

Public Procurement Bill & MSMEs

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Over view of the MSME sector

Historical data

- > 8000 products
- Contribute: 40% to exports, 45% to Ind. Production
- Employment : second largest after agriculture
- Compete with large companies and imports; Policy of Reservation is done away with

4th MSME census (2006-07)

- 26 mn units (1.6 mn * regd, 24.5 mn** un-regd)
- Total employment: 60 Mn
- 95% are self-funded; < 5% have Banks/ FI funds
- 97% are Prop./ partnership firms
- Over 50% owned by SC/ST & OBC; 10% by women

**Census figure; ** Survey figure*

MSME angle in Public Procurement

- **System's bias for fewer & larger suppliers**
 - **Efficiency argument**
 - **Ease of 'handling'**
- **Without policy interventions MSMEs are crowded out in public tenders >**
- **Advantage of MSME support policies in Public Procurement**
 - **Capability and capacity creation (through trial orders)**
 - **Spreads industrialization**
 - **National security (indigenous supply sources)**
 - **Spreading equity : the MSME forte (over 50% SC/ST & OBC ownership, Rural– urban balance)**

Special dispensation for SMEs in public procurement

Cross country comparisons

	Countries / Regions	Public Procurement
1	EU and other industrialized countries (except Canada)	5~18 % (through active policy support; but no set-aside)
2	USA	➤20% (set aside; actively followed up at highest level through White House)
3	India	< 1 % from central govt. (FISME study 2006) ~5 % Central Govt. and PSUs (PM Task Force 2009) 2012: Now 20% set aside for MSEs (4% from SC/ST) to be achieved in 3 years.

- US & Japan have the most *activist* SME procurement prog. US' set-aside target is 23% of Federal purchase. In 1995 it peaked 33%; invests heavily in on-line info for Small business to reduce transaction costs.
- Though set-aside targets are not used in EU, yet it provide substantial targeted assistance.

Public procurement in India from MSMEs: Problems

- Survey on Anti-competitive Practices (DFID- UNCTAD project 2009) : Max. complaints about Govt. agencies!
- Public Procurement :
 - Pre-tendering
Eligibility criteria: ad-hoc techno-commercial conditions to crowd out competition.. demands of unrealistic experience/ turnover/ testing facilities, domicile, bundling or orders..
 - Post tendering
Post tender changes in specifications, re-negotiations, delay in payments, threats of cashing of Bank Guarantees. securities..
- Ad-hocism & system's bias worked against MSMEs
- GFRs seems to have perpetuated; Need for an Act

Discussion points

- Public Procurement Bill 2012 (already in public domain)
- Issues:
 - Central Purchase Organization: role & functions; registration process of vendors;
 - Use of IT: more focus and clarity needed; should be central to reform process
 - Problems being more acute in States, can this Act be developed as a model Act for States too? Incentives for them to adopt ?
 - Overlap in jurisdiction: CPO/ CAG/ CVC/ CCI/ CIC-RTI
 - RTI to Duty to Publish the procurement process

Thank you

Your comments and suggestions are welcome

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