"Potential Accession to the Revised WTO Government Procurement Agreement: The Cases of Egypt and Turkey"

C. Synthesis Paper: "What are the pros and cons?"

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The paper considers the benefits and costs of accessing the WTO Government Procurement Agreement (WTO GPA) for Turkey and Egypt. While Section 1 considers the case of Turkey, Section 2 analyzes the case of Egypt. Finally, Section 3 concludes.

1. Benefits and Costs of Turkish Accession to the WTO GPA

Turkey’s public procurement system has significantly improved since the adoption of Public Procurement Law (PPL) No 4734 of 2002 and the Public Procurement Contracts Law (PPCL) No 4735 of 2002. The new system of public procurement was of a high standard prepared by taking into account the 1994 United Nations Commission on International Trade Law’s (UNCITRAL) Model Law on Procurement of Goods, Construction, and Services, the WTO’s 1994 Agreement on Government Procurement (GPA), and the then prevailing European Community’s (EC) Directives on public procurement.

During the period since 2002 Turkey has shown remarkable progress in adjusting to the new system of public procurement. Furthermore, considerable progress has been made in improving the efficiency and effectiveness of the Public Procurement Authority (PPA) operations through the use of IT technologies and through e-procurement tools. But over time, problems started to accumulate. Economic units adversely affected by the changes in government procurement legislation started to complain. Policy-makers responded to these complaints by making amendments to PPL directly and indirectly. While in the case of direct method the government has introduced changes in PPL by amending the Law No 4734 of 2002 through separate legislations, indirect methods were used when the government inserted the amendments to PPL to other laws adopted and also inserted these amendments to different government decrees. Some of the changes to PPL were made in order to align the public procurement legislation to EU public procurement acquis. But the majority of changes were introduced that led to further deviations from satisfying the primary goals of a sound procurement system such as competition, transparency, non-discrimination, and integrity.

Once a sector becomes exempt from the rules of PPL, the principles and procedures concerning public procurement are determined with the regulations prepared by the related ministries or institutions taking account of the opinions of PPA. Accordingly, these rules should reflect the main principles of public procurement, such as equal treatment, transparency, and competition of PPL, when awarding the contracts. However, it is difficult to say that these regulations are in full compliance with the main principles
of the PPL. In particular, the transparency requirements for advertising the contracts are in most cases violated. Besides, tender procedures are not similar to the PPL tender procedures. Under exemptions, the efficient functioning of public procurement could be distorted by collusions and/or corruptions, or both, reducing competitiveness and efficiency in the public sector.

Turkey is an extensive user of exceptional procedures (negotiated procedures and direct procurement). Here we ask the question what advantages negotiated procedures and direct procurement methods have over open procurement and restricted procurement methods. According to PPL procedures other than open and restricted may be used in Turkey under special circumstances set in Articles 21 and 22 of PPL. Procurement of the consulting services with the restricted procedures are subject to special regulations (Article 48-52 of PPL). Furthermore, “direct procurement” does not require the advertisement of contract notice and can be applied under certain specified conditions stated in Article 22 of PPL. Tenderers participating in the procurement proceedings are no longer required to submit information and documents for evaluation of their economic and financial standing or for the evaluation of their professional and technical qualifications. Similarly, the “negotiated procedure” is used under certain specified conditions stated in Article 21 of PPL. In some of these cases, there is even no need for advertisement of the contract notice.

Since the requirements of “direct procurement” and “negotiated procedure” are less restrictive than those of “open procedure” and “restricted procedure,” the efficient functioning of public procurement may be distorted by collusions or corruptions, or both, reducing competitiveness and efficiency in the public sector and thus violating the primary goals of sound procurement. Finally, note that the government by passing Law No. 5812 in 2008 allowed the contracting authorities the right to forego the open auction procedure for any construction auction where the estimated cost of a procurement project was above half the value of a specified 'threshold'. According to the law only those tenderers invited following a pre-qualification evaluation by the contracting authority may submit a tender. As pointed out by Gürakar and Meyersson (2016) this represented a significant change as previously restricted auctions were only used when the nature of the subject necessitated 'speciality and/or high technology'. Thus, the 2008 amendment significantly increased government discretion of construction procurement contracts.

Note that PPL applies to all tenders regardless of the thresholds set out in Article 8 of PPL. Although contracts below the thresholds are still subject to the provisions laid down in the PPL they are not subject to the PPL requirements on transparency and equal treatment. Hence there is less competition. As a result the level of thresholds are of prime importance. Since thresholds in Turkey have been set above the levels set by the WTO GPA, the policy makers in Turkey are given more flexibility in decision making compared to decision makers in the WTO GPA countries. Furthermore, if the value of the contract is below threshold, a procuring entity may confine the participation of procurement proceedings solely to domestic suppliers or contractors. On the other hand, 15% price advantage may be granted for tenderers of above thresholds who offer
domestic products violating the principle of non-discrimination.

Finally note that PPL does not contain provisions on works and services concessions such as construction of highways and bridges by the private sector. Since Turkey does not have a comprehensive legislative framework for concessions and public-private partnerships, tender procedures, award criteria, and the inclusion of social and environmental considerations in public contracts are in general different from those stipulated under PPL. Thus, uniform and coherent laws on utilities are still missing. As a result of opaque tendering procedures and poor governance, contract prices tend to be higher and delays and cost over-runs affect taxpayers negatively, as they end up paying more for less.

Turkey by joining the WTO GPA could reduce or even eliminate the problems mentioned above and derive substantial benefits by (i) gaining assured access to the procurement markets of other WTO GPA Parties subject to the terms set out in the Parties' schedules, and also realizing enhanced competition and improved governance in the Turkish economy.

During the accession negotiations to the WTO GPA Turkey will be forced by existing WTO GPA Parties to repeal exceptions not in line with WTO GPA rules, reduce the use of exceptional procedures (negotiated procedures and direct procurement) to levels consistent with WTO GPA rules, reduce the threshold values to values consistent with average threshold values of the WTO GPA Parties, and not discriminate against foreign suppliers in below threshold as well as above threshold contracts. Thus, Turkish accession to the WTO GPA will secure better value for the money spent by the Turkish government on its procurements. But this conclusion is based on the assumption that Turkey after joining the WTO GPA will be able to implement and enforce the rules required by the WTO GPA. In particular this requires that Turkey allows for covered procurements the opening of markets to international competition through legally enforceable provisions. Furthermore, the provisions of the WTO GPA on contract awards, qualification of suppliers, and conditions on procurement process have to be strictly observed. Thus, Turkey needs to be able to achieve the transparency and non-discriminatory conditions of competition between suppliers. Only, under strict implementation and enforcement of the WTO GPA rules Turkey will realize the cost savings to procuring Turkish government.

Finally, regarding the costs in the WTO GPA accession one could consider following Anderson et al. (2011) three different costs: costs of preparing an offer and negotiating with the existing GPA Parties; institutional costs relating to the implementation of the WTO GPA's requirements; and costs relating to the adjustment of domestic firms to competition from foreign entities based in other GPA Parties, including possible employment and other effects. But in the case of Turkey these costs could largely be discounted since the PPL is broadly in line with the 2004 EU public procurement directives and since the EU is a member of the WTO GPA,
2. Benefits and Costs of Egyptian Accession to the WTO GPA

The public procurement in Egypt is governed by the Tender Law No. 89/1998 (which replaced Law 9/1983), its executive regulations, and a number of complementary prime ministerial decrees, ministry of finance circulars, and provisions in other laws (Articles 668 to 673 of the Civil Code contain provisions for Concession agreements which are not governed by Law 89/1998), and legal opinions (fatwas) issued by the State Council (World Bank, 2003). The law has been amended twice in 2008 and 2010, without any major changes in its regulations (EBRD, 2013).

There is a gap between what is stated in the law and what is implemented. Among the reasons for such gap is broad concepts embedded in the law and its executive regulations, which make them insufficient for consistent application. Moreover, the excessive and cumbersome bureaucratic procedures and extensive checks and balances resulted in huge inefficiency in terms of applying the law. As a result of such gap the ministries have created their own unwritten procurement rules which became by time known for bidders and became the norm in this regard (World Bank, 2003). Hence, despite the fact that the law in general as has been assessed to allow for fair competition and non discrimination (EBRD, 2012; EBRD, 2013) the lack of specific regulations and discretionary power for contracting agencies as a result of such lack of specific regulations have resulted in pre-empting the law from its good faith.

There are a number of provisions in the law which defies WTO GPA, including for example the preference for local suppliers. However, and in case that Egypt accedes to the GPA such preference for local suppliers can be stated in the terms of accession, which is allowed by GPA under the offset and threshold provisions and in this case Egypt will not be violating the GPA Article III. In other words, even if the law is not compatible with WTO GPA provisions such incompatibility can be reconciled in the accession process.

There are no available published data or information on the size of the public procurement in Egypt. In fact, in 2016 the General Authority for Government Services (GAGS) issued a circular (circular 8/2016 urging the different agencies to provide it with the information related to public procurement in a special format. Yet available unofficial estimates put a figure of 27% of GDP as what the government spends on public works, goods, and services, which does not cover procurement by State Owned Enterprises (SOEs). Another figure put by El Gibaly (2010) was 27 LE billion allocated by the government in its budget for 2009/2010 for purchasing good and services and 36 LE billion allocated by the government in the same budget for government spending on investment projects to be performed by private sector. It is worth noting that the Ministry of Finance is still in the process of collecting a comprehensive database for public procurement in Egypt (Ministry of Finance, 2016). Some scholars attempted to estimate Egypt's public procurement share in GDP. It was stated that it reached 17% of GDP in 2010/2011 (Abdellatif and Zaky, 2013). However, this figure is probably underestimated as its source is the State Budget, which does not include figures on either Economic
Authorities or Public Sector. Yet, it remains comparable to other world-wide estimates which were put in the range of 15-20% of GDP (Anderson et. al, 2011), and specifically 18% for Middle East and North Africa (MENA) region (OECD, 2016).

In light of paucity of data and information, the task of determining the potential benefits and costs for a country like Egypt from joining the GPA is far from being easy. Hence, the approach followed in this Section follows the evaluative framework for individual WTO members considering accession as depicted in Anderson et. al (2011) and Chakravarthy, S. and Kamala Dawar (2011). Yet, the approach will be complemented by other aspects either raised in other studies or following Egypt’s particular status as an emerging economy that has passed by a revolution in 2011 and hence faces economic as well as political challenges. We emphasize below the possible pros and cons of Egypt joining WTO GPA:

2.1 Enhancing exports and inward investments of the country concerned in the GPA members’ economies

There are a number of issues in this regard that need to be considered. First, Egypt’s major trading partners accounting for more than 60% of its trade are EU and USA, which are already members of the GPA. The total market value of the GPA members was estimated to be $ US 1.6 trillion in 2008, which is a significant number (Anderson et. al, 2011) though what really counts is the market penetration rate. Moreover, among the countries seeking accession are Jordan and Oman where Egypt has strong trade relations with them through the Pan Arab Free Trade Area (PAFTA) and Agadir agreements. In addition, Saudi Arabia (which is among the WTO members with provisions in their accession protocol pinpointing their interest in accession) is considered among the major trading partners for Egypt within the Arab countries and PAFTA. The strong trade ties with existing or potential GPA members imply that both Egyptian and foreign businesses in such countries are familiar with the Egyptian as well as those countries’ markets, which could be a positive aspect for both Egyptian businesses when bidding outside in such markets, as well as for foreign businesses bidding in Egyptian market, yet there is no guarantee that such information on trade will be easily translated into equivalent information on public procurement. In other words, the presence of several trading partners in the GPA could either act as a positive aspect or neutral for Egypt when joining the GPA. In fact, empirical evidence has confirmed that GPA membership has a positive impact on trade in goods and services between GPA parties as well as on outward foreign affiliates’ service sales (Chen and Whalley, 2011).

The second issue which needs to be considered is the presence of China among the countries seeking accession to the GPA. However, this issue will not be discussed here as presence of China will be equally worrisome if not more for all GPA members when compared to Egypt due to its aggressive price competition tools. In other words, China’s accession will be probably subject to strict conditions that ensure that its aggressive price competition will be handled in its terms of accession, and hence we cannot depend on this factor as one of the criteria to evaluate Egypt’s accession to the GPA. It is rather a mute
factor that will remain so till the conditions of China’s accession are known, as well as
the conditions of Egypt’s accession especially those regarding threshold and sectors, as
well as the conclusion of the negotiations on the revised text of GPA. Indeed, the
available literature confirms GPA acting as a device or a vehicle for achieving market
gains or as an “insurance policy” against “buy national” types of policies that have
recently proliferated in a number of countries (Anderson et al, 2011). Yet, it is also
confirmed that the ability to benefit from GPA depends on the capacity of each country to
join (i.e. its competitiveness, infrastructure, export readiness, etc).

It is also worth noting that GPA can act as an engine for enhancing inbound foreign direct
investment (FDI), especially in the fields that requires domestic establishment as for
example construction activities, which represents a significant portion of government
procurement in a country like Egypt. The membership of GPA acts as “stamp of
approval” for the investment and procurement policy of the country concerned which
helps to encourage more FDI (Anderson, et. al, 2011). However, the GPA can only work
if other regulatory reforms are carried out in terms of improving the business and
investment environment in general and the Investor State Dispute Settlement (ISDS)
mechanism where data shows that there has been increasing number of disputes arising
after the 25th of January revolution where 18 cases have been reported in the period
2011-2016 compared to 20 cases over the period 1998-2010

2.2 Promoting good governance: enhancing competition and lessening costs

The merit of the Egyptian government procurement law is certainly good, yet the practice
suffers several loopholes as explained before, which render the law ineffective in
achieving one of its ultimate goals of enhancing competition and lessening cost (value for
money) incurred by the government in its procurement activities. Joining the GPA will
surely help to enhance competition and lessen costs (Anderson et. al, 2011) simply as it
will act as an effective device for enhancing transparency and abiding by rules which by
themselves will lead to achieving such two goals. The negative side always mentioned
here is that the efficiency gains enjoyed by the government will not be shared by
domestic or local suppliers who might be kicked out of the market due to fierce foreign
competition, hence the economy as a whole, versus the government, will not enjoy the
full reap of such gains unless consumers will enjoy better prices for publically procured
goods and services, which is an issue that has to do with efficiency in distribution. But if
focus is on the production side, then kicking out local producers out of the market can
have negative socio-economic effects. Again such fear, can be controlled in the accession
terms by identifying phased-in addition of specific sectors and entities (including defense
departments), offsets (including local content requirements), price preferences, and
thresholds which will enable the government to count for the sensitive sectors and/or
small firms. As a matter of relief for Egypt, it is worth noting that the estimates of
government procurement which falls outside the purview of GPA for a developed
member as the EU has been 80% of total public EU procurement (Anderson, et. al, 2011)
which is expected to be higher for developing countries. Not to mention the “home bias”
in the Egyptian procurement system which is driven by many factors rooted in the Egyptian economy including compliance costs, domestic policy environment, etc. which all act as a shield from high substitution of foreign firms for domestic ones in procurement activities. Adding to that there is some evidence that the public and private imports are not substitutes (Shingal, 2011) which act as another shield level against the fear from substituting Egyptian products and services by foreign ones. Moreover, and as identified by Anderson et al, 2011 the negative impact on the economy is lessened by the high probability of foreign firms winning the bids subcontracting local firms, and possibility of technology transfer. Moreover, empirical evidence has shown that joining GPA has not led to the increase in the value of foreign procurement in the countries which have joined, though it has increased the import demand for contracts (Shingal, 2011). Another fear, that can act as an obstacle is the negotiating costs as well as the costs of altering different laws, rules, and regulations related to adapting the domestic law and regulations to GPA. It is worth noting in this regard that such costs, despite the fact that they might be relatively significant can be lessened through the technical and financial support provided by international organizations and donors (Anderson et. al, 2011). Moreover, Egypt is not a federal state, and hence the government procurement is governed by a central law which will lessen the costs associated with adapting to the GPA when compared to federal systems. Finally, the flexibilities embedded in the accession process for any country where tailor made exceptions are made to the GPA rules depending on the specific needs of the acceding country (Anderson et. al, 2011) is certainly an important aspect which should be considered if Egypt decided to join.

2.3 Fighting corruption, anchoring reforms, and enhancing transparency

The GPA in itself can act as an anchor for reforms, whether on the investment policy, procurement procedures, export strategy, or institutional and legal framework. The nature of binding commitments and level of reporting and transparency required by the agreement can act as a device for undertaking and anchoring domestic reforms. This is important in the case of Egypt, that the law itself is fine regarding its merit, yet its application suffers several pitfalls, and that there is paucity of information and data, where joining GPA will definitely help in improving data reporting (Shingal, 2012). Moreover, and despite that the law has been modified twice, it remained short of addressing the shortcomings of its implementation implying the existence of reluctance for reforms by some stakeholders who benefit from the current status quo of its implementation. It is worth noting that corruption is a world wide phenomenon in public procurement worldwide and especially in developing countries (Shingal, 2015). As a result, joining an international agreement like GPA can act as an effective device in initiating and anchoring reforms on several fronts whether related to the procurement policy per se or related fields including corruption, investment, and exports. It is worth mentioning that the revised GPA includes a new provision that imposes a specific requirement on GPA Parties to avoid conflicts of interest and corrupt practices (Anderson et. al, 2011).

2.4 Epilogue
The weak economic situation of Egypt in the current period might deter any government from thinking of joining an international agreement like the GPA. Yet, the analysis above has shown that a lot of the fear from joining GPA is based on misinformation and that for a country like Egypt there are conditional benefits that can be reaped provided domestic regulatory reforms governing the business and investment environment are undertaken prior or in conjunction with accession (e.g. the ISDI). Moreover, and most importantly the amount of costs expected have been wrongly magnified, and in fact our analysis has shown that the safety valves already embedded in the GPA and its revised version can help Egypt to lessen such potential costs (e.g. thresholds, sectors, and offsets).

3. Conclusion

Government procurement concerns how public authorities spend taxpayers’ money on goods, services and infrastructure. In each country public procurement is typically governed at the national level by setting rules that try to balance a number of goals. Of these goals, transparency, non-discrimination, integrity and competition are probably the most important.

The aim of transparency is to ensure that the rules are followed and that non-compliance can be identified and addressed. It involves five main elements:

- Public disclosure of the rules that apply in the procurement process.
- Publication of procurement opportunities.
- Prior determination and publication of what is to be procured and how submissions are to be considered.
- Visible conduct of procurement according to the prescribed rules and procedures.
- A system to monitor that these rules are being followed.

The effect of transparency is a higher level of competition. Since the public authorities must make procurements publicly known, more suppliers will be aware of the opportunities. Furthermore, suppliers that know that their potential rivals will have access to the same information can deliver proposals that are competitively superior. This ensures that the contracting authority can pick the best possible proposal.

The principles of equal treatment and transparency are closely related to the principle of non-discrimination. Equal treatment requires that comparable situations are not treated differently and that different situations are not treated similarly unless such a difference or similarity in treatment can be justified objectively. Thus, a contracting authority must act fairly in the course of public procurement, and all competitors must have an equal opportunity to compete for the contract.

Discrimination against foreign firms in an international trade context includes price preferences, outright bans on foreign bidders, local-content related restrictions such as offsets, and standards adopted in the procurement process that raise the costs of foreign
firms. As long as the non-discrimination principle in public procurement is observed, all these practices must be avoided.

Integrity in procurement involves both the avoidance of corruption and abuse and the notion of personnel involved in procurement acting ethically and fairly, avoiding any conflicts of interest.

Corrupt practices might involve collusion between government and bidders, such as awarding contracts on the basis of bribes; awarding contracts to firms in which a public official has a personal interest; awarding contracts to firms in which a public official’s friends, family or business acquaintances have an interest; and awarding contracts to political supporters. Such corruption, which can occur in both the award and execution of contracts, may prevent public authorities from achieving value for money since contracts will not be awarded to the best firms.

Economic research typically emphasises the value of competition in leading to lower prices and higher quality products. In public procurement, the main issues are preserving free entry and the absence of collusion. Competition will be promoted in procurement markets by prohibiting discrimination, adopting transparent and standardised procedures for awarding contracts, opening procurement markets to international trade and preventing collusion among alternative suppliers.

The four conditions of transparency, non-discrimination, integrity and competition form the primary goals of a sound system of public procurement. In principle, countries can achieve these goals by their own efforts. But it is questionable how successful such an approach will be.

The WTO GPA’s provisions on contract awards, qualification of suppliers and conditions on procurement process ensure the achievement of transparency and non-discriminatory conditions of competition between suppliers, resulting in cost savings to procuring governments. In addition, access to the WTO’s dispute settlement mechanism helps to enforce fair and non-discriminatory competition in public procurement. As a result, the GPA is expected to bring about lower prices, better quality, efficiency gains and reduced corruption. Thus, a major potential benefit for countries to join the WTO GPA is the possibility of realizing enhanced competition and improved governance in the acceding country’s own procurement market.

The paper 'Potential Accession to the Revised WTO Government Procurement Agreement: The Case of Turkey' making use of a unique dataset provided by the European Union covering more than three million tenders conducted in the European Economic Area plus Macedonia and Switzerland over the period 2006-15 shows that

- The WTO GPA significantly increases the probability that a foreign firm will win a public procurement contract in the EU member and affiliated states.
• The WTO GPA promotes a more competitive environment by increasing the number of offers for a given contract.

• The WTO GPA significantly lowers the risk of corruption by decreasing contracts with a single offer, reducing the success ratio of firms and allowing firms with lower network strengths to win contracts.

• The competitive environment in a country is a significant determinant of the efficiency of public procurement. An increase in the number of offers decreases the contract price with respect to the estimated cost.

Thus, the WTO GPA commitments will secure better value for the money spent by governments in their procurement processes as a consequence of applying the WTO GPA principles of transparency, non-discrimination, integrity, and competition.

Given that the WTO GPA’s provisions will certainly benefit Egypt and Turkey, it is surprising that to date neither of the two countries have become signatories of the WTO GPA.

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