



# Technological innovation in public sector reform: Chile's public procurement e-system

*Chile's recently reformed public procurement system shows how information technology can make government more efficient, transparent, and accountable—benefiting citizens, businesses, and public agencies.*

Information technology is changing how people think and perceive the world, fostering innovation and contributing to economic and social well-being. When used in the public sector, information technology can support democratization, make government more accountable, and increase social equity by providing access to information and technology.

Chile's government has used information technology to achieve a customer-driven public sector that is more transparent, efficient, and accountable. Chile wanted to put the government at the service of the people, and so pursued technological innovations that enable the government to meet citizens' needs simply, quickly, and efficiently. To that end, the government developed an information technology strategic plan for 1998–2000.

## Information technology and public sector reform

Information technology does more than just affect the public's expectations of and satisfaction with public sector performance. It also provides a way for the public sector to become more service-oriented and augments its ability to meet those expectations. Information technology can facilitate the development and implementation of public sector modernization—increasing the

efficiency and quality of public services, empowering the public, and putting the government at the service of the people.

- The *efficiency and effectiveness* of services can be increased through the use of e-government. Conducting public transactions electronically makes it possible to eliminate the physical presence—waiting in line, going to multiple offices—often required when filing paperwork. Electronic transactions create a one-stop shop for accessing the services of many agencies, reducing the time spent completing these transactions and the expense resulting from multiple layers of paperwork. This savings enables the government to get better value for its money, because money saved can be used for other purposes to provide better services.
- *Transparency and probity* are increased by publishing government transactions online and providing access to them. This reduces opportunities for discretionary use of public funds, increasing the impartiality and integrity of such operations. In addition, having a traceable electronic record of transactions reduces opportunities for corruption and increases the accountability of public officials.
- E-government *empowers people* by allowing wider participation. Information on the Internet is available to anyone, anywhere,

Information technology can put government at the service of the public

Broad  
political  
and public  
support  
is crucial

at any time. Portals that are open to the public provide easy access to government agencies. This can help generate feedback, foster participation in activities such as bidding for contracts, and increase access to information—providing for a better-informed public.

- E-government can be used as a *management tool* in the public sector. It can be used to harmonize the rules and regulations of different agencies, to better integrate public services, and to aggregate the information held by all government agencies. In addition, the possibility of developing intranets creates the opportunity for better coordination within and among agencies and increases ministries' ability to oversee public services.

### The problem and the response in Chile

So how did information technology affect Chile's public procurement system? Before the Public Procurement Information e-System was established, the Dirección de Aprovechamiento del Estado (DAE) was the main buyer for the public sector. The DAE had lost its legitimacy among public agencies, which started to develop their own procurement systems and procedures. It had weak controls, lacked a uniform legal framework, and was burdened with often conflicting regulations linked to various agencies. This setup made it almost impossible for private companies to know and sometimes even fulfill different agencies' requirements.

Two studies overwhelmingly concluded that the DAE should be abolished. But such a move carried political and social risks—including the potential for conflict between the government and unions.

In 1997 the Inter-Ministries Committee for Public Management Modernization presented a three-year strategic plan to guide the public sector modernization process. The committee created the Communications and Information Technology Unit to coordinate, promote, and advise the Chilean government on developing information technology for employment, information, and communications. One area in which the unit has been

particularly successful is in pushing forward comprehensive reform of the public procurement system. In just a short period, reform has generated clear savings, created a better information market, and increased transparency and accountability in government procurement.

### Elements of the e-system

The Inter-Ministries Committee for Public Management Modernization took several crucial steps to reform Chile's public procurement system.

#### *Building support*

The first challenge for the committee was coping with the political environment and building support for the new system. The committee faced several questions: How could it develop a system that accommodated the diversity of public agencies? How should it deal with resistance to change and the belief that computerization means privatization or downsizing? How would it obtain the resources needed to develop the system, when this was not on the agenda? What should be done with the DAE? How could it build and maintain strong political support for an initiative seen as a technocratic solution with almost no political benefits?

The committee presented its strategy in terms of efficiency and showed the potential savings for the government procurement reform program. These savings could ensure the overall development of the reform program and gain the support of the budget office. The savings were projected to be at least \$200 million a year—equivalent to 1.4 percent of central government spending in 1997, 26.2 percent of spending on public housing, or nearly 12 times spending on employment programs.

To ensure success, the committee sought both political and public support. Throughout the development of the e-system, there was a big effort to gain exposure in the press and to illustrate the benefits of the initiative in terms of transparency, efficiency, and development of Chile's e-commerce capacity. It was explained how the system would increase transparency and accountability

because information on procurement operations would be available online for anyone, at any time, from anywhere and without censorship, and transactions could be traced to the officials responsible for them.

Support was also gained by lobbying political parties, interest groups, private sector advocates, and information technology companies. In addition, the committee gained the support of the Ministry of Foreign Affairs by emphasizing the importance of government procurement in free trade negotiations and the potential benefits of e-commerce in Chile. To maintain political momentum, the committee created a board that included the director of the DAE and representatives from each ministry and agency involved in the reform program.

#### *Design and development*

After gaining support for the e-system, the next step was to forge a partnership with the Corporación de Fomento (CORFO), the agency responsible for encouraging competition and investment in Chile through technological development and modernization efforts. The committee and CORFO's Innovation Fund agreed to solicit bids for the design of the e-system. The contract was awarded to a consortium made up of Chile's largest telecommunications company, a well-known consulting group, and the leading Chilean company for Internet applications.

Twelve public agencies were chosen to participate in the design, development, and testing process. The agencies were selected to represent the range of technologies being used and administrative capacities in place, the diversity in amounts and kinds of procurement operations being provided, and the different stages of the modernization process.

From the perspective of public officials, the biggest change was a cultural switch from an approach based on procedures and regulations to one more oriented toward transparency, accountability, and outcomes. Old rules and procedures had lost their legitimacy because they could not guarantee that the government was procuring goods and services in the best, most impar-

tial way. With the e-system, this power was given to citizens, politicians, and all the people involved in procurement.

The design and development of the e-system produced very positive results. Public officials gave feedback and began to feel comfortable with the system. Over time more changes and improvements were made. Finally, in August 1999 a pilot plan was launched and the entirely Internet-based system went online at *www.compraschile.cl* (translated as Chile procurement).

Even though the e-system's development was straightforward, there were problems with the consortium in charge of its design. Most of these problems related to issues of how to reconcile the possibilities of the Internet and the new technologies with the cultural and administrative realities of different public organizations and the Chilean government as a whole.

In October 1999 President Eduardo Frei signed the Government Procurement Act, which gave coherence to the system, allowed e-commerce transactions, created a new and common legislative framework, and replaced the DAE with a smaller agency. This agency is not in charge of purchasing goods and services. Rather, it supervises the system, provides technical assistance, and negotiates contracts for some commodities.

#### *Functions and features*

With the e-system, companies that want to do business with the public sector do not have to search newspapers or the World Wide Web for information on bidding opportunities. They only have to register themselves in the areas—such as information technology consulting, office furniture, or construction services—where they do business.

When a public agency needs to purchase a good or contract a service, it fills out a request in the e-system specifying the kind of operation and including all the documentation and information associated with the request. The system automatically sends e-mail to all the companies registered in that area, minimizing response times and providing equal opportunities for all firms.

The new approach focuses on transparency, accountability, and outcomes

The potential savings are enormous

The e-system also provides, online, all the information related to procurement operations, including the public agency's profile and the name, title, address, phone number, e-mail, and fax number of the public officer in charge of the operation. Finally, the system gives information on the results of the bidding: who participated, their economic and technical scores, their economic proposals, who won the bid, and historical information on the public agency's purchases and contracts.

The Government Procurement Act makes participation in the e-system mandatory for all public agencies over the medium term. The system will be incorporated gradually, however, to allow for modifications resulting from lessons gathered during the pilot plan.

A private company will manage the e-system as a way to obtain its maximum efficiency and dynamism, generate savings in public administrative costs, and encourage the growth and development of e-commerce in Chile.

#### *First results and next steps*

Between October 1999 and February 2000, as part of the pilot plan, the e-system had 454 suppliers in 75 areas and 16 public agencies registered. The increase in bidding requests posted in the first five months demonstrated confidence in the system. Recognizing the initial success of the new procurement system, in January 2000 the committee called for further development to expand its e-commerce capacities.

### **Enhancing public services with information technology**

Governments are the biggest buyers in all economies. They purchase goods and services to fulfill citizens' needs, and there are moral and political reasons to do so in the

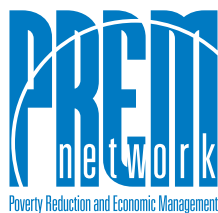
best way possible: one dollar extra paid over the lowest available price is one dollar less available for health care, social security, or public housing. Chile's experience with its procurement information e-system shows the important role the Internet and information technology can play in public sector reforms.

Information technology and the Internet can offer interesting solutions when countries—industrial or developing—are combating corruption and citizens are calling for more and better control of their government. These tools can give more control to citizens, increase the transparency and accountability of government, and generate public value in other areas given the enormous potential savings. Technology also provides new ways to improve public sector management through better oversight of and coordination among agencies. Finally, information technology allows the public sector to more efficiently and effectively serve its citizens' needs.

Chile's government procurement e-system also adds transparency to business opportunities with the Chilean government. It cuts firms' transaction costs. It increases possibilities for feedback and cooperation between firms and public agencies. It improves the information market. And it eliminates incentives to corrupt or be corrupted.

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