

Government procurement

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In an era when many government budgets are stretched to the limit, obtaining value for money is often an important objective of state procurement policy. Failing to attain this goal compromises the welfare of the poor, in particular, as they tend to be more dependent on state-provided health, education, and social services. Procurement policy can, therefore, support a nation's overall policies towards poverty alleviation and development strategy. The question here, however, is what role—if any—can international trade agreements play in securing these pro-poor and pro-development outcomes?

Competition for government contracts can come from foreign as well as domestic firms, and research has amply demonstrated that certain state measures can reduce competitive pressures from both sources (see Arrowsmith and Trybus, 2003, and Evenett and Hoekman, 2002). Opaque tendering procedures and poor governance tend to discourage potential bids from both domestic and foreign firms; often leaving governments dependant on bids from a small group of “insider” firms. Contract prices tend to be higher, quality lower, and delays and cost over-runs common. Outright bans on procuring from foreign sources—or more subtle forms of preferences for national firms—reduce competition from abroad. Needlessly stringent pre-qualification requirements shut out bidders too; all to the detriment of the taxpayer who ends up paying more for less. Worse still, domestic procurement reform is often notoriously difficult to accomplish as vested interests undermine attempts to improve procedures and transparency; which Hunja (2003) describes in considerable detail.

International trade agreements, including the plurilateral WTO Agreement on Government Procurement, have contributed to the contestability of national procurement markets in three ways. First, they have reduced the explicit discrimination against foreign bidders, so enhancing market access. For example, the WTO Agreement bans the use of price preferences against foreign bidders on contracts whose value exceeds certain specified threshold levels. Second, international trade agreements typically include provisions to enhance the

transparency of procurement processes and this increases the number of bids from all sources—domestic and foreign (see Evenett and Hoekman, 2003, for evidence on this matter.) The transparency of tendering procedures is also enhanced by trade rules that require signatories to follow specified—sometimes public—steps when soliciting bids, evaluating submissions, and awarding contracts. Third, if domestic reform is undertaken in the context of implementing an international trade agreement, the prospect of additional export markets for national firms can tip the balance towards domestic constituencies that favour greater competition at home for state contracts.

The few empirical analyses of the costs and benefits of trade-related procurement reform point to tangible gains. In the case of Korea's accession to the WTO's plurilateral agreement on government procurement in 1994/5, Choi (2001) estimated that the cost savings to the Korean government from goods sourced abroad increased from 18.5 percent to 23.1 percent after accession. The use of limited tending procedures—which tend to reduce the number of potential bidders—fell also (from over 27 percent to 23.1 percent in 1996-1998.) Likewise, Srivastava (2000) estimates that if India joined this WTO agreement the welfare gains would be equivalent of between 0.3 and 1.7 percent of national income.

At the moment, WTO members are discussing whether to strengthen rules on transparency in government procurement practices. Some worry that such measures will result in greater market access to their economies; a fear that may come to pass if improved transparency encourages more foreign firms to bid for state contracts. Yet it is worth noting that the same improvements in transparency will encourage more domestic firms to bid, potentially reducing the number of contracts awarded to foreign firms. The impact of greater transparency on market access is ambiguous. Irrespective of the impact on the latter, the beneficiaries of enhanced competition for government contracts will be taxpayers and those most dependant on state-provided goods and services, the poor.