

# Improving State Capacity to Work with Markets

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Procurement, Policy, and Regulation  
in Service Delivery Systems

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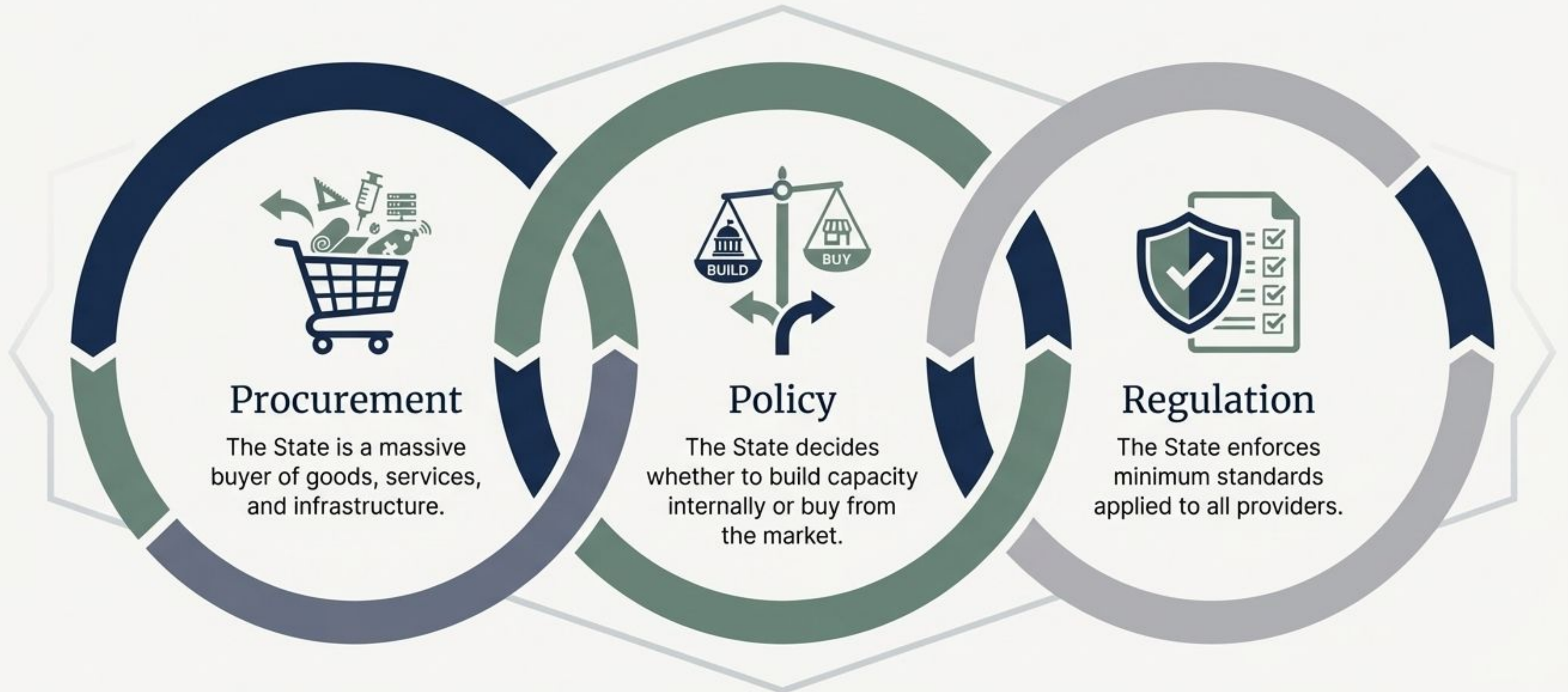
# Growth Happens Through Firms, But Institutions Shape Firms



- Economic growth relies on higher firm productivity and the expansion of productive firms.
- State institutions actively shape these firms through investment incentives, entry/exit rules, and risk allocation.

# In Many Sectors, the State Is a Major Market Participant

The state actively engages in the market through three primary mechanisms, influencing and participating alongside private firms.



# Structural Biases Restrict System Performance



**Historical  
'build-first'  
bias in  
government  
systems**

- Limited utilization of buy/partner models



**Weak  
regulatory  
frameworks in  
mixed  
markets**

- Severe state capacity constraints shaping policy choices

# Symptoms of Weak State Capacity Manifest as Structural Inefficiencies



Expanding public systems paired with declining utilization.



Highly fragmented procurement systems.

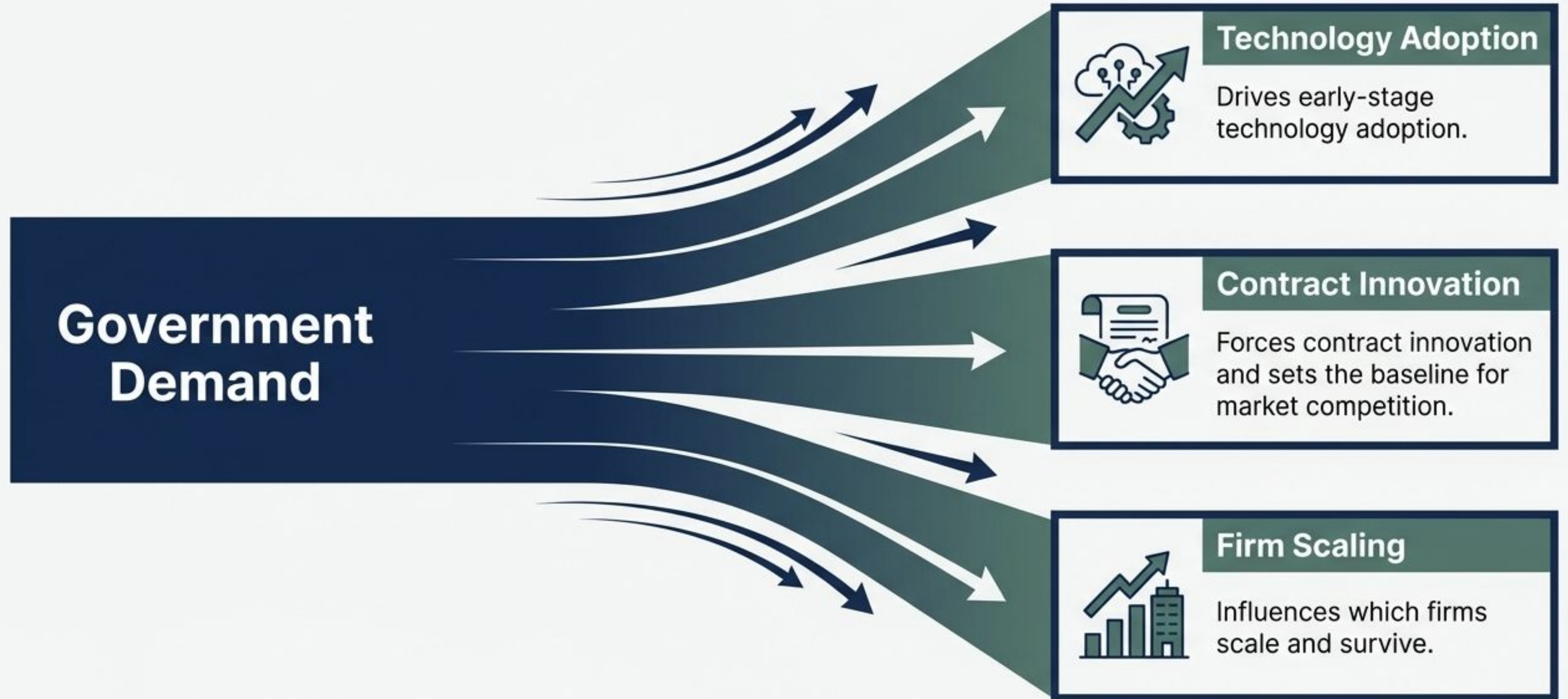


Limited outcome-oriented regulation.



Persistent project delays and massive cost overruns.

# Government Demand Actively Shapes Market Evolution



# The Macroeconomic Scale of Public Procurement is Massive

**12%**  
**of GDP**

Public procurement across Centre, States, and PSUs ( $\approx$  \$120 billion/year for Gov alone).

**₹8.5L**  
**Crore**

Annual State government capital expenditure.

**2.5×**  
**Multiplier**

The economic return on capital expenditure compared to revenue spending.

# Procurement is a Critical Capability, Yet Plagued by Passive Waste

~20%

Average cost overruns on large  
**projects** (>₹150Cr).

36 Months

Modal time delay for large  
infrastructure projects.

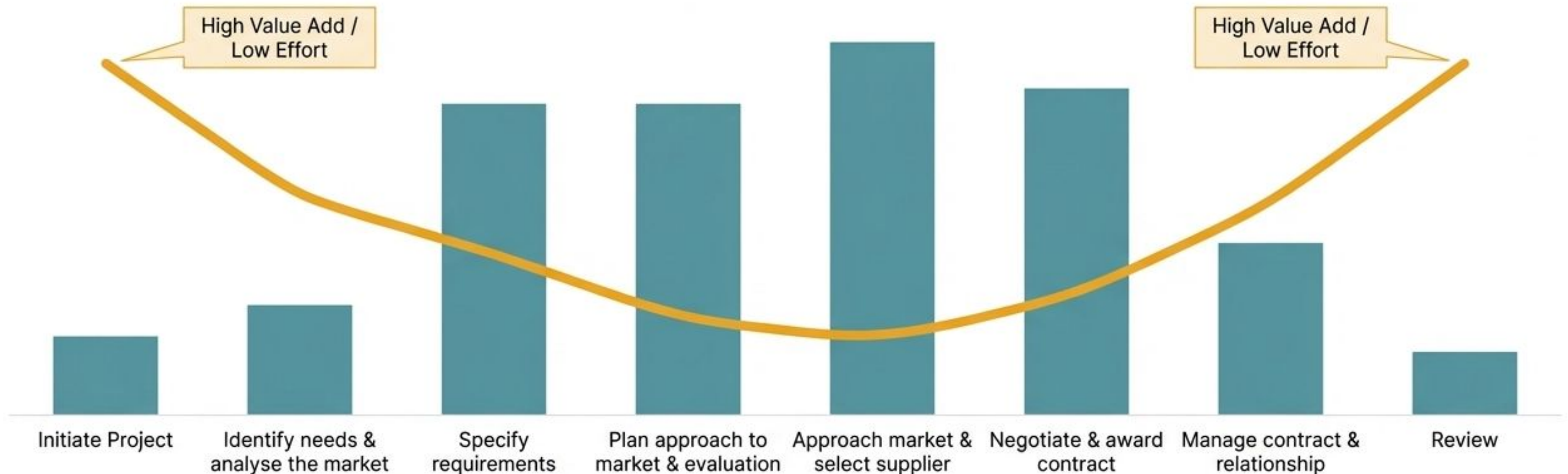
~10%

Value lost to 'passive waste' (poor  
planning, rushed processes).

# Public Procurement Reform Yields Outsized ROI at Scale

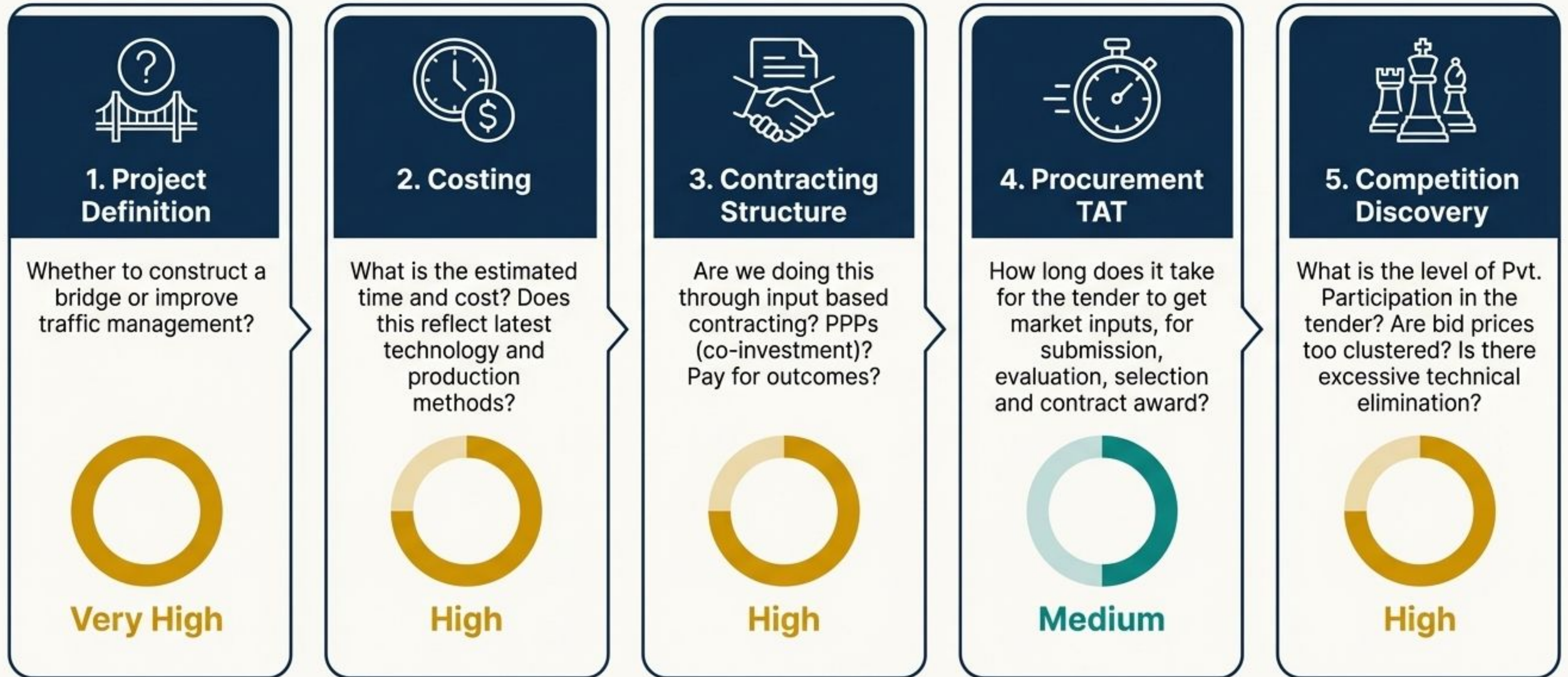
Improvements to Public Procurement (esp. Capex) on a large and inefficient base can have outside ROI.

**Strategic pillar:** Largely consistent protocols, platforms and norms across States, making interventions reasonably replicable across States (though capacities and maturity of systems vary).



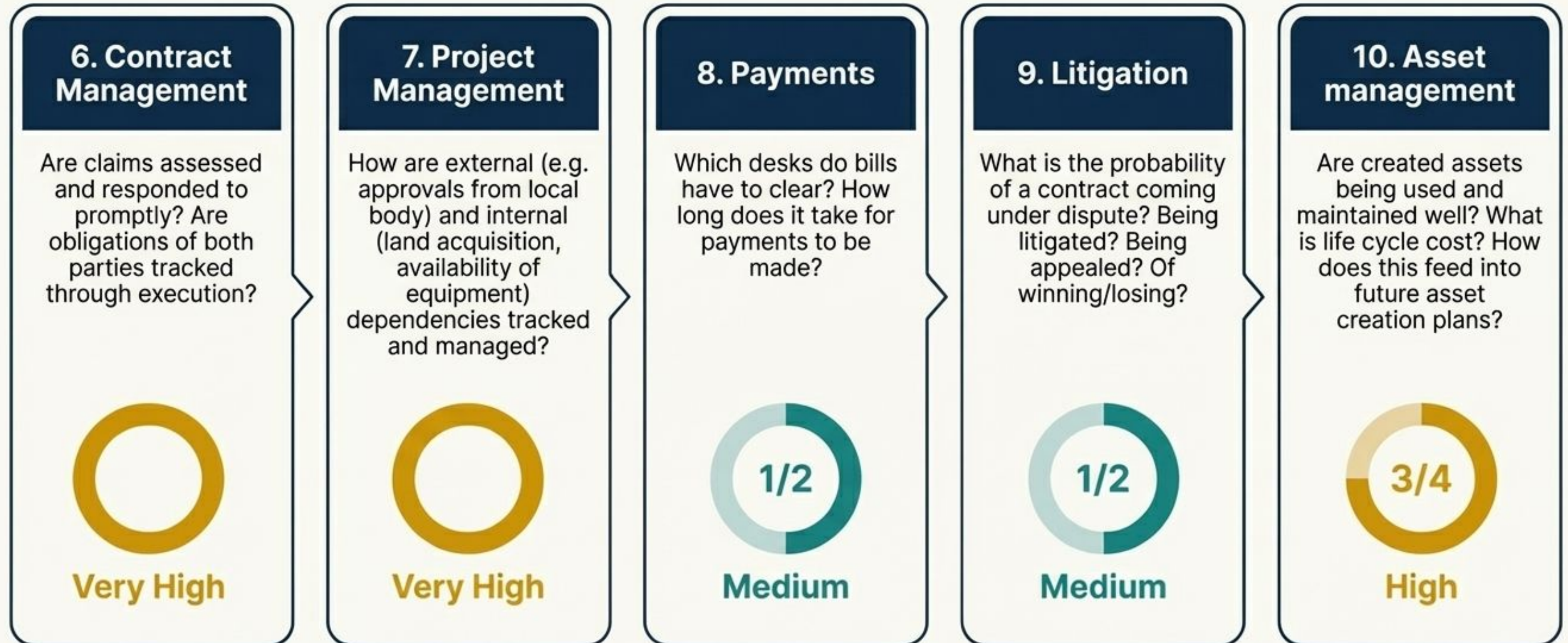
# Diagnostic Framework: Maximizing Value Early in the Lifecycle

Stage-wise margins for improving value for money (Stages 1-5) – Questions to ask (for say, a bridge construction project)



# Diagnostic Framework: Securing Value in Execution and Asset Management

Stage-wise margins for improving value for money (Stages 6-10) – Questions to ask (for say, a bridge construction project)



# Procurement Reforms in Tamil Nadu

## Yield Measurable Results

Tamil Nadu Context:  $\approx$  \$5 Billion annual Capex spending.

### Reduced Waste



Significant increase in the percentage of valid tenders.

### Speed



Dramatic reduction in 'opening to award' turnaround time.

### Visibility



Deployment of a Business Intelligence (BI) analytics layer tracking competitiveness and delays.

### Innovation



Piloting alternative models like 'Pay for Outcomes' (P4O).

# The Procurement Ecosystem:

*Who else is working in this space?*



## Technology & Infrastructure

### eGov

Platform specifications  
and Interoperability

### CDAC / NIC

Platform development  
and maintenance



## Legal & Risk Management

### XKDR

Litigation analysis and  
optimization

### Trustbridge

Contract improvements



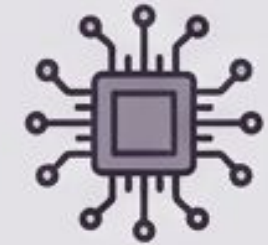
## Strategy & Institutional Design

### World Bank

Frameworks, Institutional  
strengthening programs

### Consultants

Broad advisory and  
strategic support



## Future Edge & Innovation

### Emerging Tech Firms

Focusing on AI-driven  
workflows and analytics

# How Can the State Work With Markets More Effectively?

**“If governments will remain central actors in service delivery sectors, how do we systematically improve this interface?”**

Stronger  
procurement  
systems

Better build vs.  
buy decisions

Smarter  
outcome-oriented  
regulation