

Development-based Public Procurement Policies

Prof. Dr. Murat Yülek
Istanbul Commerce University
Center for Industrial Policy and Development

This presentation has been prepared upon the invitation by SERCOP for the Regional Meeting on the Public Procurement Systems in Latin America and the Caribbean, Quito, Ecuador, 15-16 July 2015

The State as a large buyer

- Budgetary resources make the state the single most important buyer
- Well defined procurement policies may be a key tool in the service of economic (and social) development
- Coordination among the procurement practices and decisions by the fragmented state structures (various units at local, state, federal levels)

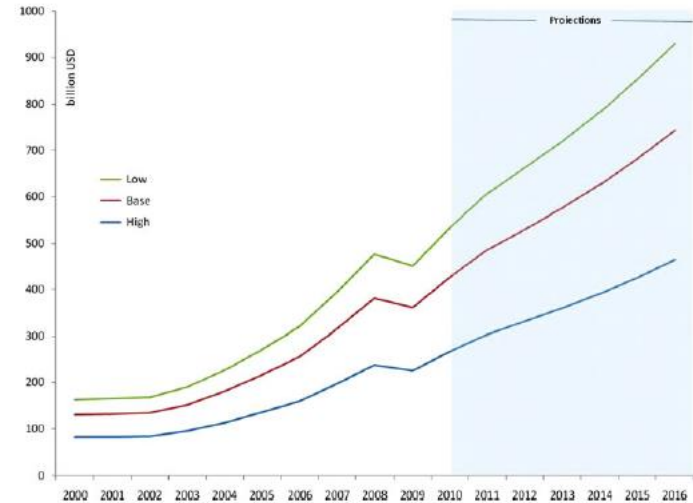


Fig. 1.3 Public procurement of machinery and equipment in emerging economies: estimates and projections

Table 1.5 Projected estimates for imports of publicly procured machinery and equipment in developing economies (billion USD)

	2005	2010	2011	2012	2013	2014	2015	2016
High	135.6	267.2	303.6	331.5	359.7	391.2	426.1	464.6
Base	81.4	160.3	182.2	198.9	215.8	234.7	255.6	278.8
Low	54.2	106.9	121.4	132.6	143.9	156.5	170.4	185.8

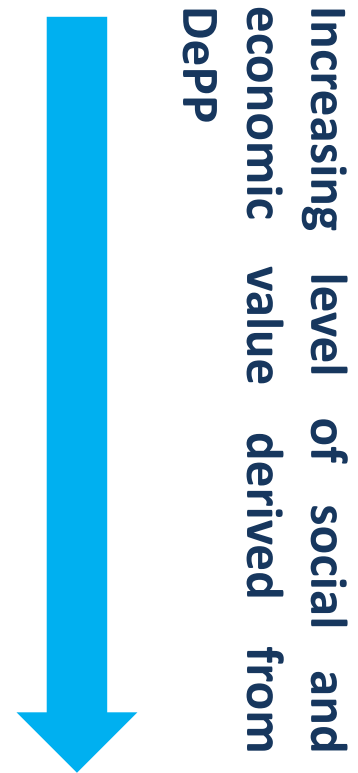
SOURCE: author' calculations

Yülek, M. (2012) "Public Expenditure on Machinery and Equipment in Developing Countries: A Potential Technological Driver of Technological: Development and Industrialization" in Yulek, M., ve Taylor, T. *Designing Efficient Public Procurement Policies to Foster Technology Transfer and Development Capacity in Emerging Markets*, Springer, New York, USA.

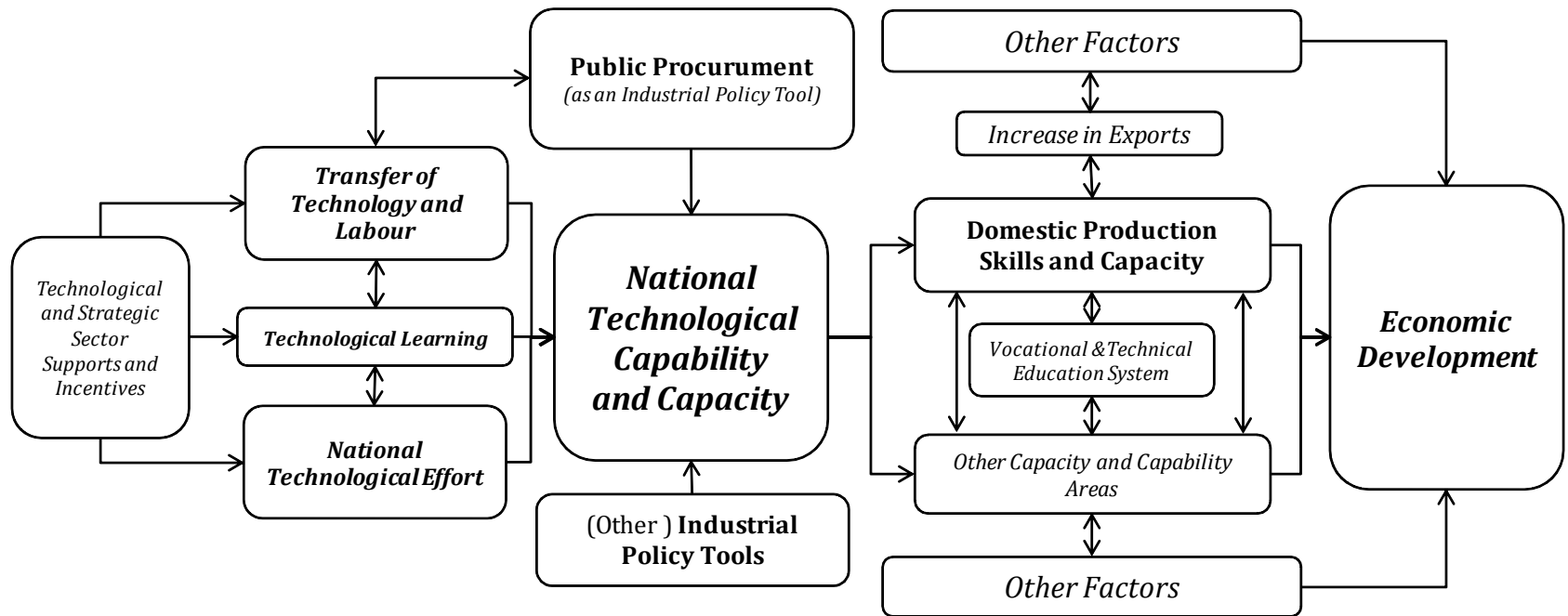
Development-based Public Procurement Policies (DbPPP)

Public procurement can play a significant role in economic development not only by triggering immediate growth and employment potential but also by strengthening the industrial, technological and innovation capacity:

- Increasing the level of value added in the economy, and thus reinforcing employment opportunities, value-add of entrepreneurs and businesses and GDP growth
- Formation and strengthening of an industrial 'layer'
- Technological capacity: adopting as well as developing technology



The Role of Public Procurement in the Process of Economic Development



Source: Yülek, M. and Tiryakioğlu, M. (2015 forthcoming) Development-based Public Procurement Policies: A Selective Survey of Literature, Cross Country Policy Experience and the Turkish Experience, *Innovation: The European Journal of Social Science Research*, 28(2) (in-press)

Classification of DbPPP Tools

Types of Public Procurement as tools of Industrial Policy

<i>Offset</i>	<i>Local Input</i>	<i>Specialized SME</i>	<i>Forward Public</i>
<i>Primary Ability Area</i>	<i>Requirement</i>	<i>Supporti</i>	<i>Purchasing</i>
<i>Secondary Ability Area</i>			<i>Commitments</i>

Source: Yülek, M. ve Tiryakioğlu, M. (2015) Development-based Public Procurement Policies: A Selective Survey of Literature, Cross Country Policy Experience and the Turkish Experience, *Innovation: The European Journal of Social Science Research*, 28(2) (in-press)

Public Procurement as a Market Access Tool for Smaller Firms

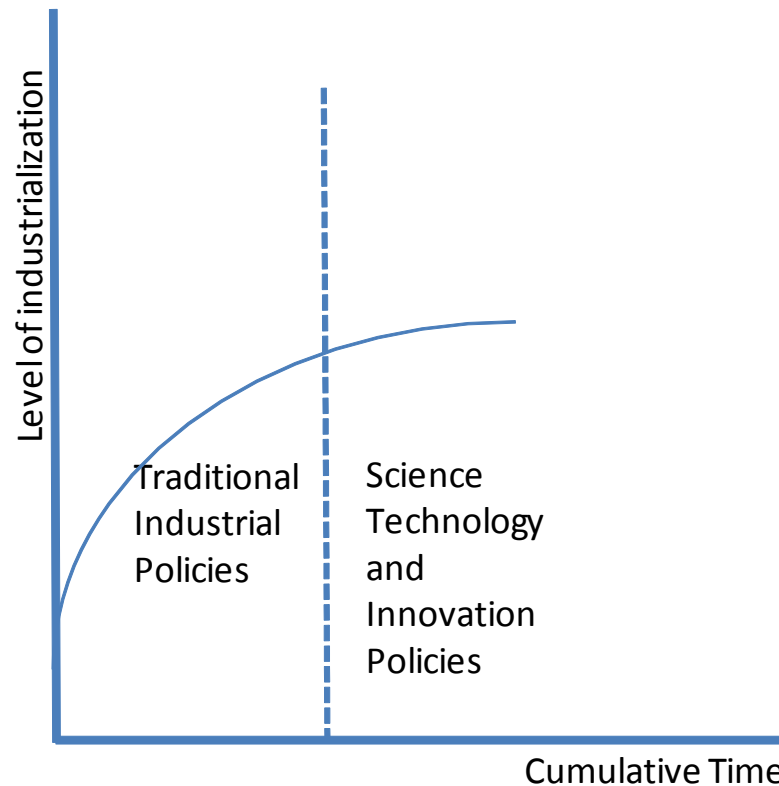
- Public authorities in developing as well as in developed economies design and administer various financial supports to incentivize firms in order to produce growth and employment:
 - R&D and innovation subsidies
 - Tax incentives for industrial development
 - Tax incentives for regional development including locating production facilities to underdeveloped regions
 - SME supports, export subsidies
 - Attract FDI

Public Procurement as a Market Access Tool for Smaller Firms

- Well designed public procurement policies may complement such financial supports in a crucial way. Lack of market access is among the primary obstacles to SME survival and growth globally. SMEs face many obstacles in commercializing their products. These obstacles deepen the SMEs' death valleys or reduce their longevity. In turn, that causes a key obstacle in expanding employment and growth opportunities especially in developing countries.
- It would not be wrong to classify DbPPP as a 'direct' support to businesses and the former type of (financial) supports mentioned earlier as 'indirect.' It is not uncommon, for example, that a firm in a developing country uses an R&D financial support to develop a product and never be able to commercialize it.⁵ Providing market opportunities to firms, thus, would complement and increase the efficiency of public funds allocated to support businesses.
- Such procurement tools are practiced in a number developing and developed countries including the USA

Industrial Policies vs Science, Innovation and Technology Policies

Figure 2. Level of Industrialization and Appropriate Policy Response



Why Industry / Manufacturing and Why Industrial Policy?

Theory

- Kaldor: manufacturing is the hot bed of productivity growth
- Gerschenkron, Rosenstein Rodan: policies needed to accelerate economic development

Practice:

- Colbert and neo-Colbert (France), Meiji (Japan), ... : Policies that transform and accelerate the “industrial layer”
- EU; e.g. Airbus
- US Defence Policies (both industrial and technology policies)

Recommendations for LAC Countries

- DbPP can be used effectively in LAC to foster current and future growth and development prospects:
 - Generation/strengthening of an ‘industrial layer’
 - Supporting the development, survival and growth of SMEs which are engines of employment, growth and innovation
 - Expanding the scale of existing industrial companies with a view to competitive advantages in the global market

Recommendations for LAC Countries

- Some key points
 - Coordinating and harmonizing procurement standards and regulations within, as well as among, the LAC countries are key. In many instances, central/federal government and local administrations have very differing practices which will reduce the effectiveness of DbPP policies
 - At earlier stages of development, DbPP's targeting industrial development rather than innovation and technological development is more relevant to developing nations. Innovation and technological development gets accelerated when they are built on a strong 'industrial layer.' That does not mean to disregard innovation and technology; it just means prioritize policies.

Recommendations for LAC Countries

- Some key points
 - Targeting key sectors with wide linkages and ‘learning potential’ is crucial to ensure enhanced effectiveness of DbPP; e.g.
 - Transportation equipment (e.g. railway rolling stock)
 - Health equipment
 - Energy (especially green) equipment
 - Mechanical components of construction and infrastructure sector (e.g. Elevators)
 - DbPP location rules can be effective in regional development