Budget may go vocal for higher local procurement

Greater local content norms may kick in first in steel, chemicals, pharma sectors

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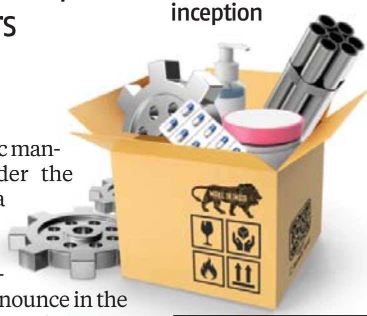

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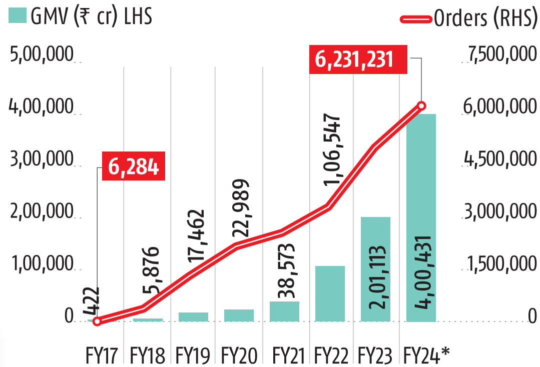

* until March 28

Source: GeM

To boost domestic manufacturing under the Make in India initiative and reduce dependency on imports, the government is expected to announce in the Budget an increase in the minimum local content requirement for public procurement, with certain sectors being granted exceptions.

Currently, firms producing goods, services, or works with at least 50 per cent local content are classified as Class-I local suppliers and are preferred the most in government procurement. Class-II local suppliers, whose goods, services, or works have 20-50 per cent local content, receive second preference. Non-local suppliers, with less than 20 per cent local content, are generally the least preferred under the Public Procurement Order, unless no Class-I or Class-II suppliers are available for a specific need.

RUNUP TO THE **BUDGET 2024-25**

"The inter-ministerial consultation is at an advanced stage. A reference to the proposal is likely in the upcoming Budget. The plan is to implement it in a graded fashion," said a government official.

Business Standard on May 13 reported that manufacturers in certain sectors, such as defence production, electronics and information technology, telecommunications, mines, railways, power, ports, and shipping & waterways, may be exempt from the higher local procurement requirements. However, the official noted that an exemption list has not been finalised. Initially, the higher local content requirements may be enforced in sectors, such as steel, chemicals, pharmaceuticals, automobiles, and consumer goods.

This development comes at a time when new private sector investment announcements in the June quarter of FY25 hit a 20-year low of ₹44,300 crore, as estimated by Bank of Baroda, with the previous lowest level recorded in June 2005.

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AHEAD OF BUDGET, PM TO MEET ECONOMISTS

Higher local procurement may attract more FDIs

The increased local content requirement could potentially attract higher foreign direct investment (FDI) by necessitating foreign companies to establish a local presence to access the lucrative government procurement market. FDI inflows to India dropped by 43 per cent in 2023 to $28 billion amid a global decline of 2 per cent, as reported by the United Nations Conference on Trade and Development (UNCTAD) last month.

P K Singh, chief executive officer of Government e-Marketplace (GeM), had earlier told Business Standard that this move would be positive for 'Make in India'. GeM, through which central, state, and local governments conduct a significant portion of public procurement, surpassed ₹4 trillion in gross merchandise value in FY24.

An industry executive said that while the government's move is encouraging, it needs to ensure all ministries adhere to the guidelines during public procurement.

"As departments have been left to separately notify the order, there is often a gap between intention and implementation," he added.

Madan Sabnavis, chief economist at Bank of Baroda, said that this would be a good move, especially since certain industries, like mobile components, currently import and assemble parts for sale.

"To truly create value and generate backward linkages, such conditions will be effective. We need to ensure we build internal foundations for most industries," he said.