



# **DAILY EDITORIAL ANALYSIS**

TOPIC

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**UNLOCKING INNOVATION  
WITH INDIA'S PROCUREMENT  
REFORMS**

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# UNLOCKING INNOVATION WITH INDIA'S PROCUREMENT REFORMS

## Context

- Procurement policies and frameworks in India, often designed with transparency and cost-efficiency, frequently killing innovation by prioritising procedural compliance over scientific needs.

## About Public Procurement System

- Public procurement is the process by which governments purchase goods and services, for governance and economic development.
- It represents around **12% of GDP in OECD countries** and **up to 30% in some developing countries**.
- In India, it accounts for **nearly 20–22% of GDP**, making it a powerful lever for **policy implementation, industrial growth, and innovation**.

## Procurement's Evolutionary Arc

- Procurement has evolved from mere control to a tool of creativity and strategy, **from ancient Egyptian records to AI-driven supply chains**.
  - ♦ **Industrial Revolution**: Cost-centric approach.
  - ♦ **World Wars**: Strategic role in securing scarce resources.
  - ♦ **Post-1945**: Procurement became central to innovation in semiconductors, space, and renewable energy.
  - ♦ **Modern Time**: '**Cognitive procurement**' employs AI for predictive sourcing, scenario simulation, and compliance automation.

## India's Procurement Landscape

- Historically, India's procurement system was governed by the **General Financial Rules (GFR), 2017** and managed through **decentralized, paper-based processes**.
  - ♦ These rules introduced flexibility in procurement, allowing departments to experiment with new vendors and solutions.
- They often lacked agility, excluded small players, and were vulnerable to inefficiencies and opacity, while these frameworks emphasized cost-efficiency and compliance.

## Reforming the Procurement Framework

- **Reforms in General Financial Rules (GFR)**: These mark a shift toward **enabling research and development (R&D)** by granting exemptions from the Government e-Marketplace (GeM) portal and raising financial thresholds for R&D procurement.
- **Government e-Marketplace (GeM)**: It is a **dynamic, paperless, and cashless online platform** that enables government departments to procure goods and services efficiently.
  - ♦ It offers real-time price comparison and reverse auctions; direct access to over 50,000 government buyers; and minimal human interface to reduce corruption;
- **Public Procurement Policy for MSEs**: The government mandates that 25% of annual procurement by central ministries and PSUs be sourced from MSEs, while these frameworks emphasize cost-efficiency and compliance. It includes:
  - ♦ A 4% sub-target for SC/ST entrepreneurs;
  - ♦ Special provisions for women-owned enterprises;
  - ♦ Exemptions from earnest money and tender fees;
- **Startup India Procurement Reforms**:
  - ♦ Exempted DPIIT-recognized startups from prior experience and turnover requirements;
  - ♦ Created the **GeM Startup Runway**, allowing startups to showcase unique products and services;

- ♦ Enabled registration on the **Central Public Procurement Portal (CPPP)** with relaxed norms;
- **Vocal for Local:** Creation of 210 ODOP product categories for listing unique products from each district in India.

### Recent Steps Taken By Government

- **Bypassing GeM for specialised equipment**, reducing delays in scientific procurement.
- **Raising direct purchase limits** from ₹1 lakh to ₹2 lakh, acknowledging bespoke research needs.
- **Delegating tender approvals up to ₹200 crore** to institutional heads, eliminating bureaucratic lag.
- These measures align with the **concept of ‘catalytic procurement’**, where flexibility enables public institutions to act as early adopters of advanced technologies.

### Impacts of Reforms in India’s Public Procurement System

- **Transparency and Accountability:** Platforms like GeM and e-Procurement portals have digitized the entire process, reducing human discretion and corruption.
  - ♦ A well-designed procurement law can yield significant fiscal and governance benefits, potentially saving up to 1.2% of GDP.
- **Catalyzing Innovation Through Strategic Procurement:** Ministries are now encouraged to issue challenge-based tenders, inviting innovative solutions to complex issues like water purification, waste management, and digital governance.
- **Sectoral Impact:** In sectors like **Agriculture and Infrastructure**, procurement reforms are making systems more farmer-centric and tech-driven.
  - ♦ Initiatives such as **farm-gate procurement, digitized monitoring, and timely payments** are improving outcomes for producers while modernizing supply chains.
  - ♦ The **National Infrastructure Pipeline** and **asset monetization strategies** are being supported by streamlined procurement processes that attract private investment and global expertise.
- **Selfhelp Groups (SHGs):** GeM is collaborating with the **Self-employed Women’s Association (SEWA)** to train, assist and enable 21 lakh+ women-led micro and small enterprises, women entrepreneurs and selfhelp groups (SHGs).

### Limitations of India’s Public Procurement System Reforms

- **Overemphasis on Lowest Cost:** The traditional focus on L1 (lowest bidder) continues to dominate procurement decisions.
  - ♦ It often **sidelines quality, innovation, and lifecycle value** — especially problematic when sourcing advanced technologies or services that require long-term performance.
- **Low Direct Purchase limit:** The 2 lakh direct purchase limit may still be **inadequate for high-cost fields** like biotechnology and quantum computing.
- **Overemphasis On Global Tenders:** It may sideline domestic suppliers unless local R&D ecosystems are strengthened.
- **Limited Support for Innovation:** Many innovative firms still struggle with procedural hurdles, lack of awareness, and limited capacity to navigate complex tender documentation.
  - ♦ It remains risk-averse, favoring established vendors over disruptive solutions.
- **Fragmented Implementation Across States:** Procurement reforms are **unevenly adopted across states and local bodies**.
  - ♦ Smaller municipalities and rural departments often **lack the digital infrastructure, training, or incentives** to fully embrace e-procurement platforms, leading to inconsistent outcomes.

### Global Models of Innovation-Oriented Procurement

- **Germany’s High-Tech Strategy:** Embeds innovation into procurement through dedicated advisory bodies like KOINNO.

- **US Small Business Innovation Research (SBIR):** Reserves a share of R&D funds for startups, using phased procurement to de-risk early-stage technologies.
  - ♦ The **US model of performance-based private management** illustrates how hybrid systems can balance public oversight with corporate agility.
- **South Korea's Pre-Commercial Procurement:** Pays premium prices for prototypes aligned with ambitious national goals.

### Way Forward: Toward Transformative Procurement in India

- For India to unlock procurement's full potential, **four systemic shifts are essential:**
  - ♦ **Outcome-Weighted Tenders** – evaluating bids on qualitative factors like R&D investment, not just cost.
  - ♦ **Sandbox Exemptions** – allowing premier institutes partial freedom from GFR, tied to innovation targets.
  - ♦ **AI-Augmented Sourcing** – deploying cognitive procurement assistants for faster, smarter decision-making.
  - ♦ **Co-Procurement Alliances** – pooling demand across labs for high-cost equipment.
- India's **Council of Scientific and Industrial Research (CSIR)** could adopt a similar framework for strategic labs, provided strong accountability structures are in place.

Source: TH

### Daily Mains Practice Question

- Q. Discuss how India's procurement reforms have shifted the focus from procedural compliance to innovation. What are the remaining challenges in unlocking innovation through public procurement?

