GOBIERNO DE CHILE
MINISTERIO DE HACIENDA

Strategic Plan 2002 – 2004

Public Procurement System

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Sistema de Contratación
y Compras Públicas

List of Contents

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Introduction

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This document defines the strategic guidelines and work schedule applicable to the Government's Public Procurement and Contracting plans, defining criteria and priorities in various of lines of action.

Goals

- Attain complete transparency in public procurement in Chile

- Achieve significant savings and enhance efficiency for the State

- Digitalize the purchase cycle throughout public agencies, thus benefiting Chile with the corresponding e-commerce impact and international positioning.

Work Schedule

A work schedule has been designed considering the Chilean Government's past experience and the analyses of comparable domestic and international projects. The implementation strategy includes three phases:

- First phase: November 2002 through June 2003
  Consolidate transparency in public procurement by means of ChileCompra and prepare the Government for e-procurement.

- Second Phase: June 2003 through June 2004
  Implement and extend the excellence a Excellence e-procurement and an e-commerce platform to fully support supplying processes involved.

- Third Phase: June 2004 though June 2005
  Fully consolidate the digital Procurement Cycle.

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Lines of Action and Main Initiatives

I. Public Procurement Management
- 100% transparency policy
- Excellence procurement program for public agencies
- Implementing the new ChileCompra platform in Public Agencies

II Providers management relationship
- Creating the National Suppliers Registry
- Integration Program of Suppliers to System
- Innovation Program oriented to the SME's

III ChileCompra Information and Transaction System
- Improve in the current platform design and operation
- Implement Bidding
- Implement the new system introducing added value features

IV Public Procurement and Contracting Policies and Modalities upon the enactment of the New Public Procurement Law.
- Implement the Framework Contract Modality
- Elaborate and Disseminate Public Contracting and Procurement Policies
- Create the Contracting Court

V Project Management
- Project Management covers every aspect related to the system funding, communicational and disseminations goals.

Priority Goals

- December 2003: 100% of Public Procurement Timely Reported
- December 2004: US $30 Million Worth of Savings in Two Years
- December 2004: 10,000 Suppliers forming part of the System

The plan will be conducted by the Finance Ministry. A Procurement Council has been established in order to monitor the implementation of a number of initiatives. The State Procurement Directorate will implement the work schedule.
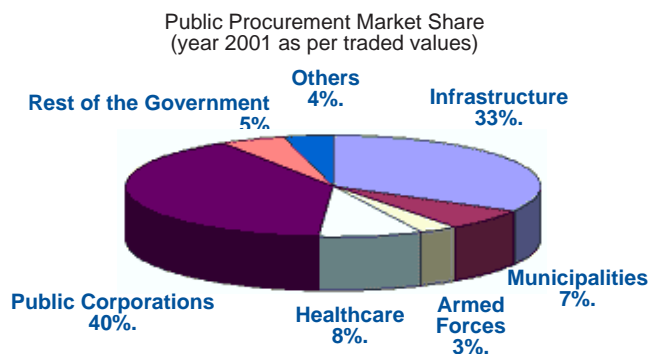
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Background
Information
and Diagnosis

What is Government Procurement?

- Public procurement covers all contracts entered into by the Government in order to purchase goods, services and public works, from the most complex scenarios, such as highway construction, to simple transactions, such as purchasing pens and office supplies.

- The public procurement market in Chile adds up to US$ 7 billion a year, including the different Government sectors. In 2001, the amount of the Central Government contracts, i.e., excluding local Governments and public corporations, specifically added up to US$ 4 billion, whereas public expenditure accounted for US$ 2.6 billion. Note that the amount involved by contracts for goods and services surpassed public expenditure. This is so, because public expenditure only includes items involving expenditures, while contracts for goods and services also include items such as concessions for cafeterias or airports, among others.

- The Government carries out approximately 1,000,000 transactions a year, 80% of them involving public corporations and 20% involving the Central Government. Near 30,000 of those transactions are registered in the ChileCompra portal.

- There are 600 Government procurement bodies, 200 of them being public agencies of the Central Government, 340 to municipalities (local Government) and 60, are corporations or other Government related institutions. The Central Government bodies are the main ChileCompra users.

- Nowadays there are 30,000 domestic and foreign suppliers operating with the Government, 90% of which are SME's.

Public Procurement Market Share
(year 2001 as per traded values)

- Others 4%.
- Rest of the Government 5%
- Infrastructure 33%.
- Public Corporations 40%.
- Healthcare 8%.
- Armed Forces 3%.
- Municipalities 7%.

Source: DIPRES, Budget Directorate

Government Procurement in Chile
(Year 2001, as per public expenditure)

- Public Works 58%
- Goods 18%
- Services 24%
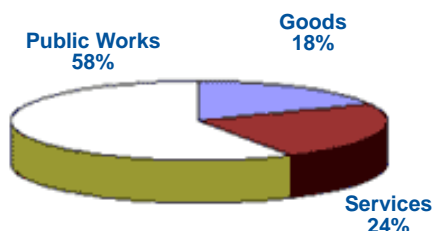
Source: DIPRES

Procurement of Goods and Services
(Year 2001, as per modality)

- Private Bids 6%
- Direct Procurement 12%
- Public Bids 82%
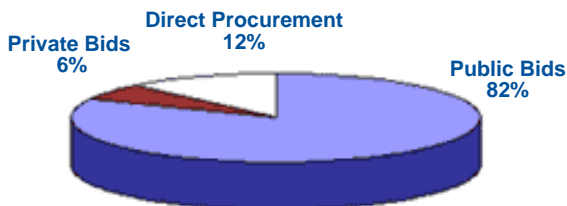
Source: Report on bids and contracting in Chile, Transparency International 2002.

What Does Government Procurement Involve?

- Trust in Chile and the Government.

  International indices clearly show that having an open public contracting system with clear rules improves the country's image, which is always a significant variable when it comes to investment and trade decisions.
  Assuring probity and transparency through a legitimized Government procurement system, where irregularities will be just an exception to the rule, while increasing the Government credibility from citizenry and strengthening the democratic system.
  Demonstrate that public resources are used with high efficiency and that Government contracts are always aimed at maximizing benefits for the citizens will also contribute to achieve confidence from the citizenry.

- Economic Growth Contribution.

  New efficient saving policies and methods to contract goods and services allow for assured fiscal discipline and increased availability of resources for social expenditure and other purposes. Planned and announced procurement results in clear signals to the market, reduces risk and promotes suppliers to provide more innovation and investment. Competitiveness in domestic production and trade can be strengthened by introducing new techniques applicable to both contracting modalities and technical requirements imposed by the Government, thus improving associated products and services.

- A Better Government.

  When managing any organization, it becomes evident that the quality of the inputs strongly influences the quality of the products offered. Therefore, such management ought to be strategic at all times in any company or public institution. Such an approach has certainly not been fully visible for a number of decades and today it is a key factor to meet increasingly complex and stringent requirements from citizens and companies. In addition, modern Government administration turns to outsourcing more and more. Thus, detailed attention to how the goods and services used by the Government are contracted can help assure enhanced delivery of policies, goods and services, thus resulting in a better Government.

- Chile, A Digital Nation.

  The use of information technologies to manage public procurement is not an end by itself. However, it may have an catalytic effect on the Government and domestic companies. Introducing Internet and information technologies to public procurement outcomes in direct assistance to create an e-Government and to make public officers familiar with it. After transferring all of Government requirements to Internet and settling most of the procurement cycle steps over Internet , domestic companies will have to think digitally, particularly the SME's.

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B2B e-Commerce Context

E-commerce implementation worldwide has made significant progress over the past five years and this should be considered when designing a public procurement system for Chile.

Initial forecasts about e-commerce involved an exponential growth in traded sums. However, reality is far different from such forecasting, so B2B e-commerce expectations had to adjusted themselves.

- Both the number of participating companies and traded amounts have remained low. This resulted in many project failures and a strong reduction of the marketplaces and listed stock value associated to B2B technology, e.g., Commerce One stock prices have fallen from US$175 in 2000 to under US$1 during 2002.

- However, these problems do not relate to technology. Instead, they generally relate to business models, trade processes and cultural reluctance. Likewise, available functionalities are not wide enough to support actual business processes and relations intensively and customers are unhappy about expected benefits. Besides, fees applied to marketplace players have had a negative impact, inhibiting their participation.

- Expected marketplace interconnection into a large global trade network is still away from reality in the near future. Instead, direct B2B solutions to interconnect large size companies still exist and replace marketplace interconnection in a number of situations.

- Significant functional integration elements once promised by B2B solutions have not become a fact, among those, logistics and finance. In deed, e-markets with effective operations only support simple business processes based on purchase orders or quotations.

- Technological standards require even more development to be of massive use in business relations. Progress is required in XML standards for business documents, electronic catalogues, ASP applications available for different processes, among others.

- Despite this scenario, analysts remain optimistic as their proposal fundamentals are still valid. There are success stories which, despite being a few or just partial in some cases, show the way to adequately confront the problem. Vertical markets have primarily grown and added value to their traders in specific fields using a global approach (Covisint, Pantellos, Quadrem, Trade Ranger, Elemica).

Learnt lessons

- It is vital to create a baseline demand to assure trading capacity in marketplaces. This item cab make the difference between failure or success. The importance of e-commerce platform adoption by buyers and sellers should not be underestimated. This means assuring the successful entry of a company to markets in every associated step, i.e., training, technology supply, testing, supports, etc.

- Adequate support to business processes between buyers and sellers must be assured. The absence of such support has been a major hurdle in the development of B2B and e-markets.

- Technological flexibility is required to allow for effective integration of companies with different profiles in terms of their capacity to introduce technology and investment.

B2S Status in Chile

- According to the most recent records, there are 26 B2B initiatives in consideration in Chile, though the level of connected or trading companies is rather low.

- From the perspective of functionality to support business processes completely, the current supply is quite limited and the most significant transaction levels are achieved via integration with ERP's in large size companies.

- The use of e-catalogues is rather marginal and there are cultural barriers against their introduction since business practices before Internet did not include such a concept. This situation is clearly different in USA and Europe.

- Massive use has been constrained by the technology adoption issue, together with purchasing power not strong enough to attract suppliers to join in. ChileCompra could leverage traffic, considering the purchase volume in the public sector.

Public Procurement Portals in Chile and Worldwide

- Public procurement via Internet has been more successful than general B2B experiences, even though their functionality scope has been more constricted. So far there are no known experiences of a fully-featured e-supported purchase cycle.

- There are success stories in England, Australia, Canada, USA, Germany, France and other countries, where the purchase cycle via the system involves larger amounts. The most advanced example in Latin America is Comprasnet in Mexico.

- Chile started out as a leader and pioneer in this field. Now it is below the average as a result of progress achieved by other nations. In addition, expectations associated with a five-year communicational line require Chile to show facts and outcomes to reposition itself as the leader it used to be.

> Avoid the opportunity of a new leap, if a new project is released considering the key factors required for these initiatives to succeed.

- Assure volume by effectively integrating buyers with the procurement cycles.

- Develop functionalities to support the business cycle and add value to it.

- Facilitate mass inclusion of suppliers using an appropriate business scheme and rendering it operational through an adoption and support process.

Current Government Procurement Status

Dozens of studies and evaluations in public contracting matters have been conducted from 1994 to 2002 by a number of Government and independent institutions. Taken as a whole they show wide consensus about the current situation in Chile, thus providing a good estimate about Chilean reality in this field.

The Chilean Government has an operational, though average, contracting system for goods and services. There is no crisis on the way, but a number of detected defects need to be tackled. Such deficiencies occur primarily in contracting goods and services, more than in contracting public works, as the latter has regular and widely accepted policies and procedures in place.

Strengths

- Strengths include probity among public officers and their observance of the rules, which is recognized by international indices. Fortunately corruption cases are just isolated.

- Public agencies operate their procurement management in a decentralized autonomous fashion, meeting their respective requirements in the most appropriate way. Nevertheless, increased internal decentralization is required by such agencies.
  It is also important to count among the strengths, with a budgetary system that allow to fully control expenditures for this concept.

Deficiencies

- Multiplicity of rules among public agencies, and minimum evaluation for goods and services procured as well as from their suppliers.

- Low installed capacity to adequately develop quality procurement management in terms of experts and adequate technology available.

- Public sector managers pay little attention to contracting management, which results in professional teams with no experience in this area and a lack of profiting from these modern technologies.

- Incentives for improvement are few, particularly in terms of savings.

- The Central Government has not adequately monitored ChileCompra operations, so information is reaching only 10% of the potential universe.

- Information channels and added value services available to the Government and the market are still limited with regards to contracting processes. Limited transparency in this area gives rise to some dubiousness.

- In most of the cases, contracting management implies high operational costs and extended contract delivery times, generally missing the best prices and quantities of market available goods.

Achievements in Policies and Management

- EIn January 1998, the Board of Ministers for Public Management Modernization approved the policy to be followed in the area of Government procurement and contracting, thus providing a clear signal of guidelines and initiatives to be fostered.

- Based on such policy, a bill was elaborated to regulate that field, which is still being studied by the Congress and is expected to be passed during 2002.

- At the same time the web-based information platform known as ChileCompra was designed and implemented and is currently in operation.

The ChileCompra Portal 1999-2002

- The ChileCompra portal was designed in 1998. As of 2002, this system is announcing requirements and reporting the results of goods and services contracted by the Government, offering different functionalities to suppliers and general audiences.

- Since its introduction in 2000, this system has failed to take off and has a long way ahead to deploy its full potential as it appears to be a very weak project. However, most of Government agencies are members of it.

- From the beginning there were various implementation issues, therefore it created a negative perception and failed to meet the expectations of public agencies and suppliers.

- It has not become a trading site and worth-wise speaking, it has posted only 3% of Government bid and quotation announcements.

- Most of all it has been used to report the results of bid awards, as such reporting is mandatory under a Statutory Decree and budgetary regulations. However, worth-wise speaking, only 10% of Government procurement announcements reportable by the system have been posted in it.

> o The main reasons to understand why ChileCompra failed to take off are: Lack of leadership and management capable of leading the initiative.
> o Cultural reluctance and ignorance of e-commerce tools.
> o Weak positioning of public procurement importance and limited political will to support and monitor the implementation of this initiative.

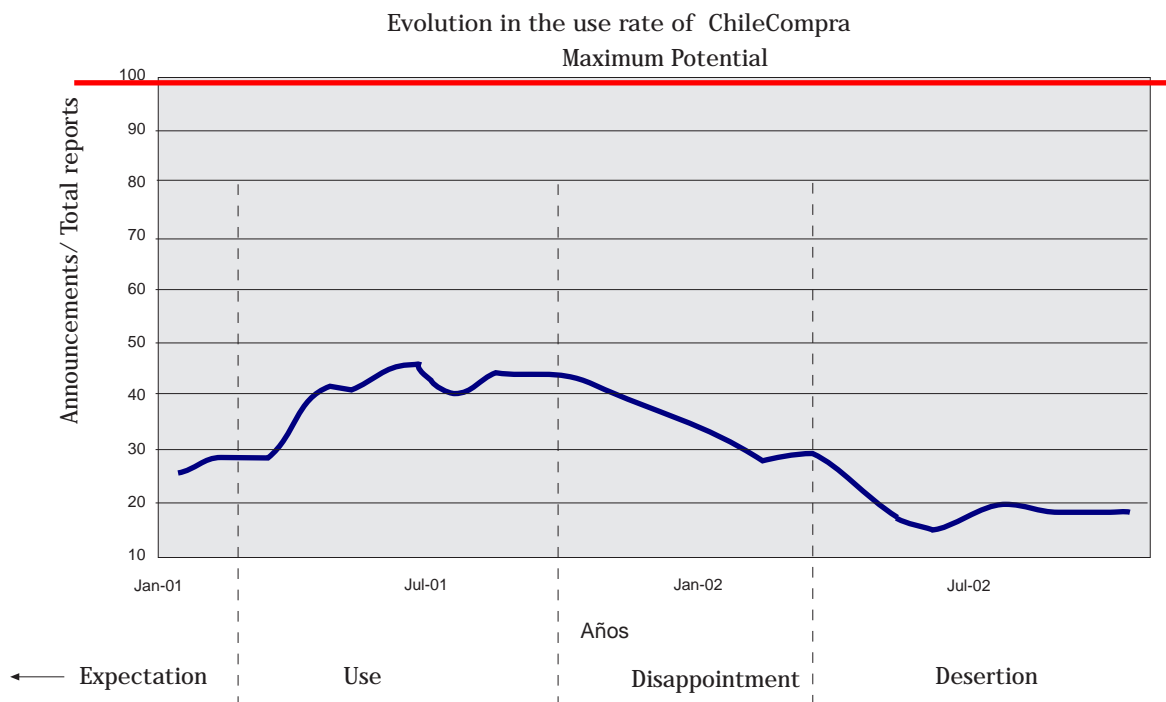As a consequence, evaluation by users is not positive, as shown in the table below.

General satisfaction about ChileCompra.

General Information about ChileCompra	Grade (in the scale from 1 to 7)
1 General operation of the ChileCompra portal	4,9
2 Materialization of Expectations Generated in Your Agency	4,7
3. Functionality of the ChileCompra portal	4,6
4. Helpdesk	5,3
5. Training for Public Agencies	4,7

Source: DAE, Users Satisfaction Survey, November 2002

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The use and position of agencies in relation to ChileCompra has followed the cycle below:

Evolution in the use rate of ChileCompra

Maximum Potential

To conclude, public agencies never used the system completely. Basically, it was used to report the results of contracts entered and only in a few cases it was used to conduct procurement processes.

The table below describes the problems resulting from the system idleness.

Open Issues In ChileCompra

Management	Generate purchase opportunities.	Increase suppliers portfolio and evaluation.	Improve guidelines and avoid ex post information.
Support	Expand training and improvement programs.	Customized service and helpdesk.	Correct errors and specific requirements.
Functionalities	Improve catalogue and the navigation experience.	Include more applications.	Integrate software (avoid duplication).

Source: DAE, Users Satisfaction Survey and Procurement Management Diagnosis Survey for Government Agencies. October 2002.

Out of 257 public agencies, only 9 can be classified as frequent users of ChileCompra as they place quotations and bids on a weekly basis. There are 28 of these agencies posting information before actual purchases. The others basically report the results of bid awards or are not members.

Buyers Statistics on the Use of ChileCompra during 2002

Use of ChileCompra by Buyers (Agencies).	Nº
1. Agencies that use the system frequently (1).	9
2. Agencies that basically (2) announce calls.	28
3. Agencies that basically (3) report results.	109
4. Member agencies that do not use ChileCompra.	18
5. Member agencies (including item 4).	164
6. Non-member agencies.	93
Total Government agencies participating in ChileCompra.	257

Source: ChileCompra, October 2002.
(1) Using the system with over 100 full purchases in a year.
(2) Number of announced purchases exceeding by three times the number of reported purchases in a year..
(3) Number of reported purchases exceeding by over ten times the number of announced purchases in a year.

The situation with suppliers is very similar. There are 6,193 members, but only 577 of them can be classified as frequent users of ChileCompra, out of a potential universe of 30,000 suppliers. There are 2,907 suppliers that have used the system at least once over the past year, which represents a significant Suppliers portfolio to manage if their participation increase is expected.

Statistics From Different Sellers in ChileCompra

Use of ChileCompra by Sellers.	Nº
Frequent suppliers (over 20 bids in a year).	577
Member suppliers bidding at least once in the past year.	2.907
Suppliers that never participated in the past year.	3.286
Total Members.	6.193
Potential Suppliers	30.000

Source: ChileCompra, October 2002.

Evaluation Report from the Independent Experts Board, July 2002

In accordance with a commitment between the Government and the Congress, the Finance Ministry Budgetary Office order a board of independent to carry out and experts evaluation of ChileCompra. The main conclusions are:

• The ChileCompra program allows for improvements in the procurement process transparency, but it can not make a major contribution to increase efficiency in procurement management by public agencies. The program organization and management have not been appropriate, thus impacting its goals. No effective follow-up and monitoring were applied to the program either, therefore, problems affecting its results were not timely detected.

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- The main deficiencies found at www.chilecompra.cl are a misclassification of business areas, information registries misplaced in the wrong categories and late posting of most procurements even after bids have been awarded or processes have been closed, this has impacted the credibility of the site. According to the board evaluation, the program has not deployed its full potential as a result of these deficiencies.

- Summarizing, the program is widely recognized as a good initiative from the Chilean Government. It has helped improve transparency in the public sector procurement processes and, to a lesser extent, their efficiency. Such contribution has been restricted due to design and management problems, thus disappointing many suppliers and some public agencies, and unless corrected, such issues may compromise credibility of this system or any other future substitutes.

Procurement Management and ChileCompra Analysis, October 2002

In October 2002, the State Procurement Directorate entrusted an analysis to systematize the perceptions of procurement managers in public agencies using ChileCompra about the system itself and supplying management. The main conclusions were as follows.

Perception about Procurement Management.

- Public Agencies fail to clearly identify the importance of improving procurement management. Procurement Departments are not very relevant within their agencies. Human resources are not well trained, there are severe infrastructure defects and there is no budget to improve this area.

- The different managers have little interest in, political will to and knowledge about proper management of purchases and contracts, with a few exceptions.

- Any procurement improvement initiatives will not be very successful, unless there are adequate saving incentives in place. It is vital to present the different benefit sources and a reasonable estimate of such benefits to get these agencies committed with improvement initiatives. However, managers could view direct interference in their purchase areas as mismanagement. They are interested in receiving the increased demand benefit and using ChileCompra, but they are not willing to lose their purchasing freedom.

Perception about the ChileCompra Portal.

- ChileCompra makes a contribution to transparency and to generate a higher access for the suppliers, but in general, it is not evaluated in a positive manner. It is used only because Management Improvement Programs "tie to do it". Both the platform and its management are found not to be very reliable, as improvement commitments have been systematically disowned.

- Focused work is required to improve Suppliers certification and assessment. The portal catalogue needs to be improved, since it is a key step to e-commerce.

- DAE (the State Procurement Directorate) is perceived as an agency without leadership and vision to guide a procurement improvement process in the public sector, which reduces its credibility. DAE should not only be a manager, but also a creator of procurement improvement opportunities by a way of a common policy.

Strengthening drivers factors for Public Procurement in Chile

> Beyond a negative diagnosis about the implementation of ChileCompra, in the present there are a number of factors to revitalize the project and a program with initiatives to strengthen the State procurement management.

- President Lagos is strongly committed to propel the ChileCompra public procurement system.

- With the new Electronic Signature Law enactment, many transactions associated with contracting processes may operate using electronic means. New services associated with contracting management could be created.

- Chile will enter trade agreements with the United States and Europe. Both of them include specific regulations to provide foreign companies with access to the Chilean Government procurement market. Chile must be ready to provide them with access to such data, in addition to having efficient objection systems.

- The Pro-Crecimiento (Pro-Growth) Agenda of the Government now includes the Government commitment to pass the procurement law and develop an electronic market.

Public
Procurement
System Mission
and Goals

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Mission

The mission of the Chilean Public Procurement System, ChileCompra, is to develop policies and initiatives to provide the public procurement market with transparency and added value to it by introducing excellence technological and management instruments.

Goals

Primary Goals.

- Strengthen a transparent and widely accessible public procurement system by installing information channels for suppliers and general audience to freely participate in every Government opportunity and contracting result.

- Increase public expenditure savings and efficiency by accessing the best market available prices and conditions and reducing operational costs in contracting management.

Secondary Goals.

- Favor e-commerce and e-Government, encouraging the use of Internet and integrating the procurement platform to other systems in public corporations and agencies.

- Assure quality procurement of goods and services by obtaining the most appropriate supplies to deliver excellence public services to citizenry and companies.

- Support competitiveness among domestic companies, pushing innovation projects by purchasing some goods and services.

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Future Outlook
and ChileCompra
General Pattern

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Future Vision about the Public Procurement System

- Public agencies running their procurement via this system, fully supporting their processes in applications provided for 100% of their requirements.

- Government suppliers with equalitarian and wide access to business opportunities, smoothly operating their trade cycle through this system and making information on their products available to agencies.

- Fully digital business cycle to follow up and audit operations and monitor the system performance.

- Simple and transparent access to information for the community.

- Integration with other public procurement sites in Latin America and worldwide, as well as with other private e-markets.

This vision is based on the gradual construction of a public procurement system that integrates the different entities, roles and elements a full business cycle should include.

In an schematic view:
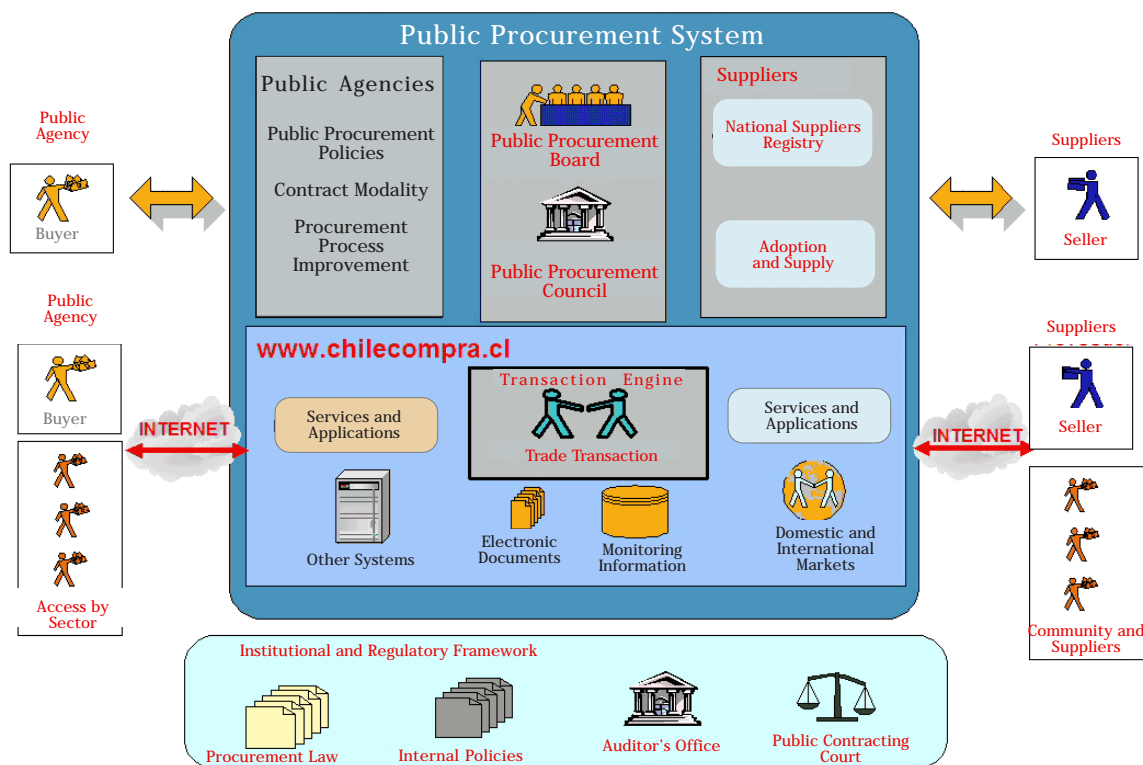
General System Pattern
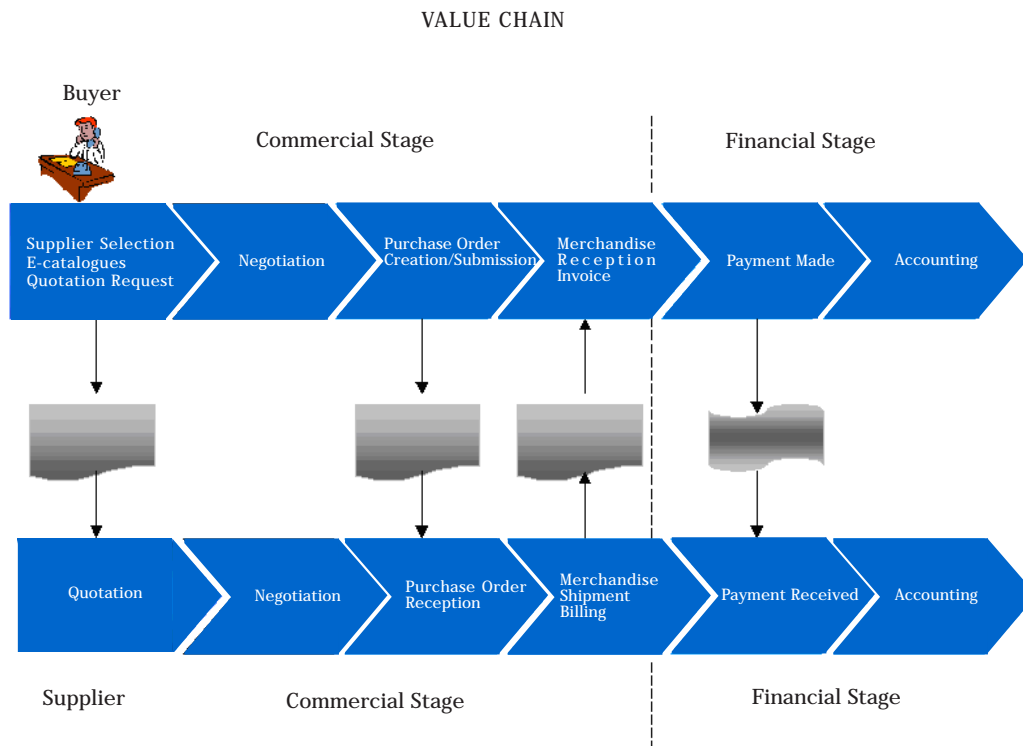
This model includes:

- Organizations and processes for agency procurement.

- Procurement policies and implementation through different business relation modalities.

- Applications, information and trading capacity to electronically support the development of business processes inherent to the procurement.

- Information and management for suppliers to adequately operate in the system electronically.

- Process control and auditing by the relevant organizations.

- Process related dispute resolution.

- The regulatory system defined for the system.

- System operational monitoring and performance analysis.

- Technical assistance and continuous improvement.

Business Cycle Digitalization Criteria

The system should essentially support the development of different business relations and associated processes.

- This implies the capacity to fully solve the business cycles that are developed, considering process shaping interactions.

- Such capacity implies the possibility of digitalizing the business cycle:

  - Full capacity to develop the business cycle stages.

  - Flexibility to adapt to the different business forms and relations with respect for the autonomy of public agencies.

  - Adequate operational capacity, considering sector-based and type-based differences in the procurement processes required by agencies according to the their sphere of action.

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• Turning interaction into e-dialogue:

VALUE CHAIN

Buyer

Commercial Stage

Financial Stage

| Supplier Selection E-catalogues Quotation Request | Negotiation | Purchase Order Creation/Submission | Merchandise Reception Invoice | Payment Made | Accounting |

| Quotation | Negotiation | Purchase Order Reception | Merchandise Shipment Billing | Payment Received | Accounting |

Supplier

Commercial Stage

Financial Stage

- All of these business cycle interactions run on an electronic support.
- Thus buyers and suppliers have services supporting their activities.
- In addition, interactions between buyers and suppliers can be managed.
- Information and transactions are stored and may be audited.

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General
Strategy

The general strategy is based on a set of definitions that guides this kind of processes. Then, the project must be conceived as the implementation of a public procurement system. A decision must be made regarding the effort needed to implement it, as well as about a change in the practices and paradigms applicable to public procurement in order to achieve a transparent, efficient and secure procurement process with its consequential benefits for the Government and its suppliers.

Therefore, a strategy must be implemented with political, regulatory, technological, organizational and communicational components.

Basic Strategic Directions

- Critical Mass in the System: the key to success in any system like this is the actual and quick introduction of an initial critical mass of sellers and buyers. Necessary steps must be taken for this to occur. Thus, the legitimacy of ChileCompra should be highlighted and its actual and practical use rates should be increased, covering 100% of purchases reported before the decision and 100% of purchases reported ex post decision. Appealing functionality should be added in order to achieve this and "anchor agencies" should be included as soon as possible, i.e., excellence and high volume users.

- Appealing, respect for diversity and mandatory reporting: the site needs to be appealing to users by means of specific and useful goals targeted to different segments, but the system should be mandatory for all public agencies and local Governments in terms of ex ante posting of purchases in the system and ex post posting of their results. For that purpose it is necessary to develop adequate tools, i.e., exact instructions followed by incentives and recognition and penalties.

- Savings and cost-free: there are huge potential savings for the Government , specially in using the framework agreements and improvements in the Government purchase policies, such as in software or insurance purchases. That is why it is not feasible to introduce small charges in the system, at least not in the first phase, since it would prevent the project from taking off while not generating any significant income.

- Service diversification: functionality appealing to buyers and sellers will be added, the most immediate examples to be studied being the Suppliers registry, a bid comparative table, information on legislation and best practices, catalogues, transactional operations, claim and objection options.

- Integration of Public Agencies: the information technology tool should be adequately integrated as an information requester and provider with other entities in the sector, such as DIPRES, IRS and the general auditor's office.

- Support to Public Agencies: changing purchase procedures used by public agencies requires a change in their internal management, otherwise, the system will be rendered useless. That is why there will be a pilot purchase management improvement plan applied to "anchor agencies", in order to provide the system with traffic and turn those agencies in excellence centers. This will followed by a purchase management support program when so requested by these agencies.

- Active Communication: an active communicational program will be developed with differentiated segments. For example, procurement officers and managers, suppliers, citizenry and the Government, at the executive and legislative level. This program should convey a clear message about benefits and financial and political requirements for the system to succeed.

Development Stages

The system must be based on a gradual implementation model with three phases covering ChileCompra purposes, priorities and expectations according to the Government capabilities:

First Phase.

- Strengthen transparency by reaching over 50% of timely reported purchases and prepare the Government for the new e-procurement phase. This is a short term phase.

  Period: November 2002 through June 2003. It matches the new bid awarding.

Second Phase.

- Implement and extend the excellence e-procurement and e-commerce platform. Provide the Government with a system to fully support the involved procurement processes efficiently, through the new e-commerce technologies. This system should follow world trends and standards and excellence procurement practices. The first phase in the digital purchase cycle.

  Period: June 2003 through June 2004

Third Phase

- Completely strengthen the digital Purchase Cycle.

  Period: June 2004 though June 2005

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Lines
of
Action

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The action lines to be implemented in the period composed of the years 2002 - 2004 are oriented in the achievement of the defined goals and are structured in 3 areas that will allow us to reach the transparency and efficiency objectives in Government procurement management.

E - Commerce
Platform

Efficiency and
Transparency

Technical Assistance
Public Services

Policy and Procurement
Management
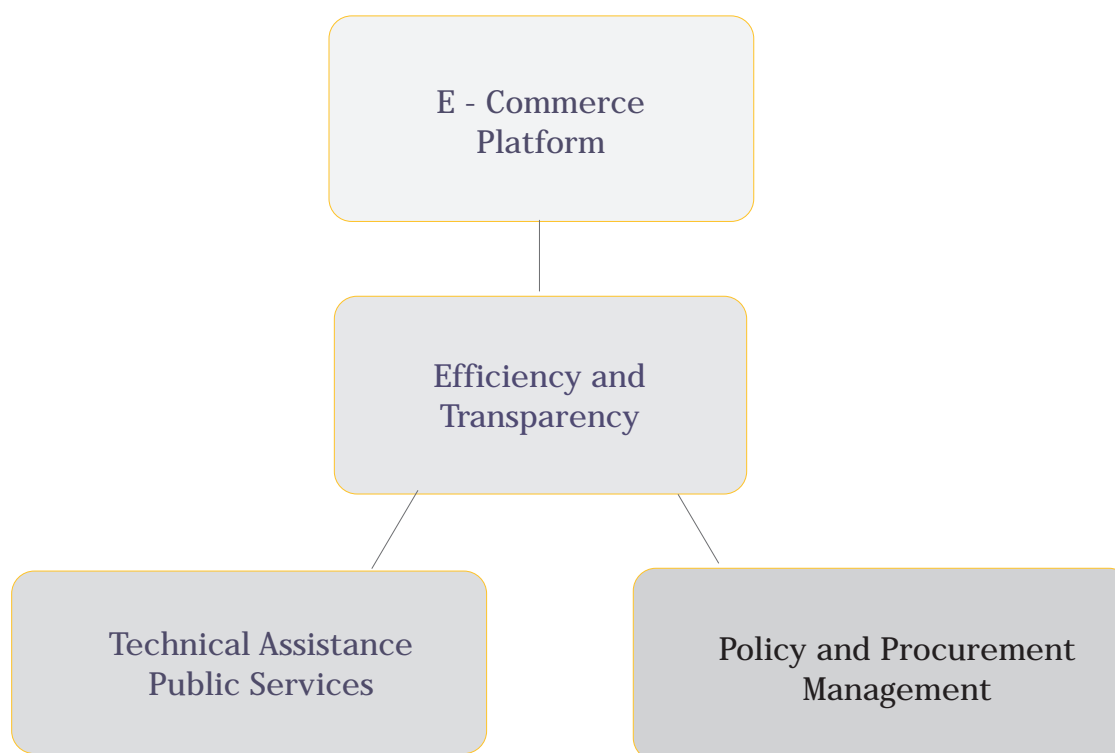
E Commerce Plataform

Through this line of action the public entities will be provided with an advanced E-commerce platform that wil permit the whole of the procurement cycle online.

Technical Assistance

Inititaives aimed at creating the technological, human resources and management capabilities that will allow the user to reach the maximum potential in e- commerce.

Policy and Procurement Management

The Government, thorugh its Ministry of Finance, will establish policy to uniform and make more transaparent the procurement process, as web as implement guidelines and framweork contracts that optimize important items in publice expenditure.

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ChileCompra Platform

Initiative	Description	Period
1 Improve design and operation of the present Chilecompra Model	Before the replacement of the present platform, a series of improvements will be made to the Chilecompra software, functions, contents and graphics.	November 2002 – January 2003
2 Bidding and implementation of the new ChileCompra platform.	The current ChileCompra platform must be replaced with a platform compatible with more functionalities to support procurement transaction processes. As a consequence, an e-commerce model and standards will be developed for the Public Sector. Later on the operation of ChileCompra will be outsourced through a public bid.	Model developed in November 2002. Bid call in December 2002 and bid award in March 2003.
3 Development of complementary services and system marketing	In addition to ChileCompra, the Procurement Directorate will start optimizing purchase cycles of public agencies and suppliers, in areas not covered by the electronic platform. Facilities will be sought in the use of warrants, factoring, payments and other items. For such purpose, the Procurement Directorate will arrange agreements with trade associations, other Government agencies, international organizations, etc.	As of the new platform: June 2003.
4 Integration with other public sector systems: SIGFE, DIPRES	ChileCompra should be a tool capable of integrating and interoperating with the systems of public agencies and public in general. This should be particularly complemented with the Government Financial Management System that is being implemented by the Budgetary Office.	As of the new platform implementation in June 2003.

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II. Technical Assistance - Public Institutions

	Initiative	Description	Period
5	Procurement Management Excellence Program	This initiative is aimed at improving procurement management in every public agency, implementing quality standards in the area. In the short term, 20 public agencies will be defined as procurement management references and then included in a pilot program. In the medium term, such program will be replicated to other agencies. This program will be under the Purchase System of PMG's (Management Improvement Programs) by the Budgetary Office.	June 2003: Program completion in first 20 Institutions. December 2003: 50 Institutions.
6	Procurement Management Education.	Continued procurement management improvement requires permanent training for procurement managers and officers. There will be workshops and a Procurement Management Diploma course will be conducted by Universidad de Chile or other Educational institutions.	First course in January 2003. Thereinafter, every two months.
7	Technical Assistance	In the future, the Procurement Directorate will permanently provide assistance to public agencies as they join and use ChileCompra. A project manager per agency will be appointed to channel any specific requirements. There will be a Helpdesk and a cooperation network will be installed connecting purchase managers and officers. This process will be in coordination with excellence programs, introduction and supply of suppliers in the system, and typical launch phases for the new system and functions.	Trial period from January 2003. Operational from June 2003.

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Tecnical Assistance - Suppliers

Initiative	Description	Period
8 National Suppliers Registry (RNP)	The main purpose is to achieve paperless bids and no extra information requests from public agencies to suppliers. The RNP registry will be connected with ChileCompra and will allow for Suppliers assessment without requesting multiple certificates. Suppliers assessment item will be included in the RNP registry.	Bid in January 2003. Operational in June 2003.
9 Supplier Management and Integration	The ChileCompra operator will be responsible for supplier management, nevertheless, , campaigns will be launched to disseminate ChileCompra benefits and services offered to the Government suppliers.	As of April 2003.
10 Small and Médium sized Industry Program	A permanent policy for ChileCompra will be to find access to public purchases for SME's. For this purpose, added value services will be implemented in logistics, factoring, warrants. Innovation projects will also be implemented in Public Procurement to improve the domestic production supply.	Value added Servicies as of April 2003, Innovation projects as of June 2003.
11 Integration with other Public Procurement Systems	Upon signing trade agreements that involve public procurement, Chilecompra will inform portal member suppliers of the oportunities available. Integration projects with other information portals will be implemented for such a purpose.	Dependent upon the implementation of trade agreements with the European Union and USA.

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Policy and Procurement Management

Initiative	Description	Period
12 1 0 0 % Transparency Policy in public purchases.	This policy aims fort 100% of public purchases reported completely and timely via ChileCompra within the minimum known bidding deadlines and procedures. A Statutory Decree will be prepared for such purpose and the portal use policies will be amended.	December 2002: Transparency Decree and Directive. From January 2003: monitoring per agency.
13 Enactment of the Procurement Law and drafting of its related Regulation.	The new regulation will allow for the introduction of transparency regulations and best practices in procurement management, e.g., warrants, thresholds, deadlines.	December 2002: Law approved. June 2003: Law enactment.
14 Framework contracts that produce large scale economy savings and procuerement effciency management	Such contracting modality is about the strengthening of the public sector purchases, bidding "umbrella" agreements for lower prices and under the best conditions available for public agencies. These would issue a purchase order directly with no formalities required, thus resulting in significant price and administration savings for the State.	December 2002: first e-catalogue with 300 previously bidden products
15 Public Procurement Guidelines.	The purpose is to generate policies and guidelines embracing as many public agencies as possible and aimed at rationalizing the user of public resources, e.g., software and telephony; develop more favorable contractual modalities and share experiences and information among public agencies in order to optimize purchases. This activity should be conducted in the medium and long term, using the procurement law and the Procurement Management Improvement Program, as well as the guidelines issued by the Public Procurement Council and the Public Procurement.	March 2003: procurement rationalization assessment. From April 2003: development of guidelines.
16 Public Contracting Tribunal	An independent body will be created to analyze Suppliers complaints regarding contracting processes conducted by public agencies. The Tribunalt creation is also the result of requirements imposed by the trade agreements entered into by Chile.	April 2003: creation subject to the Public Procurement Law enactment.

Project Management

Initiative	Description	Period
17 Procurement Council establishment and creation of the Public Procurement Directorate (DCP) in the Finance Ministry	The Procurement Council is a political and technical body responsible for implementing the Public Procurement System policies and initiatives. In order to operate the procurement system, it is necessary to have a highly specialized team with powers to administer ChileCompra and provide technical assistance to public agencies. The Public Procurement Directorate will be created for such purpose in the Finance Ministry.	September 2002: Procurement Board establishment April of 2003: Installment of DCP, dependent of law approval.
18 System Funding	Each line of action in the procurement program must be funded, particularly: ·ChileCompra investment operation cost. ·National Suppliers Registry investment and operation cost. ·Public Procurement Directorate budget. ·Excellence Procurement Management program. A fees policy will be designed and its related billing will be operated for some of the added value service provided by the system, in order to recover costs. However, access to the portal information will be free of charge as provided for by the future Procurement Law.	Subject to the procurement law enactment. and offers to bid for ChileCompra II.
19 Communicational Positioning	It is necessary to launch an effective communicational campaign informing goals and progress, in order to gain support and define expectations. This communicational plan should be aimed at Government authorities, public agencies, suppliers, business community and TIC, opinion leaders, study centers, citizenry, international community. This communicational plan should include: system vision and advantages; ChileCompra brand repositioning; system use ranking; immediate achievements attained by this program; contribution of ChileCompra to transparency; efficiency, e-Government and digital economy.	November 2002: permanent activity following the Procurement Plan Implementation.
20 Identify, materialize and and make public the immediate achievements	ChileCompra must be able to show results in the short term. This will allow pressure relief in medium and long term issues. This line of action should include elements such as: - Identify simple and quick improvements to be introduced to the current system. - Enter into collaboration agreements with symbolic public agencies in order to implement an Excellence Procurement Program and increase actual and timely traffic in the site. - Increase the system timely information rate.	November 2002: permanent activity following the Procurement Plan Implementation.

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Indicators
and
Goals

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Proposed goal achievement will be evaluated using the indicators and goals below:

Goal	Indicator	Baseline Situation as October 2002.	Goal to December 2003	Goal to December 2004.
1 Market Transparency and Access.	Annual percentage of procurement announcements timely posted in ChileCompra. Total: US$ 2.5 billion in Central Government. 200,000 operations.	3 %	100 % (approx.)	100 % (approx.)
2 Price Savings and Efficiency	Annual savings achieved by the Government in purchases conducted via ChileCompra.	Undefined.	US$10 million	US$20 million
3 Process Savings and Efficiency	Annual percentage of purchases of goods and services conducted via ChileCompra purchase orders. 0%.	0%	US$10 million	US$30 million
4 Transparency, Savings and Efficiency.	Average offers per bids and quotations in ChileCompra.	1,7	3	4
5 E-Government Promotion.	Member Public Agencies (using the system at least once a year).	144	200	250

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Proposed goal achievement will be evaluated using the indicators and goals below:

Goal	Indicator	Baseline Situation as October 2002	Goal to December 2003	Goal to December 2004
6 Platform Quality.	ChileCompra Users Satisfaction Survey. Maximum grade: 7.0	4,9	5,5	6,0
7 Procurement Management Quality	Phase of the Management Improvement Programs (Procurement Excellence Management Model) holding the average public agency. Maximum: Phase 6.	Phase 3	Phase 5	Phase 6
8 E-commerce Promotion	Suppliers generating at least 1 offer a year in the system	2.907	5.000	10.000
9 E-commerce Transparency and Promotion	Member suppliers receiving information on bid and quotation announcements.	6.193	10.000	30.000
10 Access to Foreign Markets	Number of operations (purchase opportunities) reported to domestic suppliers regarding public procurement abroad.	0	30.000	60.000

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The New Public Procurement Electronic Platform

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Platform Components

The Government Procurement System platform has the following components:

- Service Layer: allows buyers to process their quotations, bids, awards, purchase orders, payment and process follow-ups through the portal. Generally speaking, it can trigger processes for suppliers using transactions, e-documents and e-mail.

- Market Intelligence: this is a knowledge base that gathers all of data regarding ChileCompra activities in the past. Specific datamarts will be modeled using that base. These datamarts plus datamining tools will allow for the analysis and modeling of the behavior of different users in the portal, opportunity finding, service improvement and process optimization on a continuous basis.

- Standard and Regulation Manager: aimed at using different marketplaces to inform suppliers and Suppliers associations of calls for quotations and bids placed by the buyers. This requires the development of a set of transactions and electronic documents that are inherent to any purchase process, e.g., quotations, bids, questions and answers, purchase orders, billing, payment orders, etc. Such documents should be based on internationally recognized standards. This manager includes a transactional engine that switches operations between buyers and sellers.

- National Suppliers Registry: aimed at acting as the primary source of information, where companies will become registered as Government suppliers. Thus they will be advised by the Public Procurement Council of any purchase operations taking place for them to participate and submit their information in a simplified one-stop fashion. The ChileCompra portal must provide the registry operator with all of connectivity means. There will be a separate bid for this registry operator. The registry data location should be transparent to the eyes of the buyers.

- Connectivity Middleware: this is the technological component allowing for interoperability and connectivity with suppliers and the marketplace. It offers the tools and standards needed to attain such interoperability.

- Integration with Other Institutions: the system should enable interaction with other Government bodies, such as the General Auditor's Office and DIPRES via the Government Financial Management System (SIGFE).

Technological Model

This is a three-tier technological model:

- Connectivity with Public Agencies (Buyers)

- Government Suppliers, either individually or collectively through a commercial marketplace.

- Transaction Mode, where demand and supply interact and trading occurs using the service layer that supports the process step by step.

Operational Model to Be Implemented for ChileCompra
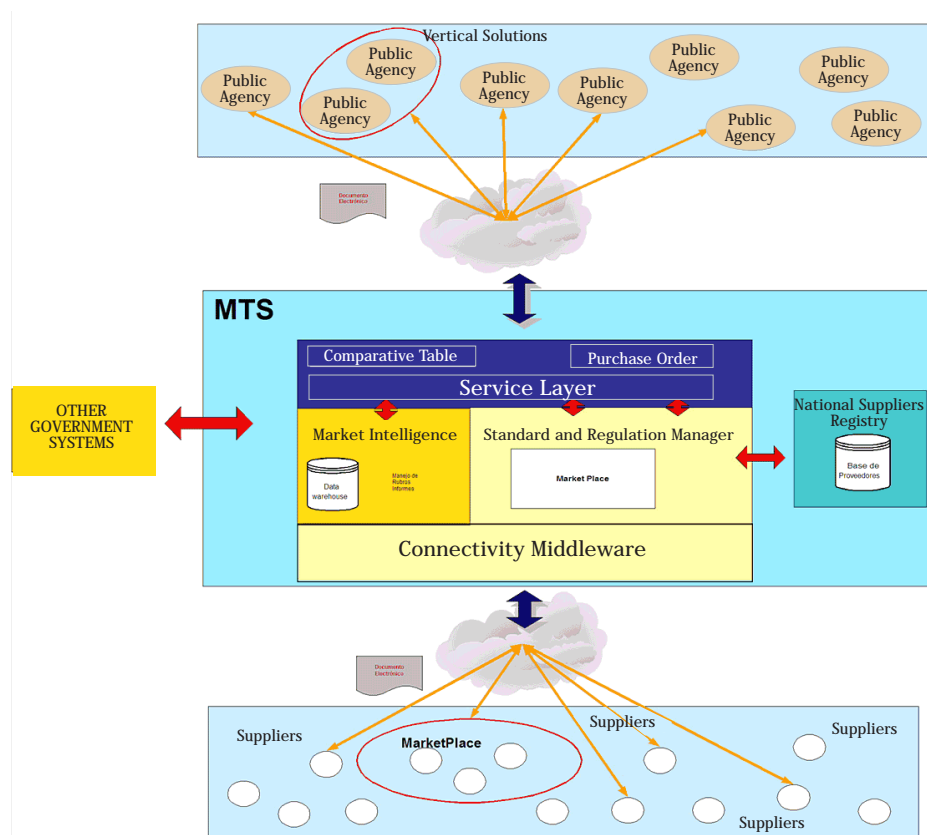
This Electronic Public Procurement Platform was designed considering the items below:

- Core Concept: move from an "electronic board" to an e-procurement system.

- The system operation will be outsourced by contracting a service provider (not a software) that may represent a full-featured solution to the Government's procurement processes. This will result in the supply of a set of supported processes and basic associated functionality by the said service provider.

- A request will be made to implement this solution on a mass scale, including public agencies and their suppliers. This includes training and development of a structured sequence of activities with each agency (structured adoption process).

- There will a separate bid for the National Suppliers Registry, but ChileCompra shall be closely related to this registry.

- The operation funding will initially be borne by the Government. This approach is supported by evidence from international experiences in public procurement, our own background and B2B initiatives. Possibly once a critical mass is achieved, charging for added value products might be an option, but not at first.

The New Public
Procurement Law

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The new Public Procurement Law introduces transparency and access rules and better purchase and contracting procedures.

Main Characteristics

- It provides a legal definition for public bidding, private bidding and direct contracting.

- It requires public bidding for purchases in excess of 1,000 UTM's and expressly and restrictively defines when direct contracting may apply.

- It requires the definition of an annual procurement plan.

- It establishes the right to objection before the Public Contracting Court.

- It creates an information system for Procurement and Contracting (www.chilecompra.cl) where every agency is required to report its procurements.

- It authorizes quotation, bidding and contracting via electronic means.

- The new law currently in Congress creates the Public Procurement and Contracting Council.

Role of the Public Procurement Council

- Provide procurement and contracting guidance to public agencies.

- Manage the Public Procurement and Contracting Information System and any other systems required.

- Call bids for Framework Agreements, which bind agencies to buy under such agreements, unless otherwise more advantageous.

- Manage and bid an Electronic Suppliers Registry will prevent duplication of formalities and will enable direct information validation. Although registration in this registry will not be mandatory, the bid agency may require the Suppliers to register in the said registry.

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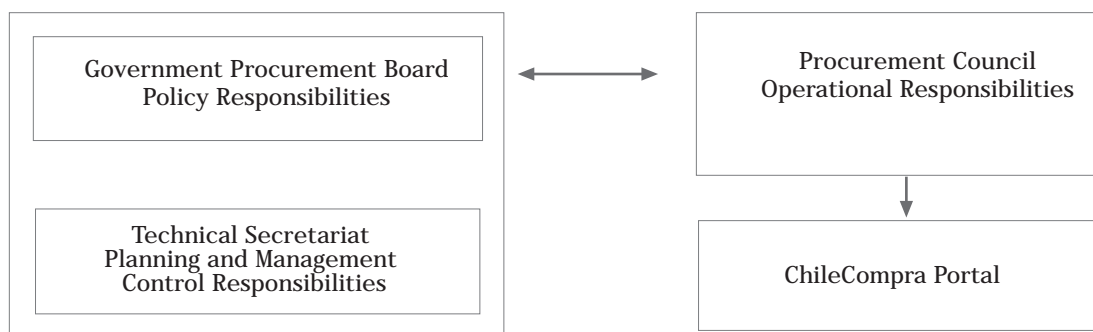compra

System
Structure
and
Governance

General Criteria

- The Procurement Council will manage public procurement.
- A permanent board is required for this Council as it is horizontal to the Government.
- Such board should be a collective body holding a high level within the Government. Such a body will evidence how crucial this area is and provide visibility.
- The board should be composed of two profiles:

    o The most important Government authorities holding responsibilities for e-Government, financial management and Government modernization.

    o Experts with experience in the design of technology and modernization policies and plans.

The direction of this board and public procurement policies should be led by the Finance Ministry, as it deals with public procurement policies and holds an strategic position within the Government. However, it should work together with SEGPRES, given its coordination role, and with the Economy Ministry, given its interaction with the private sector and leadership in e-commerce policies.

Organization

- The Procurement Council will be composed of the Finance Undersecretary, Economics Undersecretary, the Budgetary Office Director and Deputy Director, the Internal Revenue Service Director, the Modernization Head in SEGPRES, the Procurement Directorate Director and five experts with experience in the management of modernization and technology projects. It will sanction, monitor and assess public procurement policies and initiatives, and support and represent the Council when so required.

- The experts will create a Technical Secretariat responsible for planning and controlling policy management, and will submit all this information and proposals for the Board to sanction.

- The Procurement Directorate will coordinate all of the Council activities and planned initiatives acting as a General Manager in their implementation.

Government Procurement Board Policy Responsibilities	←→	Procurement Council Operational Responsibilities
Technical Secretariat Planning and Management Control Responsibilities		ChileCompra Portal

Key Success
Factors

1. Support and Resources

2. Mobilization of Public Agencies and Suppliers

3. Connection with All Kinds of Internal and External Allies

4. Neutrality Towards SME's, Technology and the Market

5. Effective Communication

- From the financial perspective, the system implementation costs can be easily paid back and mass savings occur for sure.

- Similarly, revenues in terms of image and market promotion are very high. This variable has been widely appreciated by both entrepreneurs and citizens.

Allocation of necessary resources and implementation support are of utmost importance. At least four requirement should be met:

- Official establishment of the Procurement Board.

- Provision of a small team of excellence for the Procurement Council, which implies finding the best market available professionals.

- Support from the President and Ministers via communications and events in order to move Agency Heads to join in.

- Investment funding to set up ChileCompra and the Suppliers Registry, strengthening for the Excellence Procurement Program in Public Agencies and funding for at least the first years of operation.

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