DISCRIMINATORY PUBLIC PROCUREMENT POLICIES

DISSERTATION BY

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To achieve social economic objectives, governments usually institute discriminatory practices in their country's public procurement framework. Discriminatory procurement is the practice by governments to favour their own domestic suppliers over foreign firms for advertised contracts. Favouring domestic firms over large, possibly cheaper foreign firms, it is argued will create a stimulus to the economy through injections. Injections to the economy will stimulate the expansion of infant industries, foster growth of underdeveloped regions, create employment and improve the standard of living.

On the other hand, increased openness of public procurement markets to allow in foreign firms, has been justified as a practice that enhances competitiveness, reduces cost of procurement by government leading to efficient public resources utilisation. Countries are then faced with a problem of making a decision of opening the procurement markets given the rather contradicting policy outcomes.

Our argument is that for a government to make a decision of either buying from a foreign firm or domestic firm, it analyses the impact on the economy of either options. Buying from a cheaper foreign source will generate savings that can be reinvested back into the economy depending on a government's spending priorities. The impact of these saving is compared to the impact of awarding a contract to a domestic firm.

Using the accounting multipliers computed through the Social Accounting Matrix (SAM), we calculate the impact of both options. This leads to the development of a Procurement Policy Option Model (PPOM) used as a decision tool to determine whether a contract in a particular sector should be awarded to a foreign or a domestic firm. The PPOM is extended for various discriminatory public procurement schemes and a model for each of the schemes is developed.

The models and rules developed in this research provide the necessary guidance on how countries can differentiate between the different sectors so as to set effective thresholds necessary to achieve social economic objectives without compromising on the primary objective of value for money.