

GOVERNMENT PROCUREMENT, TRADE AND DEVELOPMENT

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Policy Objectives

- Minimize procurement costs (efficiency)
- Industrial development (infant industry)
- Technology transfer
- Offset market failures (SMEs)
- “Noneconomic” objectives (e.g., affirmative action)
- Discipline state owned enterprises
- National security

Instruments

- To Attain Value for Money: Competition
 - Mimic the market—bidding rules
 - Transparency mechanisms
 - Accountability—audits, etc.
- To Attain Other Objectives: Limit Competition
 - Import bans
 - Price preferences
 - Local content
 - Restrictions on entry (bidding)

Tradeoffs and Questions

- Pursuit of some objectives can conflict with cost minimization
- Is procurement policy the most efficient instrument to attain other objectives?
 - If not, what constrains use of superior policies?
- Competition requires complementary policies
 - Investment/entry policies—often a local presence is a precondition for contestability of the markets
 - Other policies (trade, etc.) interact with procurement

Rules of Thumb: Competition

- Policies that limit bidding are costly
- Entry matters--even under perfect competition
- FDI is important, especially for services
- Competition policy and challenge mechanisms to discipline collusion (bid rigging)
- Sequencing: Other policies vs. procurement

Transparency

- Strong link to competition/value for money goal
- Market access and anti-corruption dimensions
 - Will transparency increase access?
 - Does it matter?
- Compliance and enforcement
 - Domestic action needed—a broader agenda
- Implementation
 - Sequencing issues again
 - The TRTA agenda