

## Executive Summary

In Peru, public procurement accounts for the majority of government expenditure – an impressive 50.7% – and 11.6% of GDP, which is in line with the OECD average. This shows how crucial public procurement is for the country's economy and society as a whole. It is a critical channel for delivering services to citizens, and an area where the public and private spheres intersect. Recognising the strategic role of public procurement, public authorities in Peru have been undertaking major reforms of the system since 2016. In doing so, they are gradually nudging the culture towards result-based management and introducing a new vision for public procurement officials. The legislative and institutional reforms enacted in January 2016 and the legislative adjustments made in 2017 are steps toward a better-functioning public procurement system.

In accordance with the 2015 OECD Recommendation of the Council on Public Procurement, the review examines key aspects of Peru's system. These include the institutional arrangements; the extent to which relevant regulations and strategies have been developed and adapted through the new public procurement law; measures to drive efficiency; support for secondary policy objectives; the capacity of the workforce; the use of electronic instruments, integrity safeguards, internal control tools and risk management; and the effectiveness of the dispute resolution system. The review presents recommendations and identifies measures to maximise outcomes, based on international good practices and experiences.

The government of Peru has made significant progress in improving how public procurement is organised, but still faces challenges in implementing a more efficient and inclusive system. The Ministry of Economy and Finance (MEF) should consider developing an action plan for effecting a change of culture among public officials, reducing excessive formalities, incorporating flexible tendering procedures with greater competition, and professionalising the public procurement workforce. Finally, to ensure compliance and effective outcomes, the MEF should constantly monitor implementation and verify the achievement of goals.

### Key Recommendations

- *Strengthen the structure and co-ordination of the public procurement function.* Prior to the regulatory changes in early 2016, the system was unbalanced, with an excessively large control and supervision function (CGR and OSCE) and no effective central purchasing function. The implementation of Perú Compras as the national central purchasing body marks a significant step forward, but there is still a need to ensure efficient co-ordination (particularly in communication) and strategic aggregation of demands, such as through framework agreements and corporate purchases.

- *Ensure implementation of the new public procurement law.* This requires a synchronised and sustained effort by the MEF, OSCE and Perú Compras to ensure that their reorganisation and new functions are complementary and allow them to work together effectively. Clearly communicating the origins and benefits of the new regulatory framework will be crucial to ensure the buy-in of all relevant stakeholders, including the private sector. Monitoring implementation of the new law through the development of specific indicators would help ensure effective compliance.
- *Work toward a more efficient and fair solicitation process.* The strategic use of public procurement could improve transparency, integrity, efficiency and accountability within the procurement system in Peru. The Peruvian authorities should take the necessary measures to increase competition in solicitation processes and improve efficiency by streamlining the system and simplifying administrative procedures. Key performance indicators would help measure market performance as well as legal compliance.
- *Systematically expand the use of award criteria and enhance the commitment to innovative and environmentally sustainable public procurement.* Public entities in Peru tend to prioritise price in considering offers for works, services and goods. They need to look beyond the lowest price at other criteria, such as the most economically advantageous tender, lifecycle cost, quality, innovation and environmental performance. Doing so would not only make Peruvian public procurement more efficient, but also help the government achieve broader policy objectives.
- *Enhance procurement capabilities.* Effective implementation of reforms requires a properly trained public procurement workforce. This, in turn, requires strategic workforce planning. Identifying gaps in capacity and knowledge will help determine how best to enhance procurement capabilities. Steps to take include recognizing the singularity and the specificity of the procurement function, defining procurement job profiles, introducing a certification and performance management system, developing a specific and detailed training curriculum for public procurement, and more systematically assessing training and trainers, including involving the private sector.
- *Develop effective internal control and risk management systems to support accountability.* While Peru has developed a robust national control system and internal control and risk management frameworks, these should be buttressed by guidelines, tools and templates for public procurement entities. The participation of other relevant stakeholders in control activities will also improve effectiveness and strengthen accountability.
- *Use digital technology for more effective communication.* Peru's national e-procurement platform, SEACE, generates a vast amount of rich information. As in other OECD countries, the platform has increased the transparency of and improved access to public procurement procedures. However, there is also a need for effective communication strategies to make this information available and reusable by different stakeholders. Making the platform more interactive and integrating it with other public finance management systems would further improve efficiency.
- *Instilling integrity throughout the procurement cycle.* Public procurement is regarded as one of the government activities most vulnerable to corruption and integrity breaches. Peru has enhanced the institutional framework for integrity and made specific provisions for public procurement. Providing guidance and training will help ensure that procurement officials' behaviour is consistent with the principles of integrity. The

Peruvians also need to be more strategic in how they identify risks in order to prevent and manage them.

- *Ensure compliance with rulings.* There are procedures for suppliers to lodge complaints and challenge decisions made throughout the procurement procedure. However, litigation is lengthy and little is known about the degree of compliance with decisions. To reduce the number of challenges, potential sources of dispute could be addressed early in the tendering process, for example by exploring the use of pre-trials to resolve disputes without full litigation. Early mediation offers real opportunities for resolving disputes during the execution of the contract.



**From:**  
**Public Procurement in Peru**  
Reinforcing Capacity and Co-ordination

**Access the complete publication at:**  
<https://doi.org/10.1787/9789264278905-en>

**Please cite this chapter as:**

OECD (2017), "Executive Summary", in *Public Procurement in Peru: Reinforcing Capacity and Co-ordination*, OECD Publishing, Paris.

DOI: <https://doi.org/10.1787/9789264278905-3-en>

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