

SYMPOSIUM ON THE REVISED WTO AGREEMENT ON GOVERNMENT PROCUREMENT

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**Developmental and Trade Significance of Government
Procurement:
Competition, Governance, Value for Money, and the
International Dimension**

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What is Public Procurement?

A government's obtaining of goods or services

All levels of government (central, regional, and local)

Generally includes:

- Goods & services
- Construction (public works)
- Research & development
- Lease of real property

May or may not include:

- Concession contracts / public-private partnerships
- Purchases by state-owned enterprises

Why Public Procurement Matters

- Significant proportion of Gross Domestic Product (10 – 20 % in many countries)
- Key to delivery of socially important goods & services:
 - Transportation & other infrastructure
 - Public health
 - Education infrastructure
 - National defense & security

Why Public Procurement Matters

- Public procurement can play a key role in development
 - Can facilitate use of private sector for public ends
 - Can support goals for development of particular industries, groups, and regions
- Public procurement presents a major risk of corruption in virtually every country

The Perennial Debate about How to Conduct Public Procurements

THREE approaches to public procurement are often heard:

The first approach: “Government should buy the same way that businesses buy!”

This approach pushes for fewer rules, more flexibility, more use of negotiation, a focus on “value for money,” and faster purchasing

A Second Approach

2. “Government procurement is the spending of public funds. We need to worry about corruption, as well as waste and abuse.”

This approach pushes for more rules, less discretion, no negotiation, more transparency, a focus on low price, and more oversight

The Third Approach

“Government procurement is the spending of public funds. Those funds should be used to further our national policy goals.”

This approach pushes for domestic preferences, especially for domestic SMEs

So Who is Right?

These three approaches are often in conflict

Yet aren't all three legitimate? Can a public procurement system disregard any of the three?

Key point: The WTO's GPA is compatible with all three approaches:

That is obviously true for the first & second approaches

Even the third approach may be compatible with the GPA – it really goes to the question of which procurements are covered

Benefits of an open & transparent procurement regime: Theory

- More potential suppliers – results in more competition – lower prices & better quality goods & services
- Access to broader pool of talent & technology
- Translates into . . .
 - Reduced tax burden and/or . . .
 - Ability to provide more, better government services with same resources
- Increased access to foreign markets by (your own) domestic producers (based on reciprocity)

Benefits of an open & transparent procurement regime: Real examples

- Guatemala: 43% savings in the cost of medicines due to strengthening of transparency & competitive procurement procedures
- Colombia: 47% savings in the cost of military goods due to introduction of more transparent & competitive tendering procedures
- Pakistan: Major savings in water and sewage treatment costs through use of open & transparent bidding process
- Bangladesh: Reduced cost for electricity generation

Source: “Transparency in Government Procurement: The Benefits of Efficient Governance and Orientations for Achieving It” TD/TC/WP (2002)31/FINAL (OECD 2003).

Appeal of Trying to Maintain “Walls” around Domestic Public Procurement

- Clearly, the allocation of resources accounting for 10 – 20 % of GDP can have major implications for development (overall structure and performance of national economies)
- Temptation (for every government): Use these resources to support particular domestic industries & firms, social groups, or regions
- Note: WTO’s Agreement on Gov’t Procurement accommodates this approach, at least *to an extent* (possibility of exclusions from coverage through negotiations/offsets, especially under revised GPA Article V for developing countries)

But is this the best approach?

Barriers to international competition may translate into higher costs – and possibly reduced quality - for socially important government services and infrastructures

Closed markets may also be more vulnerable to corruption and collusion among bidders

Advantages to Removing Barriers to Trade Related to Public Procurement

- Open competition and transparency may lead to lower cost & higher quality – which allow government to purchase more & better infrastructure
- There are also developmental benefits from access to foreign technology, training, and management experience

Hoped-for Benefits of Open Procurement Regimes

- Growth, development of domestic capacity
 - Labor market skills
 - Access to technology
 - Training, management experience, etc.
- “Beach-head” effect – foreign firms selling to government:
 - Require domestic subcontractor support
 - Seek out non-government customers
- Spillover effect – domestic firms become more competitive; sell at lower prices (to government and private sector)

Who Wins & Who Loses When Barriers to Trade Related to Public Procurement are Removed?

Some domestic companies – and their political protectors – may lose when barriers are removed

Yet greater openness to international trade, including in the public procurement sector, offers potential benefits to many stakeholders within the country:

- For government purchasers, enhanced competition

- For domestic producers, export opportunities

- For civil society, healthy pressure for domestic reform and potential for reducing corruption