

# **GOVERNMENT PROCUREMENT, TRADE AND DEVELOPMENT**

Bernard Hoekman

Development Research Group

World Bank

# 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