Unlocking the Potential of GovTech Ecosystems in Latin America, Spain and Portugal

The GovTech Index 2020

Executive Summary
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According to CAF, GovTech is “The ecosystem in which governments cooperate with startups, SMEs and other actors that use data intelligence, digital technologies, and innovative methodologies to provide products and services to solve public problems... They propose new forms of public-private-partnerships for absorbing digital innovations and data insights to increase the effectiveness, efficiency, and transparency in the delivery of public services.”

Latin America is witnessing the widespread emergence of GovTech, a new digital ecosystem with immense potential for solving public challenges, whilst saving government an estimated USD1 trillion. The countries that will be able to get the most value out of it, will be those with the appropriate capabilities for welcoming innovation, whilst enabling a collaborative environment between startups and government. In light of this, as this new digital ecosystem is developing in Latin America, countries need to position themselves to allow the GovTech ecosystem to flourish.

If the essence of GovTech is the collaboration between startups and governments to use innovative technologies, the GovTech ecosystem can be distilled into three questions:

Startups: Are there startups and SMEs able to provide these new technologies?

Government: Is there government demand for these products, especially when innovation can be disruptive to existing bureaucracies and ways of working?

Procurement: Can governments and startups easily work together in the existing procurement framework?

These three pillars that show the potential to reach mature GovTech ecosystems (supply from startups, demand from governments, and the framework that allows them to work together) drove the design of our GovTech Index.

Startups
Are there startups and SMEs able to provide these new technologies?

Government
Is there government demand for these products, especially when innovation can be disruptive to existing bureaucracies and ways of working?

Procurement
Can governments and startups easily work together in the existing procurement framework?
The Index consists of three pillars that are intimately connected with each other: startups industry, government policies, and procurement systems. These pillars are based on 7 policy dimensions: innovation environment, digital environment, industry environment, policy environment, digital government, procurement frameworks, and procurement culture; that were assessed by drawing from 28 indicators.

Figure 1 shows how the indicators, dimensions and pillars of the GovTech Index come together to form the GovTech ecosystem.

The ‘GovTech Index, conceived, commissioned and funded by CAF - Development Bank of Latin America and developed in conjunction with Oxford Insights, measures the maturity of the GovTech ecosystems across Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, Mexico, Panama, Paraguay, Peru, Portugal, Spain, Uruguay, and Venezuela.

The result is the first comprehensive GovTech Index in the world, that was able to produce extensive regional, as well as country-specific analyses and recommendations for providing an environment where the GovTech ecosystem can thrive.

The full dataset including sources, scores by pillar, dimension, and indicator can be accessed here.
Findings

Our Index, desk research and interviews revealed a number of regional patterns for each pillar.

Startups

The startups pillar has the lowest average score for the region (3.42, compared to 4.62 for the government pillar and 5.45 for the procurement pillar). This is, in part, because of low scores in most countries for their industry environment. In most countries, there are currently only a small number of startups working in the GovTech space. This is perhaps to be expected given the emerging nature of the field of GovTech, but it does show that more needs to be done to develop mature GovTech ecosystems across the region.

Another common theme is the limited availability of venture capital. This problem is particularly acute for GovTech startups, as our research showed that many venture capitalists see selling to the government as risky and unlikely to yield significant rewards. This is in spite of the fact that, across the world, and Latin America, governments are significant buyers of technology products, with millions of dollars worth of contracts up for grabs. A lack of adequate funding for GovTech at present may be one of the factors limiting the number of GovTech startups operating in the region.

Government

Many governments in the region have already recognised the importance of technology and innovation in the public sector, developing National Digital Strategies and investing in the provision of online services. However, there are currently very few countries that recognise the importance of specific GovTech policies, such as a National GovTech Strategy or a public GovTech fund.

This lack of policy-making that is tailored to GovTech exacerbates some of the funding problems that startups in the region experience. Because governments do not yet seem firmly committed to GovTech, selling to government looks risky, and venture capitalists are less likely to back startups looking to break into the public sector market.

Procurement

As the medium that connects governments with startups, the procurement system in Latin America, Spain, and Portugal is key to the development of a mature GovTech ecosystem. Many of our primary sources confirmed that procurement systems can currently present a significant barrier to GovTech startups wanting to contract with the government. Although there are some areas in which procurement regulations could be improved (such as where countries do not have a minimum period for payment from supplier), most of our sources indicated that the main barriers come more from the culture surrounding procurement than from the procurement frameworks themselves.

One factor affecting procurement cultures in the region is the level of digital skills within governments. Some primary sources suggested that governments struggle to attract, train or retain digital talent, meaning that the level of digital skills in governments is fairly low. This means that public officials within procurement are poorly equipped to understand the technical proposals offered by innovative GovTech startups. This, in turn, can contribute to the perception that startups are too risky to make reliable partners in procurement, with governments instead favouring large technology companies such as IBM and Microsoft. If government officials are not able to understand the technological merits of innovative proposals submitted by startups, they are unlikely to take a risk and contract with a smaller company, even though these startups may offer higher quality, better value services than the larger firms.

Finally, corruption emerged as a concerning theme within procurement in Latin America. Our research indicated that corrupt practices, ranging from favouring companies with political connections through to bribery, can all lead to the lax enforcement of procurement laws. GovTech startups are unlikely to be successful in such an environment, as they cannot compete on an equal playing field with larger and better-connected firms. Promisingly, a number of countries in the region have started to publish open contracting data, meaning that corruption and the lax enforcement of procurement laws can be scrutinised and challenged. This increased transparency could have a beneficial effect on the GovTech ecosystem in the future.
Based on the findings outlined above, we propose a number of country-specific as well as regional recommendations for allowing the GovTech ecosystem to thrive. In spite of significant differences between some of the countries covered in our Index in terms of the potential of their GovTech ecosystems, our findings do suggest some common themes across the region, and some common areas in which governments should focus their attention in order to reap the benefits of GovTech in future. The following recommendations should thus be seen as addressing the overall regional trends complementing the country specific analyses.

Startups

The dimension that consistently sees the lowest scores in the GovTech Index is the industry environment. This reflects the fact that in most countries, there are currently only a small number of startups working in the GovTech space. This is perhaps to be expected given the emerging nature of the field of GovTech. Future iterations of the Index could see these scores improve as more and more entrepreneurs begin to see the opportunities in this new sector.

Another common theme in the region is the limited availability of venture capital. This problem is particularly acute for GovTech startups, as our research showed that many venture capitalists see selling to the government as risky and unlikely to yield significant rewards. In order to create an environment of trust, in which GovTech startups can flourish, governments should ensure that there is sufficient public, private and hybrid funding for new companies to launch and scale their products.

For supporting a more favourable startup environment, we recommend that countries:

- Create an annual GovTech conference where startups, government, and investors from the region can meet and interact.
- Establish GovTech-specific incubators to target venture capital.
- Promote open data initiatives and invest in technological infrastructure.

Government

Many governments in the region have already recognised the importance of technology and innovation in the public sector, developing national digital strategies and investing in the provision of online services. However, there are currently very few countries that recognise the importance of GovTech-specific policies and strategies, as a force to innovate and disrupt existing bureaucracy and make government better overall.

Policies more tailored to GovTech specifically will help governments improve their readiness for GovTech, and signal to startups in the region that they are serious about taking advantage of this emerging field. This is also likely to have a beneficial effect on the availability of venture capital for GovTech, by indicating that there is a viable government market for their products.

Thus, our recommendations related to the government pillar are as follows:

- Produce a national GovTech strategy.
- Establish a government-backed GovTech fund.
- Create GovTech-specific public challenges.
- Roll out a national-identity system, allowing citizens to use the same credential for using government services. A single credential will hugely accelerate GovTech, as it allows data to be joined up between the different arms of government.

Procurement

Procurement consistently came up in our research as one of the key contributors to a mature GovTech ecosystem. Our findings showed some areas in which many countries could improve their legal frameworks, such as introducing regulation that sets a deadline for the payment period from suppliers. However, the main way in which governments can improve their ability to work with GovTech startups is through the culture surrounding their procurement practices. A number of factors limit the opportunities for GovTech startups to contract with the government, including the level of digital skills within government, the perception that startups are too risky to make reliable partners.
in procurement; and the existence of incumbent relationships with large technology companies that make it harder for GovTech companies to contract with the government. In addition, tackling corruption and ensuring the strict enforcement of procurement laws is an important prerequisite for developing a mature GovTech ecosystem.

For strengthening the procurement environment we, therefore, recommend that governments:

- Consider establishing a specific target for the procurement of government technology through start-ups and SMEs.
- Update and adjust procurement laws to ensure that they are SME friendly and have procurement agencies reach out more actively to start-ups and SMEs.
- Invest in open contracting data initiatives to increase trust, transparency, and accountability within procurement processes.
- Establish rigorous procedures and mechanisms for enforcing procurement laws.
- Avoid being too prescriptive about the services sought in the tendering process. A problem based approach will allow smaller startups to pitch innovative solutions.
- Break up large contracts into smaller ones or consider allowing multiple companies to put together a bid, as GovTech startups may struggle to compete with larger technology firms.
- Establish a digital training academy for training public servants in digital skills.

In addition to the policy recommendations for the national level set out above, we strongly recommend policymakers to explore how GovTech initiatives can be supported at city-level. During our research, we were made aware of several startups making tremendous positive impact at the local level, especially in cities. All evidence that we have gathered seems to point to the cities as the level where GovTech has the greatest potential. However, at the same time, some of our primary sources pointed out that if cities disproportionately reap the rewards of GovTech, this could exacerbate existing urban-rural inequalities. We recommend that governments approach the city-level potential for GovTech as a way to create equitable wealth and opportunities for all their citizens - for example, by reinvesting the money saved through the use of innovative GovTech products in rural infrastructure and rural public services.

As a final thought, we conclude that perhaps the most important recommendation is building community. It should be stressed again that whilst we conducted our analysis based on three pillars, we fundamentally view GovTech as an ecosystem whereby indicators, dimensions, and pillars are intimately connected with each other. For countries across Latin America, Spain and Portugal, creating a GovTech hub that brings together startups, government, and investors could significantly accelerate the development of their ecosystems.

There are several ways this could be achieved. Creating an annual GovTech annual summit where investors and startups can meet, interact, exchange ideas, and build relationships could be one way to connect stakeholders in the ecosystem on a sporadic basis. A more systematic approach could be to establish GovTech programmes and GovTech specific funds across countries that support promising new startups in their efforts. Finally, the most comprehensive solution could be the creation of a ‘GovTech Chamber of Commerce’ which would function as the central meeting point for stakeholders in the GovTech ecosystem, and could bring together all of the options listed above.

Building a GovTech community has the potential to help startups by allowing them to build relationships between different arms of government, advising them on how to target sales; and guiding them round the complex environment of government. It would also allow government and startups to understand each other’s needs and desires.

Read the full report [here](#).
Download the full dataset including scores by pillar, dimension, and indicator can be accessed [here](#).