Public Procurement: Indian Perspective

Workshop on India-EU FTA
9 February 2012

Abhijit Das, Head, Centre for WTO Studies
IIFT, New Delhi
Scope of procurement

➢ Purchase by government departments and agencies of:
  • Supplies/ goods (commodities, manufactured items)
  • Services
  • Construction and public works

➢ May also include:
  • Purchases by state-controlled corporations
Why is there interest in procurement regimes

- Public procurement involves significant proportion of Gross Domestic Product (5-15% or more in most countries)
- OECD (2001) has estimated that 7.1% of world GDP as potentially contestable procurement market worldwide
- Procurement is an essential function of government, vital to the delivery of socially important goods and services.
- Major implications for development; effectiveness of government
Benefits of a transparent procurement regime

- More potential suppliers resulting in:
  - more competition
  - lower prices
  - better quality goods and services
- Access to broader pool of talent/technology
- Likely increased access to foreign markets by domestic producers
- Dearedorff and Stern (1979) argue that welfare gains from liberalising government procurement under Tokyo Round would exceed gains from tariff liberalisation for developed countries.
...but concerns remain

- Administrative cost of implementation may be high
  - Notification obligations on procurement statistics
  - Bid challenge procedures
- Socio-economic costs arising from removal of preferential treatment to domestic suppliers – reduction in production and employment.
- Supply side constraints in competing for government procurement in developed countries’ markets- reduces the possibility of building local industries and service suppliers based on exports.
- Policy space curtailed
  - Even US has used government procurement as a tool for stimulating its economy
EU GPM: SHOULD NON-EU EXPORTERS HAVE ANY INTEREST?
EU TOTAL GPM: 2005

TOTAL GPM 1807 bn.
EU ABOVE THRESHOLD GPM: 2005

TOTAL GPM 1807 bn

ABOVE THRESHOLD GPM

320 bn.
TOTAL GPM 1807 bn.

ABOVE THRESHOLD GPM 320 bn.

NON-EU CONTENT 320 bn.

0.9%
EU TOTAL GPM: 2006

TOTAL GPM 1951 bn.
EU ABOVE THRESHOLD GPM: 2006

TOTAL GPM 1951 bn

ABOVE THRESHOLD GPM

377 bn.
PROCUREMENT FROM NON-EU: 2006

TOTAL GPM 1951 bn.

ABOVE THRESHOLD GPM

377 bn.

NON-EU CONTENT

0.30%
EU TOTAL GPM: 2007

TOTAL GPM 2088 bn.
EU ABOVE THRESHOLD GPM: 2007

TOTAL GPM 2088 bn

ABOVE THRESHOLD GPM

309 bn.
PROCUREMENT FROM NON-EU: 2007

TOTAL GPM 2088 bn.

ABOVE THRESHOLD GPM

309 bn.

NON-EU CONTENT

3.5% to 4.2%
India’s GPM: What is at stake?
Size of GP India’s market

- Estimates for size of India’s GPM vary
- Srivastava (1999): 3.6% to 5.9% of GDP
  \$17.43 to \$28.51 bn. for 2000-01.
- UNCTAD India (2007): US \$81.1 bn. for 2005-06, 13.9% of GDP.
- Recent estimate: \$156 bn. 12% of GDP
- Above threshold procurement would be significantly lower
Existing procurement practices in India: Gaps (i)

- Central Govt. procurement system generally conforms to norms of transparency. But deviations exist-
- Preferences in purchases-
  - 15% / 5% price preference to items manufactured by SSIs.
  - 20% procurement from Micro and Small enterprises announced... formal notification awaited
  - 10% purchase preference to PSUs
  - Listed medicines reserved for supply by PSUs .. Current status ????
Existing procurement practices in India: Gaps (ii)

• Against the minimum period of 40 days between date of tender and receipt of responses, usually 3-4 weeks provided.
• Discretion whether to offer domestic or global tender
• Permanent list of qualified suppliers not maintained.
• Contract award notices not published- but situation now changing.
• Reasons rarely provided to unsuccessful bidders.
• Challenge procedures for pre-award stage generally lacking.
State level procurement: Gaps

- Considerable divergence in state practices from GPA obligations
- In Uttar Pradesh, the World Bank’s Country Procurement Assessment Report has highlighted the following shortcomings
  - Time for bid submission unrealistic
  - Qualifications for eligible bidders rarely stated
  - When qualifications specified, they are often inappropriate for the works and are discriminatory
  - Technical specifications are skewed
  - Criteria and methodology for evaluation and comparison rarely disclosed
  - When criteria and methodology are disclosed, they are often discriminatory
Minimising administrative costs

- Reporting obligations estimated to cost US $200 mn (one time) with 10% annual maintenance cost.
- Cost for administrative structure for pre-award bid challenge.
- To the extent possible seek to exclude from list of covered entities, those entities whose procurement systems diverge considerably from GPA obligations.
- Negotiate thresholds which would exclude large number of low value contracts.
  - In large Indian PSUs, two-thirds of the contracts by number accounted for 10% of procurement value – low value which could be excluded.
Preserving policy space

- Depending on domestic needs, seeking some of the following flexibilities could preserve policy space:
  - Exclude utilities (as done by some GPA members)
  - Offsets for domestic content – Israel has negotiated offsets ranging from 35% to 20%
  - Set asides (4 - 5%) for SMEs/small business – US carve out as precedent
  - Transition period for some obligations - In NAFTA Mexico not required to fully adhere to transparency provisions for 5 years.
Overall Conclusions

• Meager opportunities for India’s exporters in EU GP markets

• Costs
  ➢ Loss of policy space
  ➢ Cost of changing procurement systems
  ➢ Bid challenge procedure
  ➢ Reporting mechanism

• Implications for other FTA partners of India – Japan

• But ... autonomous improvement in government procurement needed
THANK YOU