agreements do not demand the end of tied aid in the areas of technical cooperation and food aid. With the publication of “Untying Aid. Is it working?”, the debate about tied aid has regained prominence. This document clearly shows that although many formal barriers have been successfully eliminated, a significant proportion of procurement contracts still favour companies from donor countries.

This research project is based on the premise that to make aid more effective, the use of public procurement systems must be improved. This will increase the impact of ODA and develop the productive capacity of developing countries, so that they can achieve a gradual and sustainable reduction of poverty and inequality. The reports that make up this research project will be used to produce a summary that should help to stimulate the discussions on aid effectiveness at the High Level Forum on Aid Effectiveness in late 2011.



To make aid more effective, the use of public procurement systems must be improved.

## Executive summary

Over the past four years, Bolivia's public finances have posted exceptional performance - especially when compared to figures between 1970 and 2005, a period dominated by fiscal surplus. Statistics from 2006 onwards reveal a surplus in the country's public finances, although the 4.5% excess of that particular year gradually fell to 0.1% in 2009.

Bolivia's economic situation has improved a lot over the past four years and this has also made major increases in public expenditure possible. Bolivia is now able to shift from a policy of fiscal tightening to one of active investment, fostering development through the procurement system. That said, it is important to remember that international development assistance has traditionally been the mainstay of public investment in economies such as Bolivia's. This situation has opened the door for International Financial Institutions (IFIs) and other donors to impose conditionalities on Bolivia to introduce reforms that back their preferred development model - a model based on economic liberalization.

This is mirrored in the way that rules governing the public procurement system have evolved. As this paper reveals, many measures have been put in place in Bolivia to stimulate productive activity. Recently, for instance, incentives have been created to promote small- and medium-sized enterprises, rural economic organizations and small producers' associations. Yet there are currently no regulations that insist that development assistance be subject to domestic legislation; as a result, fund usage is governed by bilateral agreements, giving donors more room for manoeuvre.

Despite a positive fiscal balance, the Government's current modus operandi is to access new financing from international agencies and donors. Consequently, the relationship between the Government and development partners is at the core of the public policy agenda, under the framework of commitments laid down in the Paris Declaration and the Accra Agenda for Action.

One of the commitments of the Aid Effectiveness Agenda is to use public procurement systems. This report suggests that in order to build

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trust, country systems should be evaluated according to the OECD's Methodology for the Assessment of Procurement Systems (MAPS). The chief problems here though, is that, this methodology is based on best practices defined by the donors, meaning that its implementation could lead to a package of reforms for the national system, doubtless resulting in total liberalization of the procurement market.

Regarding current use of the public procurement system, this report reveals that three of Bolivia's four largest donors in - the IADB, the World Bank and USAID (although USAID's importance as a donor is declining) - have resorted to their own procurement systems in the main. Yet even more importantly, a significant portion of aid has not been registered in the national information systems, casting serious doubts over the transparency of development assistance in Bolivia and undermining accountability.

Despite these problems, significant strides have been made in aid transparency. Tools such as the Procurement Plan Implementation System (or SEPA in Spanish) funded by the World Bank and Bolivia's State Procurement System (SICOES in Spanish) have managed to increase the amount of information available on procurement processes. But these instruments still need to be improved and simplified to make them more accessible to citizens and civil society organizations.

This report reveals that three of the four largest donors in Bolivia's recent history - the IADB, the World Bank and USAID although USAID's importance as a donor is declining – have resorted to their own procurement systems in the main.

**Recommendations:**

- Any reform of the national procurement system must be addressed on the basis of internal definitions and guidelines that consider and prioritize the policy of encouraging domestic production. This logic should not be subordinated to the vision promoted by certain international organizations and donor countries, either bilaterally or as part of the Aid Effectiveness Agenda.
- Interests and policies that multilateral agencies wish to include in the Bolivian public policy agenda should be channelled in accordance with the guidelines of the Aid Effectiveness Agenda, whilst simultaneously respecting the decisions taken at national level.
- The alignment process should be understood as a one that respects and strengthens country systems. To achieve this, indicators need to be created to ensure that the Aid Effectiveness Agenda does not promote the liberalization of national markets.
- The use of the OECD's country system evaluation methodology should not become a framework of conditionality that imposes systemic reforms.
- To increase transparency, information systems should provide more details about the loan agreements and the contracts that the borrower signs with suppliers and contractors. The information contained in the SICOES and SEPA should be improved and simplified, to enhance access to information.
- There is the need for a thorough review of what happens to the development funds that are not registered in the public information systems.

# Introduction

Over the past four years, Bolivia's public finances have posted exceptional performance - especially when compared to figures between 1970 and 2005, a period dominated by fiscal deficit. Statistics from 2006 onwards reveal a surplus in the country's public finances, although the 4.5% excess of that particular year gradually fell 0.1% in 2009.<sup>1</sup> For 2011, the Bolivian Government plans an active policy of public expenditure management with a fiscal deficit in the region of 4%. In fact, the public investment programme for 2011 represents the second programme in which expenditure in excess of US\$2 billion is envisaged - a considerably higher amount than in previous decades.

The newfound growth of public funds highlights the need to consider two aspects of public expenditure management. Firstly, now that they have resources available, public bodies must face the challenge of allocating these funds to promote change in the production base, both nationally and regionally. Here, the procurement mechanism is an important tool to support or enhance economic activity in certain sectors of our economy.

Secondly, although there is a positive fiscal balance, the Government insists on accessing new financing from international agencies and donors. As a result, the relationship between the Government and development partners is at the core of the public policy agenda, under the framework of the commitments of the Paris Declaration and the Accra Agenda for Action. More specifically, when it comes to the aforementioned implementation of public investment policies that encourage development, the principle of alignment cannot be overstated.

This report takes an in-depth look at the relationship between national public procurement and development cooperation. It starts by putting disbursements from international donors into perspective, before moving on to further discussion of the extent to which country systems are used and to what degree the configuration of these systems has been influenced by development aid funds. This report also considers other key issues related to public procurement, such as transparency, and how this is addressed in the Aid Effectiveness Agenda.

# 1. Features and performance of external financing

In the current development model, private domestic capital and foreign direct investment are considered to be the principal and essential sources of funding for development. Nevertheless, it should be noted that international cooperation has been and remains equally essential for public management. This situation has allowed International Financial Institutions (IFIs) to impose reforms to extend their suggested development model, based on economic liberalization.

## Aid over the past 20 years

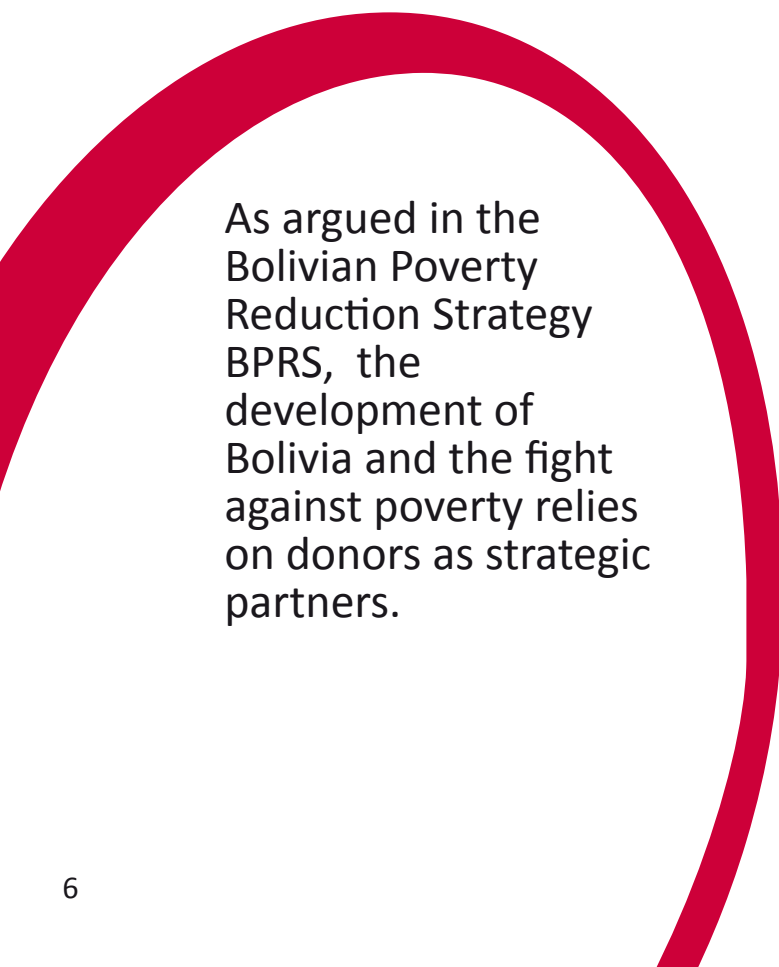
The development plans put forward by a range of Governments emphasize the importance of development assistance in Bolivia. By way of example, it has been argued that development assistance was pivotal in the consolidation of democracy, economic stabilization and poverty reduction at the end of the 80s (Arenas, 1997). It also represented a key source of funding for a variety of development schemes. As argued in the Bolivian Poverty Reduction Strategy (BPRS), the development of Bolivia and the fight against poverty relies on donors as strategic partners.

The Government Plan for the Movement towards Socialism (MAS, Movimiento al Socialismo) states that “new external financing will be geared at public investment strategies consistent with the Plan. With this in mind, donors and the Government of Bolivia will begin the alignment and harmonization of procedures to optimize access to and use of external resources” (Bolivia, 2007). The importance placed on maintaining donor funding is once again noted, but with a particular focus on aligning these resources with strategic development priorities introduced by the Government.

There is also an acknowledgement that access to these funds has depended on the implementation of various State reforms or policies. Viz., the 2002-2007 Government Plan upholds that “International Financial Institutions extend more credit providing part of the new loan in spent on repaying old debts, make adjustments to macroeconomic variables that affect the social sectors such as a wage freeze, a reduction in capital investment by the state, and improved legal terms for foreign companies that invest in the country” (Bolivia, 2002).

This last paragraph clearly recognises the political cost of access to such resources. However, various Governments did not dismiss the use of or access to financial resources from development assistance for their Government programmes. This is largely explained by the fiscal imbalance that has typified public funding. Figure 1 shows that two scenarios for the behaviour of the fiscal balance can be identified. The former reveals a lengthy span of fiscal deficit, which peaked in 1984 at just over 30% of the Gross Domestic Product (GDP).

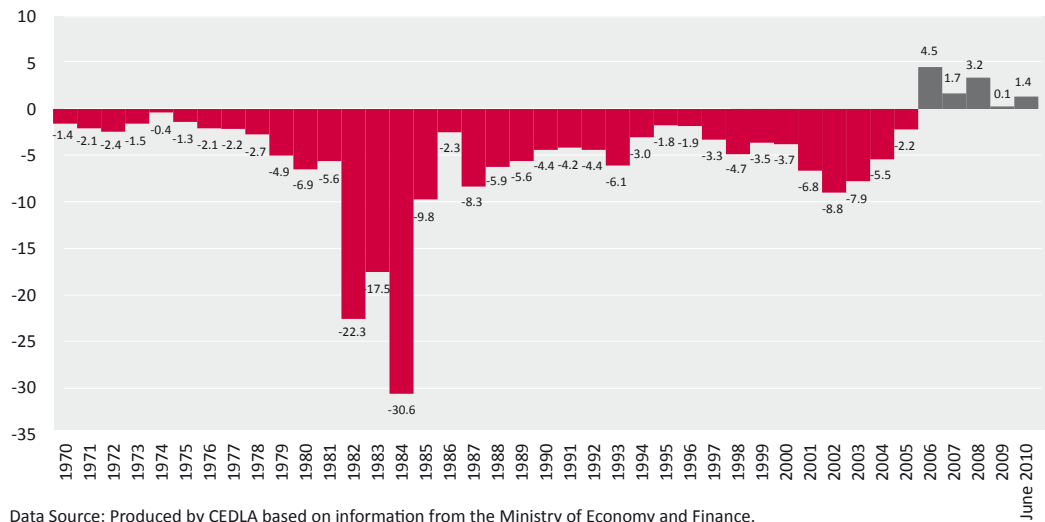
2006 saw a positive balance (over 4%) recorded for the first time, marking a turning point in the balance of public accounts. Since then, the accounts have maintained this positive trend but steadily fell to a surplus of 0.1% in 2009. Although the Financial Law had projected a fiscal deficit of almost 5% in 2010, figures from the Ministry of Finance in June that year reveal an accounts recovery with a fiscal surplus of just over 1%<sup>2</sup>.



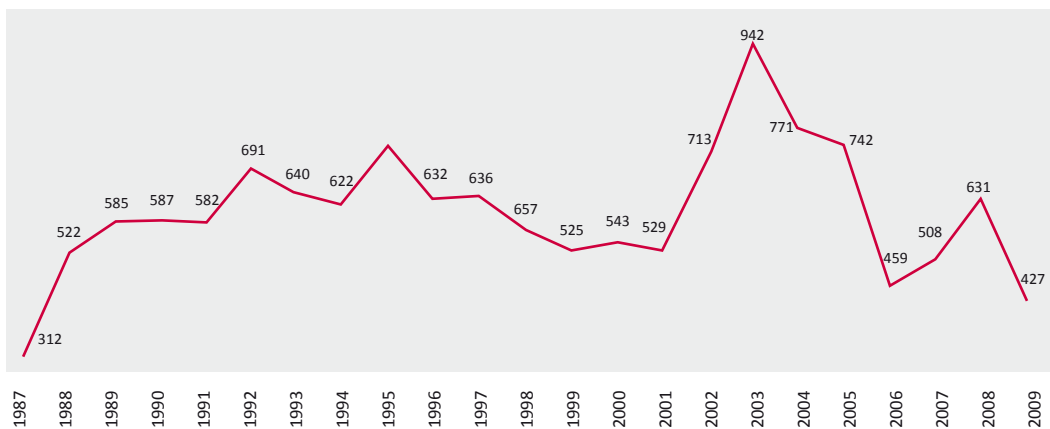
As argued in the Bolivian Poverty Reduction Strategy BPRS, the development of Bolivia and the fight against poverty relies on donors as strategic partners.



**Graph 1. Deficit and surplus of the NFPS 1970 – 2010 (in % of GDP)**



**Graph 2. Aid expenditure (in millions of US dollars)**

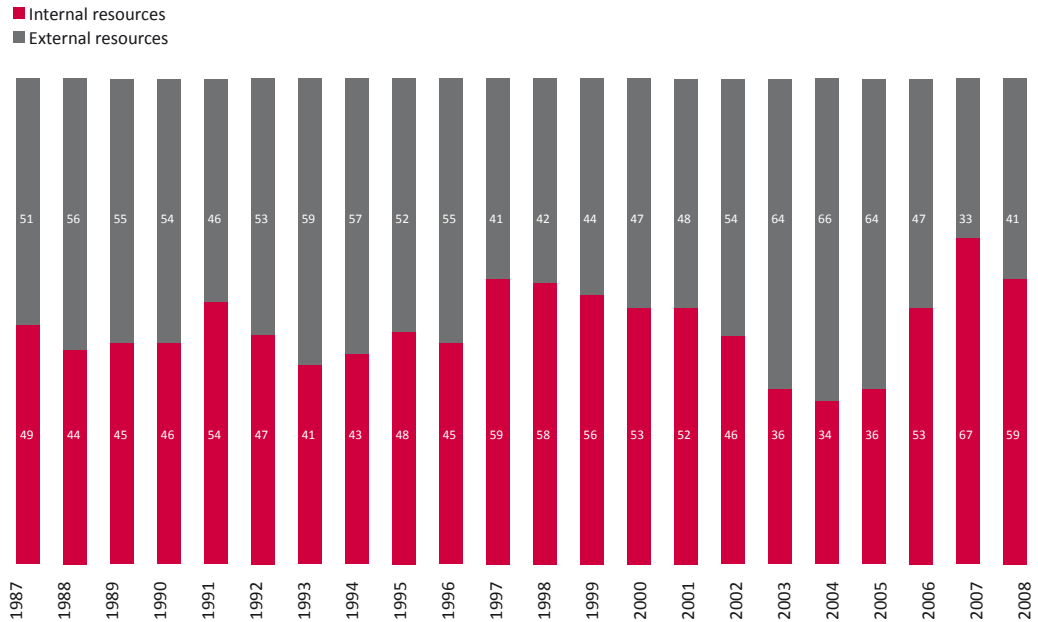


These scenarios go some way to explain the behaviour of development assistance disbursements. As the chart below shows, the period between 1987 and 2003 saw an on-going increase in the resources received from donors. The sharp rise in the late eighties is related to the support lent to stabilization policies implemented in the country. This is also seen in expenditure growth between 2001 and 2003, reflecting the support of donors for the BPRS. Subsequently, the trend takes a downturn, something partially explained through political instability brought on by the fact that the country had three presidents in four years - a situation that undoubtedly led to a lack of coordination between the Government

and donors. In the first term of the new MAS Government, there is a fall in these resources that may be partly related to the delay in drafting the National Development Plan.

With regards to the involvement of external resources in financing public investment, Figure 3 shows a clear upward trend between 1997 and 2004. From hereon, the importance of external resources decreases progressively. This fact has no direct connection to a reduction of aid for public investment - which overall remained constant - but rather to increased tax benefits from exploitation of hydrocarbons. More specifically, the creation of the Direct Tax on Hydrocarbons and higher oil prices were

**Graph 3. Sources of Financing for the Public Investment Programme (%)**



Data Source: Produced by CEDLA based on information from UDAPE.

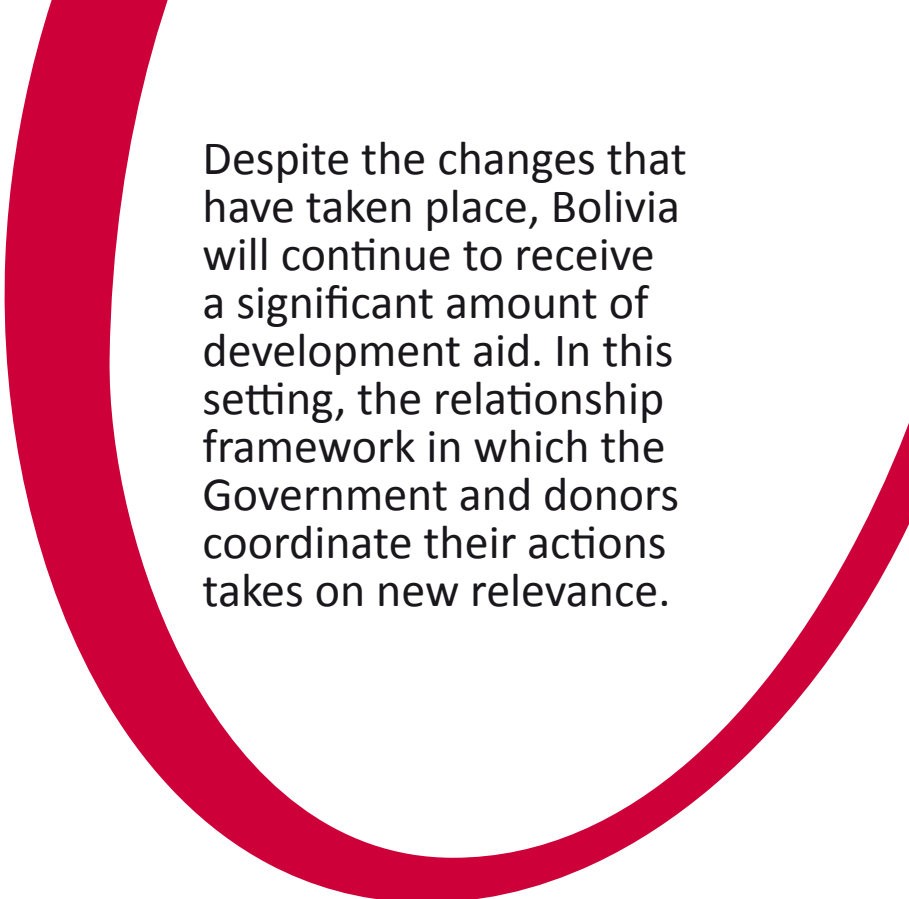
the two main factors that increased national revenues to finance investment.

Aid flows can be analysed from different perspectives. For the purposes of this paper, however, it is important to emphasize the following aspects:

- **Financial flows channelled by donors/development partners to Bolivia are still significant.** These funds have been essential to underpin the vision of development proposed by various Governments to tackle the country’s growing social unrest.
- **Major donors.** A close analysis of disbursements made between 1987 and 2009, according to aid agencies, highlights the fact that roughly 60% of them came from four donors: the Inter-American Development Bank (IADB), the Andean Development Corporation (or CAF in Spanish), the International Development Association and the U.S. Agency for International Development (USAID)<sup>3</sup>.

- **Decreasing expenditure from actors considered as traditional funders.** The analysis of financial assistance<sup>4</sup> the Government received from donors over the past ten years shows that most assistance come from multilateral donors. Out of this group and since 2002 the CAF has been the main entity providing resources to the Bolivian Government, followed by the IADB, the World Bank and the European Union. In the case of USAID, there has been a can see a downward trend since 2003. Information from the Vice-ministry of Public Investment and External Finance (VPIEF) suggests that a renewed contract with this organization is unlikely, so its importance is expected to continue declining.

Transactions from other donors remain on an even keel. However, the results are quite different when breaking down figures by country. Firstly, resources provided by the Spanish Government posted a downward



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trend between 2005 and 2006 and a sharp increase from then on.<sup>5</sup> Secondly, there is a continuous fall in contributions made by the Netherlands. Finally, Venezuela's entry as a donor in 2008 and the sharp increase in disbursed funds in 2009.<sup>6</sup>

- **Bolivia classified as a middle-income country.** Lastly, it should be mentioned that in the midst of this effort, the World Bank declared Bolivia a middle-income country. There are two ways to consider this - on one hand, we must consider possible conditionalities this may imply in macroeconomic policies; and, on the other,

the structure and composition of external finance. This latter aspect is important as Bolivia receives significant funding from the International Development Association of the World Bank, and, with this new rating as a middle-income country, this source of financing may be limited.

In summary, despite the changes that have taken place, Bolivia will continue to receive a significant amount of development aid. In this setting, the relationship framework in which the Government and donors coordinate their actions takes on new relevance.

## 2. The national procurement system versus the rules of donors

### Major Milestones


Public procurement is a mechanism that allows the State to intervene in the market to promote economic activities and social development by stimulating domestic production.

Over time, the regulatory framework for public procurement and contracts has undergone major changes that may be linked to the country's development priorities. As Section 2 reveals, these priorities have been partially determined by the conditionality imposed by International Financial Institutions (IFIs). The guidelines or guiding principles of these agreements were founded on the belief that market liberalization would lead to positive competition in domestic production - "the enhancement of the national industry depends on how competitive it is when compared to foreign producers" (CEDLA 1993). Within the framework of public procurement, this has opened up the market. A series of the rules for public procurement, such as DS 21660, and to a lesser extent DS 216145 and DS 27040, fosters a competitive bidding process between domestic and foreign private firms.

None of the WB or IADB documents exposes specific reforms for the public procurement system; but this does not mean they do not exist. For example, the Country Strategy of the IADB, 1996, stated that one of the difficulties in managing its portfolio was related to the procurement process of goods and services - more specifically to the duration of this. In light of this situation, it was noted that "the Bank, in conjunction with the IBRD [International Bank for Reconstruction and Development], carried out a Procurement Assessment Review, permitting a diagnosis leading to the design of appropriate technical cooperation to facilitate the procurement process in the new institutional environment"(IADB, 1996).

From the above, it follows that the Procurement Analysis & Review (PAR) would have provided a framework of guidelines for reform. The document was never compiled; yet this does not mean there were no suggestions from the IADB on this issue; rather, that if they exist, they would not lead to an in-depth and comprehensive analysis of the public procurement system like the one which the PAR should provide.

By the same token, in 1999, the World Bank approved the Institutional Reform Project (IRP), to address corruption and deficiencies in the provision of public services. This project aimed to reform the procurement system to strengthen the State's institutional capacities to control corruption. Other World Bank documents laid down targets for the development of standards to govern administrative processes, particularly in procurement. While these documents call for specific actions on this issue, there was no documentary revelation that identified the explicit measures supported by the World Bank's within the framework of the public procurement system.



Over time, the regulatory framework for public procurement and contracts has undergone major changes that may be linked to the country's development priorities. These priorities have been partially determined by the conditionality imposed by International Financial Institutions

### **Evolution of the rules governing public procurement**

A core issue in public procurement is the promotion and motivation of domestic production. We will now briefly describe how this has been addressed in the rules on public procurement.

The Seventies witnessed a protectionist State policy, which clearly fitted in with the logic of development fostered during that decade, the “policy of import substitution” (Decree Law No. 15223 of Public Procurement). Following the Eighties economic crisis in Bolivia, this logic gave way to a model that prioritised free trade, yet maintained a certain bias for domestic production (Supreme Decree No. 21660 Economic Recovery).

The Nineties saw the approval of Supreme Resolution No. 216145 on the Basic Rules of Goods and Services, which streamlined the procurement process. In accordance with this resolution, private agents (from the private sector) were no longer responsible for procurement, which now became the remit of public officials. In 2000, Bidding Specifications models were introduced, which laid down individual requirements for contracts. This enabled greater transparency, both by protecting State interests and by providing security to the private sector. As a plus, incentives were brought in for small and micro enterprises, which represent a growing sector in Bolivia (Supreme Decree No. 25964 on Basic Rules of Goods and Services). Finally, in 2007 new procurement guidelines were introduced, including innovative tactics to support domestic production and employment (Supreme Decree No. 29190 on Basic Standards for the Procurement of Goods and Services).

The legislation currently in force is Supreme Decree 181, which replaces DS 29190 and reasserts the importance of creating policies that underpin Bolivian production by generating greater opportunities for all economic players, through the promotion of

There are no current legal regulations to ensure that any monies disbursed by donors should be subject to national rules.

micro and small enterprises, rural economic organizations and small producers’ associations in the recruitment process. This Decree lays down a preference margin of 20% on the price tendered by the foregoing agents involved in the procurement of goods and services under certain tendering procedures.

When considering the management of external resources for the procurement of services and purchase of goods financed by donors, the foregoing rules can be said to respect the mechanisms and procedures employed by international organizations. As a general rule of thumb, the law stipulates that contracts financed through external resources are governed by the specific regulations and the basic rules of those institutions, unless the funding agreement specifies otherwise. As a consequence, there are no current legal regulations to ensure that any monies disbursed by donors should be subject to national rules.

Whilst donors may choose not to channel their funds through Bolivia’s procurement system, Section 3.4 of this document shows that the bias towards domestic companies continues to exert immense external pressure for the removal of such incentives.

## Public procurement: an unresolved issue in the Aid Effectiveness Agenda

The Millennium Declaration (MD), approved in 2000, represented a major change in the conception and practice of development aid. The paper puts forward a global compact to eradicate poverty, in which development aid plays a vital role. Given the failure of the Washington Consensus and the meagre results achieved so far in terms of reducing poverty, inequality and unemployment, the Millennium Declaration sprouted a series of international initiatives aimed at guaranteeing the necessary resources to achieve their goals and ensure that development assistance had a visible impact in developing countries. This gave rise to four declarations that currently form the basis for relations between Governments and donors: the 2002 Monterrey Consensus, which highlights the challenges of financing for development; the 2003 Rome Declaration on harmonization; the Paris Declaration on Aid Effectiveness in 2005; and finally, the Accra Agenda for Action in 2008 that seeks to speed up and strengthen implementation of the Paris Declaration.

### The harmonization process - a first step on the road to aid effectiveness

Bolivia has, to its credit, a wealth of initiatives to improve the effectiveness of development assistance in the country. One such initiative was set up in 1999, when the Bolivian Government promoted an impetus entitled “New Relationship Framework between the Government and donors” (Nuevo Marco de Relaciónamiento entre el Gobierno y la Cooperación Internacional), which resulted in working groups involving the Government and development partners. One of these focused on harmonization,<sup>7</sup> and the work of this group would subsequently fall within the commitments made in Rome in 2003.

The National Plan for Harmonisation and Alignment (Plan Nacional de Armonización y Alineamiento or PNAA) suggests these simplifying and/or harmonizing actions in the following areas: at the outset, budget changes, acquisitions, procurement, and disbursement

requests; and, in the follow-up stage, a number of supporting targets, such as monitoring and assessment, financial reporting and audit presentation.

To provide support for the actions or policies based on the aforementioned areas, the PNAA conducted a cost-benefit analysis of harmonization at three public bodies.<sup>8</sup> The results unwaveringly substantiated the benefits of harmonization. For example, harmonisation means that the average time it takes for project implementation at these three bodies would fall from 93 days to 76. Simultaneously, the application processing costs applications and budgeted amounts would decrease by 2.5% and 4.5% respectively. Finally, the transaction costs of the procurement processes would decrease by 3%, a figure that rises significantly when considering the specific cases of the IADB and the World Bank (25% and 17% respectively).

So far we can state that in the process of aid alignment and harmonization, one of the areas that was considered important is that of procurement. In this regard, the PNAA aims to unify the three standards (the WB, the IADB and the national system) and provide a new national standard.

The paper proposes involvement by staff from the Ministry of Finance, the IADB and the WB. As things stand, we can affirm that implementation of these standards has had no impact - or at least this would appear to be the case, judging by the information provided by the SICOES, which shows that these regulations still apply.

### The Paris Declaration reaffirms and extends the aid effectiveness commitments

The second High Level Forum on Aid Effectiveness, which led to the famous Paris Declaration, reaffirmed the commitments on harmonization made in Rome and the principle of managing for results established in Marrakech. Five principles were laid down in the PD: ownership, alignment, harmonization, managing for results and mutual accountability.

The alignment principle sets a number of objectives with their corresponding indicators.

One of these aims concerns use of country systems<sup>9</sup>: “In the Paris Declaration, developing countries committed to strengthen their systems and donors committed to use those systems to the maximum extent possible. Evidence shows, however, that developing countries and donors are not on track to meet these commitments. Progress in improving the quality of country systems varies considerably among countries; and even when there are good-quality country systems, donors often do not use them.” (Accra Agenda for Action).


In summary, in the framework of the PD, the various Governments are committed to strengthening country systems, one of which is the procurement system. Donors also committed to gradually start using these systems.

Periodic assessments of the commitments were introduced as part of the PD. The first one took place in 2008 and the follow-up evaluation (of which only a draft is currently available) was conducted in the 4Q of 2010. Both documents contain assessments of the commitment to use country systems. Referring to the procurement system, the first assessment states (*Viceministerio de Inversión Pública y Financiamiento Externo*, Viceministry of Public Investment and External Financing, 2008):

- **In terms of actions by development partners:**

Bilateral agencies are the main users of the national procurement regulations. In interviews with officials from multilateral organizations, the ‘Compro Boliviano’ (Buy Bolivian) limitation is brought up as an obstacle, as it restricts competition among domestic suppliers and is incompatible with international agreements and the principles of free competition and equal opportunities. It also states that longer time-frames are given in the process, which would lead increased transaction costs.

Donors believe that the systems, procedures and standards that are most difficult to align are: procurement, financial reporting and auditing systems.



There is no real progress in harmonization of procedures followed by the IADB and the World Bank with those which the Government uses for procurement.

- **In terms of the Government’s attempts to put in place the commitments of the PD, the study stipulates that:**

The public financial management and procurement systems are reliable, but further progress is still required to meet international standards. This would generate the required level of confidence in the donor community;

Systems, procedures and standards that the Government considers should be prioritized in the alignment process are, in order of importance, the following: budget execution, procurement, financial reporting and auditing systems;

It also argues that bilateral agencies are more flexible in their use of country systems.

To sum up, this assessment does not show real progress in harmonization of procedures followed by the IADB and the World Bank with those which the Government uses for procurement. Instead, donors and the Government reaffirm the importance of alignment within the procurement system.

Although the following comments should be taken as preliminary, the draft of the second evaluation states:

- That donor's reluctance to use country systems is decreasing, and in this context indicates that bilateral cooperation uses national procurement and financial systems in the main. This, however, is not the case with multilateral agencies, which prefer to use their own financial systems;
- Under the procurement system, it highlights the transparency resulting from the SICOES. SICOES publishes the annual procurement plans, RFTs and contract awards. The draft also points to changes in the rules aimed at simplifying procedures;
- Particularly remarkable is the following statement: "Although in the past the aim was to bring the standard closer to the World Bank's rules and regulations, the current standard has drifted far from these criteria. This situation seems to indicate that the possibility of using national systems and instruments for procurement by multilateral agencies is even smaller."<sup>10</sup>

Although this issue is discussed in more depth in Section 3.4, one might infer from the assessment that one of the main barriers to progress towards alignment would be the differences between the procurement system, called 'Compro Boliviano', and the principles of the current development model that prioritises the free market.

Perhaps the alignment process would regain greater emphasis and drive if the Government undertook reforms to make the public procurement system a mechanism that satisfies the requirements of multilateral institutions. In this context, the assessments conducted by the current Government in 2009 on the procurement system according to the OECD Methodology for Assessment of National Procurement Systems (MAPS) could play an important role. The impact of this methodology in the process of aligning development cooperation in Bolivia is discussed further in Section 3.4.

### Procurement policies adopted by Governments and promoted by aid agencies

One way to approach the kind of public procurement policies adopted by Governments and promoted by aid agencies is by analysing the rules used in each case. To do this, we have used information between 2001 and the latest available data in the Public Procurement Information System (SICOES).<sup>11</sup>

In Bolivia there are two regulatory frameworks for procurement: a package that meets national standards and one that meets the requirements of two multilateral organizations (WB, IADB). In also note that in the national system, contracting has been regulated by a progressive set of Basic Regulations (Normas Básicas - BR).

An analysis of the information offered by SICOES on the rules applied to each contract (Figure 4), allows us to highlight three aspects:

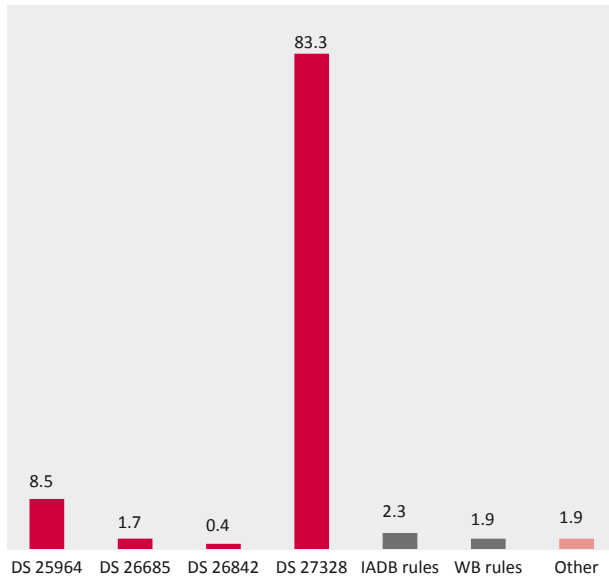
i) 94% of the cases registered by the SICOES have used regulations set by the national procurement system. Within this group we also note that tenders financed with external resources have used national standards. This is the case with the Swedish International Development Association, the Development Assistance Funds of Spain, Belgium, Canada, the European Union, the German Bank for Reconstruction, Venezuela, etc. But this exercise also calls attention to the tenders funded by the IADB, the World Bank and USAID that have employed national standards.

ii) Figure 4 shows that only 4% of purchases used the rules of the World Bank and IADB, which represent around a thousand contracts awarded. If we consider the value of these contracts, the thousand or so contracts awarded under the rules of the World Bank and the IADB reach a total of US \$108 million. This amount represents about 5% of the total value of all purchases.

Whether we measure by the number of cases or by their monetary value



**Graph 4. Breakdown of contract awards by policy 2001-2007 (%)**



Data Source: Prepared based on information provided by SICOES.

Note: The information in the graph does not incorporate the rules set out in Table 1, because of the reference period of systematized information.

(US\$108 million), the number of processes governed by WB and IADB standards is small. Even taking into account how few of the contracts financed by WB and IADB have used national standards in public procurement, it is clear that a significant number of contracts funded by these agencies are bereft of information.

iii) You can also find other donors using the standards of the WB and the IADB to regulate public procurement with resources granted by these organisations. This is the case of the CAF:<sup>12</sup> according to SICOES, of 117 acquisitions that were made with funds from the CAF, 21 used the standards of the World Bank. Another striking case is that of Japan, which has used the WB standards in 78 cases.

iv) Finally, the information indicates that other standards are also used for awards, but unfortunately no details are available in this regard.

If we analyze the contracts by funding source, SICOES displays tenders financed by internal resources, external resources, and a

combination of both (Table 2).<sup>13</sup> A breakdown of the high-on 2,500 awards exclusively funded by donors shows that of 2,479 cases, 2,427 are awards which were funded in full by a single donor, while the remaining 52 cases combine more than one source of external financing. Of the 2,427 awards, only 1,482 used national standards. The 52 mixed funding awards involve assistance from the IADB or the World Bank and other donors. In such cases the rules used for procurement were those of the IADB or the World Bank. But there are also cases where donors used the rules of the national system, despite the presence of resources from the WB and the IADB.

By processing the information according to type of contract (Table 3), we observe that 51% relate to consulting—knowledge-based services such as project design, consultancy, training, auditing, systems development, studies and research, technical supervision, and so on. Among these contracts, there are 1,065 awards referring to contracts for individual consultants – in other words, 42% of all awards funded by donors (2,479). In value, the 42% figure lacks representativeness, as we are talking about

**Table 1. Number of cases by funding source**

	<b>In Bolivianos (Bs)</b>	<b>Nº of cases</b>
External financing	1.371.852.865	2.479
External financing and NGOs	78.979.755	102
External financing and HIPC funding	29.003.050	41
HIPC and Government	195.034.869	182
HIPC	186.265.193	256
HIPC and NGO	74.367	1
Government funding	11.685.227.310	17.201
Government funding and external financing	2.544.751.647	4.930
NGO	4.572.350	10
Government funding and NGO	7.154.674	14
Government funding and NGO and external financing	3.814.386	1
Government funding and HIPC and external financing	5.602.413	5
Government funding and HIPC and NGO	1.321.620	1
Other	40.312.798	205
<b>TOTAL</b>	<b>16.153.967.296</b>	<b>25.428</b>

Source: Prepared based on information from SICOES.

Note: in 2007 the information base of SICOES was systemized. This table is based on that information, so it is possible that the figures have since been adjusted or updated.

US\$8 million.<sup>14</sup> But if we take an average of that figure, we are looking at about US\$7,000 for each consultancy contract. This figure is fairly high, given the average income in the country, which contributes to deepening inequality. Moreover, these are resources that do not add to the country's wealth, i.e. the gross fixed capital formation. This situation certainly warrants further study, but that would require additional information, not yet systematized at the time of writing.


Analysing the SICOES data allows us to extricate valuable information on the use of country systems for distribution of aid funds. As noted

above, a number of donors use the country systems - mainly, the Swedish Agency for International Development, the Development Assistance Funds of Spain, Belgium, and Canada, the European Union, the German Bank for Reconstruction and Venezuela. Contrasting with these donors, the WB, IADB and USAID notably use their own systems. In addition, just over 40% of all contracts financed by a single donor do not resort to country systems. Lastly, mention must also be made that a significant portion of aid resources, mainly from the WB and the IADB, is unregistered in SICOES, leading to a serious problem in terms of transparency and accountability.

**Table 2. Contract awards funded by external resources according to type of contract**

	Case	Percentage
Property rentals	4	0,2
Real Estate	56	2,3
Furniture and consumer goods	445	18,0
Consulting	1272	51,3
Drugs	6	0,2
Construction	507	20,5
Insurance	3	0,1
General Services	135	5,4
Legal Services	2	0,1
Technical Supervision	49	2,0
<b>TOTAL</b>	<b>2479</b>	<b>100,0</b>

Source: Prepared based on information provided by SICOES.



A number of donors use the country systems - mainly, the Swedish Agency for International Development, the Development Assistance Funds of Spain, Belgium, and Canada, the European Union, the German Bank for Reconstruction and Venezuela. Contrasting with these donors, the WB, IADB and USAID notably use their own systems.

### Characteristics of the procurement system of selected donors

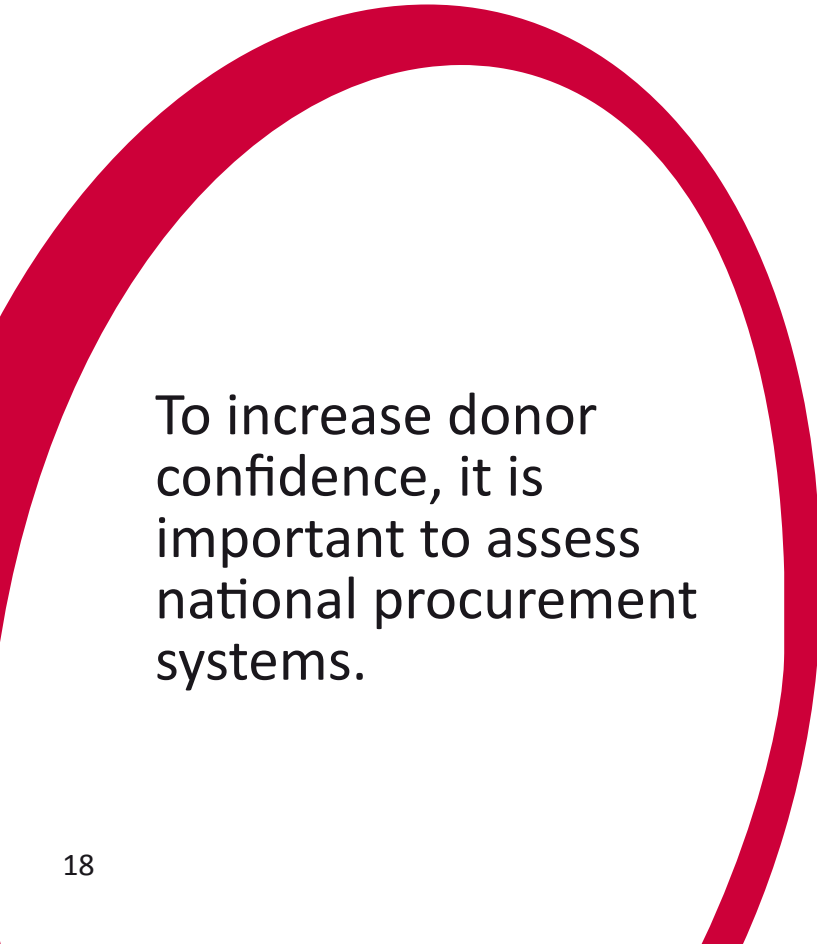
Historically, there are four players who have provided the Bolivian Government with large sums of money, either through loans or grants. These organisations are the IADB, the World Bank, CAF and USAID. Of these four agencies, the IADB, the World Bank and USAID have their own regulatory framework for the procurement of goods and services.

The assessment conducted in Bolivia on the management of public finances in 2009 -based on the methodology of the evaluation of Public Expenditure and Financial Accountability (or PEFA)- would confirm the above. According to the report, USAID does not use country systems, although the WB and the IADB occasionally follow the national payment and accounting procedures<sup>15</sup>. The PEFA considered disbursements from 2006, 2007 and 2008 for this report, and it is possible that in those years the USAID portfolio ignored the national system.

According to the PEFA, the CAF uses national procurement rules, but the SICOES data reveals that that this donor has used the World Bank's standards in some processes.

The PEFA points out that at least 50% of funds disbursed by donors are administered through country systems.<sup>16,17</sup> Unfortunately, there is no baseline which would enable us to study the historical evolution in usage of these systems.

As discussed in an earlier point, the national procurement regulations do not require international institutions to comply with the rules of the national procurement system. In this context, the adoption of national standards is an in-house decision for the agencies. It appears that the IADB is trying to bring the procurement process into line with national practices. A few months ago, it was reported that the IADB would approve a policy to use country systems in its operations. This would seem to imply that the IADB wants to "rely on country systems" and would be replacing the logic of "he who pays the piper calls the tune" with a model that accepts the use of country systems.



To increase donor confidence, it is important to assess national procurement systems.

**Table 3. Use of country systems by donors**

Donor	Country systems			
	Procurement	Payment/Accounts	Auditing	Monitoring
CAF	YES	YES	NO	YES
IADB	NO	YES	NO	NO
EU	YES	YES	NO	NO
GTZ	NO	NO	NO	NO
KFW	YES	YES	YES	YES
WB	NO	YES	NO	NO
JICA	NO	NO	NO	NO
USAID	NO	NO	NO	NO
Netherlands	YES	YES	NO	YES
Denmark	YES	YES	NO	YES
Belgium	YES	YES	YES	YES

However, the IADB remains somewhat distrustful of the national procurement system, and therefore all IADB operations are performed within the framework of their policies. This is also the stance taken by the WB, which insists that procurement for the existing portfolio of projects should be implemented in accordance with their own rules.

To increase donor confidence, it is important to assess of national procurement systems. Here, it is worth mentioning the significance of two diagnostic tools: on the one hand, the report of the Country Procurement Assessment Report and on the other, the OECD Methodology for Assessment of National Procurement Systems (MAPS).

The MAPS methodology is of special relevance in Bolivia. In 2009, the country began a diagnosis of the procurement system. It would seem there is already a draft version of this document, but that it has yet to be sanctioned by the Ministry of Economy and Finance. The Group of Development Partners in Bolivia (Grus) has reportedly recommended the completion of MAPS,<sup>18</sup> as a condition to start providing budget support.

According to MAPS, for a national procurement system to be accepted it must comply with best practices in the 54 indicators that underpin the assessment (IADB, 2010). The complication here is that these indicators are based on “best practices” as they have been defined by the IFIs and developed countries, and they therefore place great stead on a capitalist vision and market liberalization. In this sense, the completion of MAPS creates an environment conducive to multilateral agencies and donors forcing the procurement system to become more akin to their own vision, rather than using it as a tool to promote the development of Bolivia. The next section develops this analysis in more depth, starting with the policies of the WB and the IADB.

#### **Features of the procurement systems of the WB and IADB**

Both the IADB and the WB have two distinct contracting policies - one for the procurement of goods and services and one for hiring consultants. This section does not attempt to describe the individual rules that make up these policies; still less to take a critical stance on their general orientation. It merely intends to bring out certain aspects that are considered

relevant to the discussion of the procurement system and its relationship to aid effectiveness and the harmonization and alignment principles.

One of the centrepieces of the aforementioned OECD methodology is that “Free competition is the basis for efficient public procurement.” In developing countries, this claim generated much debate about the costs that this would impose on domestic production, since it assumes that the public procurement market should involve not only private domestic firms, but also foreign firms. The rules for public procurement of the IADB and The World Bank would aim to ensure that members of these organizations had the opportunity to take part in the awards process, using one of the key forms of tender – the international public tender.

By way of example, the IADB has laid down that one of the central aims of their procurement policy is “to give all qualified bidders from member states of the bank the opportunity to compete on equal footing in the procurement process” (IADB 2007). Similarly, WB rules “require that the borrowers use competitive bidding, whether at international or national level. In addition, in all these bids, the participation of bidders from any country eligible for the Bank should be allowed”.<sup>19</sup>

As we have seen, the principles of the national procurement system do not affect contracts financed by development assistance -since these are subject to bilateral agreements. However, there are rules like DS 181, which try to encourage the participation of the private sector in the national bidding processes, primarily small and medium producers.

Those principles, targeted at promoting the Bolivian private sector, come into direct conflict with the principles and practices of the WB and the IADB. From the standpoint of the MAPS methodology of the OECD, which has been determined by developed countries, the public procurement system in Bolivia would doubtless be negatively evaluated.

This essential difference to the current development model based on an open and free market would represent one of the key reasons

for agencies like the IADB and the World Bank to use their own procurement rules, since these provide an opportunity for member countries of these multilateral organizations to join the procurement market of Bolivia.

As discussed in Section 3.2, the Paris Declaration has proposed that the donors should comply with national procurement rules (alignment principle). It is very likely that in Bolivia this debate will focus on the results of the MAPS once available, which could put pressure on removing the concessional terms currently enjoyed by domestic companies. Thus, instead of respecting and strengthening country systems, the principle of alignment could be a mechanism to promote market liberalization

### **Transparency of the public procurement system**

In the sphere of transparency, we could state that in recent years the public procurement legislation has emphasized access to information. For example, DS 181, currently in force, lays down that the acts, documents and information of the processes of contracting, management and disposal of goods and services must be public. The act provides for the circulation of a series of documents to be made publicly available (the Annual Procurement Program and the Basic Reference for Procurement). It also refers to spaces and mechanisms for the dissemination of documents such as the Bureau of the Parties and the Public Procurement Information System (SICOES, in Spanish), and establishes a system to file administrative appeals.

The SICOES provides information on procurement and other processes from 2001 onwards and is an important tool for the dissemination of information about the public procurement system. But this system does not provide thorough stage by stage information on the processes for procurement of goods and services. There are also 10% of entities that have no records of the contracting process, corresponding to 46 municipalities with fewer than 10,000 inhabitants each (EPB 2009). Therefore, the SICOES is an instrument that still needs certain adjustments to make procurement information more transparent.

With regards to administrative appeals, the assessment by PEFA conducted in 2009 concludes that the mechanisms for complaints and resources listed in DS 29190 are limited, have arduous conditions for those that wish to use them and are intricate and ineffectual. The current rule, DS 181, sets out some changes to DS 29190, but still has certain restrictions. Therefore, one surmises that the findings of PEFA remain valid.

In short, the public procurement system has guidelines aimed at increasing transparency of procurement processes. Yet the means available, such as SICOES, still fail to provide full accessibility to all information. Work must therefore continue to ensure that the population has access to information, and that this information can be understood by users and not only by experts.

#### **The transparency of aid agencies**

Institutions like the IADB and the World Bank have set up active policies to increase transparency and reduce corruption in procurement processes. Here, it is important to mention the Procurement Plan Implementation System (SEPA in Spanish), which is an Internet platform developed in 2006 by the World Bank

to provide public access to contracts executed in the context of portfolio investment in countries of the region.<sup>20</sup> In July 2008, the WB and the IADB signed an agreement memorandum of understanding for the purpose of joint usage of this tool.

This mechanism could be an important tool for monitoring the procurement processes in the medium to long term. The SEPA provides public access to basic information on all contracts drawn up within the framework of projects financed by the WB and IADB.<sup>21</sup> This information is presented in the form of procurement plans, where project implementation units put forward their plans for tenders and activities to be carried out over a period of 12 to 18 months. Accordingly, SEPA provides information about individual project planning, progress in its implementation, and the specific details of each contract funded under the project.

This system has only been running for a short period of time and it is likely to consolidate and expand its sources of information in the coming years. For example, it still lacks information on many countries. In any case, the instrument is interesting as it allows us to contrast information from SICOES with that from SEPA.

## Conclusions and recommendations

The use of public procurement systems to encourage development could play a key role in Bolivia's fight against poverty, particularly after the significant growth in resources and public spending in recent years.

Despite the progress made, the proportion of aid resources in public spending still remains very high. It is therefore important to discuss with donors the possibility of using the procurement system to promote national development, for the purpose of ensuring their support and increasing the amount of funds that use country systems.

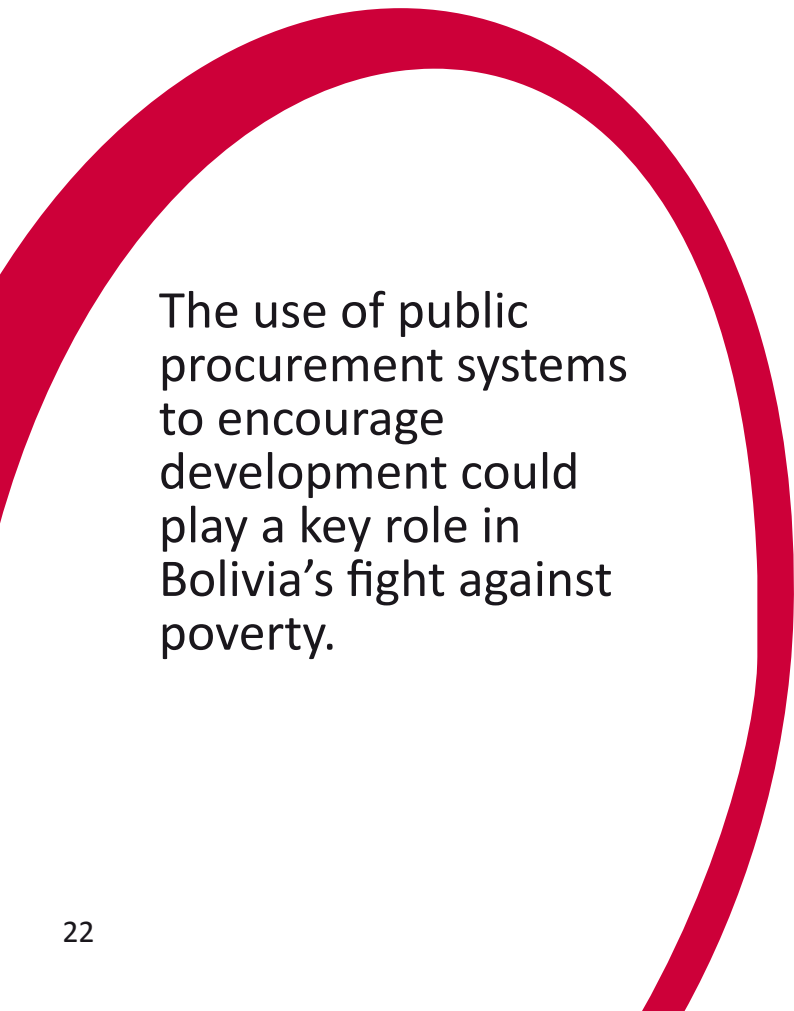
However, any progress in this direction is fraught with difficulties, as national priorities seem to clearly oppose the donors' policies. Currently, the framework for relations between Bolivia and donors is determined by the commitments of the Aid Effectiveness Agenda. This Agenda emphasizes the principle of alignment, and, as is made clear in this report, it could be used to achieve a reform of the procurement system based on the priorities of donors.

In this process, assessment of the procurement system using the MAPS methodology plays a vital role. To date, this is the only comprehensive assessment that puts forward an evaluation of Bolivia's procurement system, an essential part in convincing the majority of donors to consider using country systems. The main problem is that this methodology is based on donor-defined best practices, and its implementation could therefore result in a package of reforms for the national system, which would be promoted as part of the alignment process. Based on the processes underway and the policies of different players, this report shows that the reforms would in all likelihood lead to complete liberalization of the public procurement market.

The information reviewed in this report also allows us to identify some of the key participants in this process. For example, the WB and the IADB seem particularly keen on promoting the liberalization of the procurement market. Indeed, these are the two donors that make the greatest use of their own procurement systems.

In the area of transparency, a review of the rules used by donors in procurement reveals certain omissions that require clarification. As stated in Section 3.3, the value of the procurement does not match the levels of expenditure recorded in other public information systems. Furthermore, not all donors routinely publish information about contracts awarded, making it impossible to identify the beneficiaries or to hold them accountable for their actions.

Regardless of the problems alluded to in the previous paragraph, clear progress has been made in terms of the transparency of procurement processes. However, there are still outstanding issues, such as the need to provide information on each stage of contract award. Both the SICOES and the SEPA are valuable tools, but they still need to be improved to ensure as much information as possible is divulged to the public.



The use of public procurement systems to encourage development could play a key role in Bolivia's fight against poverty.



## Recommendations:

- Any reform of the national procurement system must be addressed on the basis of internal definitions and guidelines that consider and prioritize the policy of encouraging domestic production. This logic should not be subordinated to the vision promoted by certain international organizations and donor countries, either bilaterally or as part of the Aid Effectiveness Agenda.
- Interests and policies that multilateral agencies wish to include in the Bolivian public policy agenda should be channelled in accordance with the guidelines of the Aid Effectiveness Agenda, whilst simultaneously respecting the decisions taken at national level.
- The alignment process should be understood as a one that respects and strengthens country systems. To achieve

this, indicators need to be created to ensure that the Aid Effectiveness Agenda does not promote the liberalization of national markets.

- The use of the OECD's country system evaluation methodology should not become a framework of conditionality that imposes systemic reforms.
- To increase transparency, information systems should provide more details about the loan agreements and the contracts that the borrower signs with suppliers and contractors. The information contained in the SICOES and SEPA should be improved and simplified, to enhance access to information.
- There is the need for a thorough review of what happens to the development funds that are not registered in the public information systems.

## Acronyms

BPRS	Bolivian Poverty Reduction Strategy	PAR	Procurement Assessment Review
CAF	<i>Corporación Andina de Fomento</i> (Andean Development Corporation)	PEFA	Public Expenditure and Financial Accountability Program
CEDLA	<i>Centro de Estudios para el Desarrollo Laboral y Agrario</i> (Centre for the Study of Labour and Agricultural Development)	PNAA	<i>Plan Nacional de Armonización y Alineamiento</i> (National Plan for Harmonisation and Alignment)
GDP	Gross Domestic Product	PRI	<i>Proyecto de Reforma Institucional</i> (Institutional Reform Project)
Grus	<i>Grupo de Socios para el Desarrollo</i> (Group of Development Partners)	GPRF	Growth and Poverty Reduction Facility
HIPC	Heavily Indebted Poor Countries	SEPA	<i>Sistema de Ejecución de Planes de Adquisiciones</i> (Procurement Plan Implementation System)
IADB	Inter-American Development Bank	SICOES	<i>Sistema de Contrataciones Estatales</i> (State Procurement System)
IFI	International Financial Institutions	USAID	U.S. Agency for International Development
IMF	International Monetary Fund	WB	World Bank
MAPS	OECD Methodology for Assessment of Procurement Systems		
MAS	Movimiento al Socialismo (Movement towards Socialism)		
OECD	Organisation for Economic Cooperation and Development		

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## Endnotes

- 1 Information obtained from the website of the Ministry of Economy and Public Finance.
- 2 The Financial Law is the legislation passing the national budget, in this case referring to the proposed budget for the fiscal year 2010.
- 3 According to data of the Evaluation of the Paris Declaration Phase 1. (La Paz, Ministry of Development Planning, VPIEF, 2008.)
- 4 These flows can be: multilateral, bilateral, governmental and other.
- 5 According to figures from the OECD database, in 2005 the Spanish ODA was US\$67 million and US\$52 million in 2006. In 2009, the figure rose to US\$98 million.
- 6 From 1 million Bolivianos (Bs) or US\$137,000 in 2008 to 20 million Bs or US\$2.8 million in 2009.
- 7 Bolivia has a history of participation in coordination and harmonization initiatives, see: CDF, UNDAF, OECD / DAC Task Force on Donor Practices and OECD / DAC Task Team on Harmonization and Alignment)
- 8 The Fund for Social and Productive Investment, the Ministry of Education and the Bolivian System of Agricultural Technology.
- 9 The management system of public finances, procurement, auditing, monitoring and evaluation, and social and environmental assessments.
- 10 Translated from Spanish.
- 11 There is a database of information on public procurement. Unfortunately, this information only encompasses data up to 2007. This can be used as a base as it includes procurement variables that can be best managed with an information processor.
- 12 The 117 awards are for cases that have been financed entirely with CAF funds. Awards financed by the CAF and other funds (e.g. Awards that have more than one source of funding) have not been included.
- 13 This information corresponds to 2001-2007. Although no information was available up to 2009, because it would require fairly extensive information processing, we believe that the data presented in the report can illustrate the main characteristics of the processes employed.
- 14 The total value of awards is 1.371 million Bs (about US\$195 million). It must be remembered that these figures are only for awarded processes (2479) that were externally funded, as can be seen in Table 2.
- 15 However, in previous sections we observe some awards funded by USAID that have actually used the national standards, meaning there may be some minor exceptions.
- 16 The exercise considered the disbursement in 2006, 2007 and 2008.
- 17 For this task four systems were considered: i) procurement system, ii) payment/accounting system; iii) Auditing and iv) Financial Reports.
- 18 The Grus was established in La Paz in December 2006 by several members of international cooperation in the country. Its main objective was to facilitate coordination and cooperation at home and to support, as in the framework of the Paris Declaration, the leadership of the Government of Bolivia in coordination and harmonization of development assistance to improve its effectiveness and alignment and satisfy the objectives of the National Development Plan and the Millennium Development Goals (MDGs).
- 19 Paragraph from a letter sent by the World Bank to the institution .
- 20 [www.iniciativasepa.org](http://www.iniciativasepa.org)
- 21 The content of this paragraph was taken from the SEPA website.



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