

Enhancing value in public procurement

Special address by Shri Pratyush Sinha, CVC
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Dear Mr. Chandrashekar

Mr. Kovacic

Dr. Irani

Ms. Lowri Evans

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The aim of this session is to deliberate on the ways of ensuring free and fair competition and enhancing value for money in public procurement. I would like to begin the session with some observations on what I see as the economic significance of public procurement and what is generally understood by the term **value for money** in the parlance of public procurement. I would highlight a few major problems faced by public procurement in India which I hope will be addressed in the deliberations which follow.

Public procurement in India constitutes about 30% of the GDP. Departments like Defence, Railways and Telecom, devote about 50% of their budget to procurement, which happens to be higher than the expenditure of most of the State Governments. About 26% of the health budget is devoted to procurement. A sound procurement system is therefore

crucial for ensuring national security, safety of passengers, health of the citizen and the quality of infrastructure and services.

Public procurement impacts the economy significantly by generating demand and consumption. Government, by virtue of its purchasing power can steer the market in a particular direction. Public procurement also serves as an instrument to attain social outcomes. By way of preferential treatment in procurement, it may be used to promote indigenization of foreign technology, development of backward regions or protection of small scale industry. Of late procurement is also being leveraged to promote the causes of environment, human rights, protection of children and gender equality.

Public procurement has to balance three concerns, maximise satisfaction to the public by providing quality products and services, maximize opportunities for growth for the private sector; and efficient spending of government money.

Public procurement is the government activity most vulnerable to corruption. The quality of the public procurement system has a profound influence on the competitiveness and integrity of the vendors in the market. An inappropriate public procurement system may act as a deterrent for firms maintaining high quality and ethical standards. Firms with lesser competence often survive on government contracts by exploiting the weaknesses in the public procurement system.

The prime objective of any procurement is to obtain the best value for money, which means getting the right product or service, at the right

price and the right time. Three factors are essential to ensuring that right product or service is chosen. **First**, the qualitative requirements should be carefully framed so as to truly reflect the user's needs. Best practices dictate that requirements should be defined in terms of functional parameters and not as narrow technical specifications. **Secondly**, all available options in the market should be evaluated, which is best achieved by inviting all potential vendors through open tendering. **Thirdly**, the evaluation of offers should be done in the most objective manner. It is equally important that the best technical choice is accompanied by the best possible price, which is only possible through a competitive price discovery mechanism. The Central Vigilance Commission has observed numerous instances where the price quoted by a vendor was 20 to 50% less in a multivendor situation than the price quoted by him as a single vendor. Competition is often misunderstood to merely mean open tendering or soliciting offers from a large number of vendors. Correct framing of qualitative requirements, objective evaluation of offers and proper cost estimation are equally important to ensuring true and fair competition. From the above analysis it is clear that value for money can be ensured in procurement only if adequate competition is generated and if objectivity, transparency and fairplay are maintained at all stages of procurement and are evident in all decision making. Thus integrity and competition in procurement are two sides of the same coin. ***Maintaining integrity in public procurement is not merely an ethical requirement but an economic compulsion.***

Indian economy has fared relatively better in the competitiveness index than in the corruption index. The public procurement system in India contains the basic framework of procedures and guidelines and is supported

by good oversight and grievance redressal mechanism. However there are many weaknesses in the system which need to be addressed.

A major problem expressed by the procurement officials is the confusion created by the existence of multiple procurement guidelines and procedures issued by multiple agencies. There is neither a single comprehensive public procurement standard nor a single nodal agency to deal with public procurement policy. In the US the Federal Acquisition Regulation is the public procurement standard which codifies a uniform policy for acquisition of supplies and services by executive agencies. The procedures issued by the various other organizations are only supplementary to these regulations. Office of the Federal Procurement Policy which operates these regulations is centrally responsible for all policy matters relating to public procurement. This office is headed by a committee consisting of the heads of the major procuring organizations. There is an urgent need to put in place a comprehensive public procurement standard in India with a single authority to handle public procurement issues. The office of the DGS&D can be reconfigured to serve as the nodal agency for all public procurement issues. It should also operate a help desk to provide clarifications and guide the procurement officials.

Another anomaly in our public procurement regime is that there is an attempt to apply the procurement procedures and guidelines in the letter without an appreciation of the spirit behind these stipulations. These procedures or guidelines have been framed to uphold the values of competition, transparency, fairplay, integrity and value for money while undertaking procurement. The ultimate test of any procedure is its ability

to promote these values. Therefore a good manual of procedures should explain the underlying principles.

Lack of standardization and proper documentation not only causes inefficiency, but is also a major hurdle in ensuring transparency, probity and accountability in procurement. The Committee on Infrastructure under the Planning Commission has standardized the process and documentation with respect to the Public Private Partnerships. This effort needs to be extended to the whole public procurement activity.

Besides a good framework of policies and procedures, the quality of manpower which operates the procurement system is equally crucial. In India public procurement has never been treated as a specialized activity requiring specialized knowledge and skills. Even the most critical and complex procurements are handled in a nonprofessional manner. Except for the Railways and the DGS&D, no other organization has created a specialized cadre for this purpose. In most of the developed countries and international organizations, occupying a procurement desk requires some professional qualification. There is a need to either have qualified staff handling procurement or to provide adequate professional training to convert the procurement officials into procurement managers. Public sector should take a lead in promoting the professional development of procurement management in India.

Information Technology and work flow automation have emerged as a solution not only to achieve efficiency but also to ensure transparency, objectivity and integrity in operations. Since 2004, the Central Vigilance Commission has embarked on a programme of

compelling organizations to computerize all their activities which are vulnerable to corruption. The manual systems are sought to be replaced by e-procurement and e-payment systems. Though many organizations are yet to fully comply with the directions of the CVC in this regard, the results so far have been encouraging. The effort of the CVC in leveraging Information Technology to combat corruption has been quoted as an international best practice by the OECD.

A serious problem confronted by public procurement in India is the malpractice of cartel formation accompanied by collusive bidding and bid rigging. Besides enforcement of Competition Act and designing a sound procurement system, other innovative solutions have to be explored to deal with this menace. I hope this session would throw up some viable solutions.

I would conclude by underlining two important factors to be considered while undertaking any reform in the public procurement system. First, there is a greater need for coordination between the various agencies engaged in public procurement. The CVC is committed to extending all cooperation to the Competition Commission and other agencies in improving the procurement system in India. Second, no reform in the Indian public procurement system can be complete without the active role of the private sector which has an equal stake in it. There is a need to sensitize and involve the private sector in promoting integrity and healthy competition in public procurement.

I wish the conference all success and hope the deliberations would result in valuable recommendations which can be implemented to reform and strengthen the Indian public procurement system.
