



भारतीय सामग्री प्रबंधन संस्थान Indian Institute of Materials Management

(A Recognised Professional Body – ISTE (MHRD) Govt. of India)

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Seminar



Contract Management

March 01, 2025 at Hotel The Park, New Delhi.



TECHNICAL PAPERS



ONGC

ENERGY: Now AND Next



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**Seminar
on
“Contract Management”**

**March 01, 2025 (Saturday)
Hotel The Park,
New Delhi.**

Technical Papers

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भारतीय सामग्री प्रबंधन संस्थान Indian Institute of Materials Management

H K SHARMA

Seminar Chairman & Coordinator

Immediate Past President

Former Addl. DG (Supply) MOC, New Delhi

IIMM/DEL/2025/01

March 01, 2025

Message



IIMM Delhi Branch is organizing a seminar **on March 01, 2025 at Hotel The Park, New Delhi on the topic "Contract Management"**. We at IIMM are bringing out a compilation of articles from eminent practioners. Public procurement is estimated to be around 15 to 20% of GDP. Huge expenditure on public procurement, therefore, naturally impacts businesses, society and government agencies. This evinces keen interest from policymakers, watchdogs, industry and general public.

Indian Economy is the fastest growing economy in the world and India is on path to become the third longest economy in a few years. This growth in economy is bringing about salient changes in the contracting landscape. Geopolitical situation is also impacting the various facets of supply chain and particularly the contracting and the new era of near shoring, friend shoring, technology transfer and to some extent protectionism is taking shape and creation of platform like GeM is bringing new challenges in contracting and contract management. Use of technology in SCM is becoming popular and smart contracts will be the future. Opening up of large segments of economy for private participation particularly in infrastructure, Railways, Highways, Waterways, Cold supply chain, Telecommunications, Airports, E-commerce etc are forcing govt. and companies to look for new approach to contracting and proliferation of new contractual relationships. A large number of contracts are being concluded in PPP model. The legal, transparency, accountability and compliance aspects are becoming more prominent issues in contracting. As a result, managing contracts for goods, works, services, technology transfer, contracting in PPP mode have become a dominant activity for managers in private, govt. and PSU sectors needing upgradation of knowledge in contract management. The new focus areas in contracts pertain to service contracts, medical supply chain, consultancy contracts, works software etc.

I wish the seminar a grand success!.

(H K Sharma)

Seminar Chairman & Coordinator



भारतीय सामग्री प्रबंधन संस्थान Indian Institute of Materials Management

SANJAY SHUKLA
Chairman

IIMM/DEL/2025/01
March 01, 2025



IIMM Delhi Branch is a leading branch of IIMM and has organized Workshops, EDPs, Seminars, webinars and Conventions on many relevant themes related to supply chain management and has helped in the development of profession and professionals.

Seminars by IIMM Delhi are much awaited events by professionals. Keeping in view the same, IIMM Delhi Branch is organizing a seminar on “Contract Management” on March 01, 2025 at Hotel The Park, New Delhi.

The seminar will be highly beneficial to professionals in the field of SCM, particularly those working in the field of public procurement. IIMM is bringing out a compilation of articles from eminent practioners, which will be useful to procurement professionals.

I wish the seminar on “**Contract Management**” a great success and hope that there will be many takeaways from this seminar.

With best regards,

(Sanjay Shukla)
Chairman-IIMM, Delhi



भारतीय सामग्री प्रबंधन संस्थान Indian Institute of Materials Management

Sanjeev Kr. Bhatia
Vice Chairman &
Co-Chairman Seminar

IIMM/DEL/2025/01
March 01, 2025



Indian Institute of Materials Management is the leading institute, imparting education, academic courses and training to Supply Chain / Materials Management professionals in the country. Delhi branch of IIMM is spearheading this mission and has organized Workshops, EDPs, Seminars, Webinars and Conventions on many relevant themes related to Supply Chain Management which has helped in the development of skills knowledge to the professionals.

Based on the seminar on Public Procurement by IIMM Delhi there was feedback from professionals to organise a seminar on contractual aspects. **The seminar on “Contract Management” has been organized on March 01, 2025 at Hotel The Park, New Delhi, keeping the same in view.**

The seminar will be highly beneficial to professionals in the field of SCM and specially those working in the field of public procurement. IIMM is bringing out a compilation of articles from eminent practioners, which will be useful to procurement professionals.

I wish the seminar on “Contract Management” a great success and am sure that participants will benefit a great deal from this seminar.

Happy interaction and happy learning!

With best regards,

(Sanjeev Kr. Bhatia)
Co-Chairman – Seminar



भारतीय सामग्री प्रबंधन संस्थान Indian Institute of Materials Management

Himanshu Vashishtha
Chairman
Technical Paper Committee

IIMM/DEL/2025/01
March 01, 2025



Indian Institute of Materials Management (IIMM) Delhi Branch has a distinguished history of fostering excellence in supply chain management through workshops, EDPs, seminars, webinars, and conventions. These initiatives have consistently contributed to the professional development of countless individuals in the field.

Building on this tradition, the IIMM Delhi Branch proudly presents a "Contract Management" seminar scheduled for March 1, 2025, at Hotel The Park, Parliament Street, New Delhi. This event promises to be a valuable opportunity for professionals, particularly those engaged in public procurement and contract management, to gain insights into the latest trends and best practices.

As Chairman of the Technical Papers Committee for this seminar, I am particularly excited about compiling articles from leading practitioners that will be available to the attendees. My contribution focuses on AI and Blockchain's transformative potential in revolutionising public procurement and contract management. It explores how these cutting-edge technologies can enhance transparency, efficiency, and security while mitigating risks and promoting stakeholder collaboration.

I am confident that the seminar will be a resounding success, providing attendees valuable takeaways and fostering meaningful dialogue.

With best regards,

(Himanshu Vashishtha)
Chairman Technical Committee



Application of Artificial Intelligence (AI) in Public Procurement: Enhancing Efficiency, Transparency, and Decision-Making

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Abstract

Public procurement plays a vital role in economic growth and governance by ensuring the effective use of public funds to acquire goods and services. However, traditional procurement methods often suffer from inefficiencies, lack of transparency, and risks of fraud. Artificial Intelligence (AI) has the potential to address these issues by streamlining procurement processes, improving decision-making, and enhancing accountability. This paper explores the integration of AI in various stages of public procurement, detailing real-life applications, challenges, and future prospects. The findings indicate that AI can significantly improve procurement outcomes, but successful adoption requires overcoming technical, regulatory, and organizational barriers.

1. Introduction

Public procurement refers to the process by which government agencies and public sector organizations acquire goods, services, and infrastructure. It represents a significant portion of the national GDP, influencing economic growth, competition, and public service efficiency. It is crucial for economic growth, service delivery, and policy implementation. The objectives of public procurement include ensuring value for money through competitive bidding, promoting transparency and fairness, supporting economic development by fostering competition and implementing social and environmental policies. Despite its importance, public procurement faces several challenges, including bureaucratic inefficiencies that delay service delivery, transparency issues that increase corruption risks, poor data management that hinders informed decision-making, supplier constraints that discourage small businesses from participating, and regulatory compliance burdens due to constantly evolving policies.

All this necessitates a transition to data-driven decision-making and automation. AI is revolutionizing various industries, and its integration into public procurement can transform the sector by automating processes, improving transparency, and mitigating risks. AI technologies such as Machine Learning (ML), Natural Language Processing (NLP), and Robotic Process Automation (RPA) can optimize procurement planning, bid evaluation, contract management, and scrap disposal. This paper examines AI applications in public procurement across

various stages, illustrating their impact through real-world case studies. It also discusses ethical considerations, challenges, and future trends.

2. Artificial Intelligence and Its Applications in Various Stages of Public Procurement

AI encompasses technologies that enable machines to mimic human intelligence. These include Machine Learning (ML), where systems learn from historical data to make predictions; Natural Language Processing (NLP), where AI algorithms interpret and process human language; Robotic Process Automation (RPA), where repetitive tasks in procurement workflows are automated; and Predictive Analytics, where AI-driven models forecast procurement needs and market trends. AI offers multiple benefits in public procurement, including increased efficiency by reducing manual processing time, enhanced transparency by preventing fraud and detecting anomalies in procurement data, improved decision-making through data-driven insights, cost reduction by ensuring competitive pricing through advanced analytics, and risk mitigation by identifying high-risk suppliers and contract violations.

2.1 Procurement Planning

AI enhances procurement planning by predicting demand using ML models that analyze historical data, optimizing specifications through NLP algorithms that extract insights from past tenders, and conducting market consultations through AI-driven market analysis that assesses supplier capabilities and pricing trends. In the UK's National Health Service (NHS), AI-powered analytics optimize procurement planning for medical supplies by predicting demand fluctuations and recommending bulk purchases during peak demand periods, reducing procurement costs.

2.2 Bid Invitation

AI streamlines the bid invitation process by automating tender document preparation using Robotic Process Automation (RPA), enhancing supplier engagement through AI-driven platforms that suggest the best channels for tender publication, and pre-qualifying bidders by evaluating supplier performance and eligibility based on historical data. The Government e-Marketplace (GeM) in India employs AI to automate bid invitations and streamline vendor registration, increasing supplier participation and reducing administrative workload.

2.3 Bid Evaluation and Contract Awarding

AI improves bid evaluation and contract awarding by performing automated compliance checks to verify whether bids meet technical requirements, applying bid scoring models that assign scores based on pricing, quality, and past performance, and detecting fraud by flagging suspicious bidding patterns to prevent collusion. Chile's electronic procurement platform, ChileCompra,

leverages AI for bid evaluation, reducing procurement cycle times and improving transparency in awarding contracts.

2.4 Contract Management and Closure

AI plays a crucial role in contract management and closure by tracking supplier performance to ensure adherence to SLAs, automating invoice processing for timely and accurate vendor payments, and using AI-powered chat bots to handle procurement queries and grievances. Singapore has implemented AI-powered smart contracts for infrastructure projects, ensuring automated compliance and reducing disputes.

2.5 Disposal of Scrap

AI aids in the disposal of scrap by optimizing resale value through market trend assessments, automating auction management to facilitate fair and competitive bidding, and evaluating sustainability by identifying eco-friendly disposal methods. The U.S. Department of Defense (DoD) utilizes AI to manage surplus equipment disposal by determining optimal resale values and minimizing environmental impact.

These AI-driven initiatives highlight the transformative potential of AI in streamlining and optimizing public procurement processes.

3. Challenges in AI Adoption in Public Procurement

The adoption of AI in public procurement raises ethical and legal considerations, including bias and fairness, as AI models must be audited to prevent discriminatory outcomes. Transparency and explainability are also essential, as procurement officials should understand AI-driven decisions. Data security is a critical concern, requiring AI systems to comply with data protection laws to prevent breaches. Furthermore, accountability remains a key issue, necessitating human oversight in AI decision-making processes to ensure ethical governance. The successful adoption of AI in public procurement faces several challenges, including technical barriers due to the need for robust IT infrastructure, resistance to change among procurement professionals who may be reluctant to adopt AI-driven automation and regulatory compliance concerns, as AI must align with national procurement policies and existing legal frameworks.

4. Future Trends in AI-Driven Public Procurement

Future trends in AI-driven public procurement include proactive procurement strategies enabled by AI predictions, intelligent contract management through blockchain integration, real-time compliance monitoring using AI tools, and sustainable procurement optimization via AI-driven analytics. These advancements indicate that AI will continue to revolutionize procurement processes, offering enhanced efficiency, transparency, and accountability.

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Public Procurement in DPSUs
Challenges and Opportunities
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Introduction

The first defence industries to be set up in India were the Ordnance Factories which supplies simple arms and ammunition for the British Army's operations in the region when India was still a British colony. After independence, these factories formed the core of the state-controlled defence industry. After China war in 1962 India to build its defence industry in order to achieve self -reliance, either through licence production or co-production arrangements with foreign suppliers. In 2001, defence sector liberalised and private Indian companies began to compete for defence contracts. In 2021 Ordnance Factories Organisation (erstwhile OFB) converted to state owned Defence Public Sector Undertakings (DPSUs). As on date total 16 DPSUs are engaged in defence production under control of DDP/MoD. It is important to note that there is an unfortunate lack of academic attention to the study of defence procurement challenges in India because of its specificity.

1. Challenges and opportunities in DPSUs as suppliers to the Indian Defence Sector:

Defence Public Sector Undertakings (DPSUs) face several challenges:

- ❖ **Production-Related Challenges**
 - Aging infrastructure: DPSUs often struggle with outdated manufacturing facilities, affecting production efficiency and quality.
 - Limited capacity utilization: DPSUs may not operate at optimal capacity, leading to under utilization of resources and increased costs.
 - Quality control issues: DPSUs may face challenges in maintaining consistent quality standards, affecting the reliability of their products.
- ❖ **Technological Challenges**
 - Obsolescence of technology: DPSUs may struggle to keep pace with rapid technological advancements, making their products less competitive.
 - Low R&D investment: DPSUs may not invest sufficient resources in research and development, hindering innovation and modernization.
 - Dependence on ToT: DPSUs may rely heavily on foreign technology, making them vulnerable to supply chain disruptions and intellectual property risks.
- ❖ **Financial Challenges**

- Limited financial resources: DPSUs may face budget constraints, affecting their ability to invest in modernization, R&D, and capacity expansion.
- High overhead costs: DPSUs may have high overhead costs, including labor and maintenance expenses, which can erode their profit margins.
- Delayed payments: DPSUs may face delayed payments from the Ministry of Defence, affecting their cash flow and working capital.
- ❖ Human Resource Challenges
 - Aging workforce: DPSUs may face challenges in attracting and retaining young talent, as their workforce ages.
 - Skill gaps: DPSUs may struggle to find employees with the necessary skills to work on complex defence projects.
 - Lack of regular training and development opportunities: DPSUs may not provide adequate training and development opportunities, affecting employee growth and productivity.
- ❖ In today's scenario, Indian Defence Public Sector Undertakings (DPSUs) have numerous opportunities also for growth and development, driven by the Government's focus. Some of the key opportunities for Indian DPSUs include:
 - Opportunities for Growth
 - ✓ Indigenization of Defence Production
 - ✓ Modernization of Armed Forces
 - ✓ Export opportunities
 - ✓ Partnerships and Collaborations
 - ✓ Research and Development
 - Opportunities for Diversification
 - ✓ Civilian Applications
 - ✓ Dual-Use Technologies
 - ✓ Space and Aerospace
 - ✓ Cyber security and AI
 - Opportunities for Capacity Building
 - ✓ Capacity Expansion
 - ✓ Skill Development
 - ✓ Research and Development Infrastructure
 - ✓ Partnerships with Startups and MSMEs

2. Material Procurement in DPSUs:

The procurement of raw materials for Defence Public Sector Undertakings (DPSUs) can be quite challenging. Simultaneously the opportunities for the domestic manufacturers in the defence manufacturing sector in India have grown over the last few years. Achieving indigenisation of some critical direct materials and spares are the key factors in the growth towards self-reliance. Still large imports are being done by defence manufacturing industries in India. The disruption of supply chains across global territories due to current global scenarios has further emphasised the need of self-reliance in strategic sectors, indigenous development, manufacturing of materials and subassemblies to be taken up on priority. The procurement managers are always balancing several

priorities at once viz. Pressure from various stakeholders to procure quality materials and onboard vendors to ensure timely deliveries and services. Some of the key issues faced in domestic defence manufacturing industries are highlighted below:

❖ **Challenges:**

➤ **Inflation and Pricing Volatility:**

The cost of raw materials may fluctuate rapidly due to factors like supply chain disruptions, global events, and economic policies. This makes it difficult for DPSUs to maintain cost-effective procurement strategies.

➤ **Supply Chain Disruptions and Risk Management:**

DPSUs need to mitigate risks associated with supply chain disruptions, such as natural disasters, wars, and pandemics. They must develop strategies to manage these risks and ensure a stable supply of raw materials through public procurement.

➤ **Talent Shortages and Skill Gaps:**

The procurement function requires specialized skills, but there's a shortage of skilled professionals in the industry. DPSUs must invest in training and development programs to bridge this gap.

➤ **Contract Management and Supplier Relationships:**

Building and maintaining strong relationships with suppliers is crucial for DPSUs. They must develop effective contract management strategies to ensure timely and quality delivery of raw materials.

➤ **Technology Adoption and Digitization:**

DPSUs must adopt digital technologies, such as automation, analytics, and artificial intelligence, to streamline their public procurement processes and improve efficiency. The procurement team can analyze big volume of data to identify spending pattern and cost saving opportunities to assess supplier performance.

➤ **Geopolitical Risks and Trade Policies:**

DPSUs must navigate complex geopolitical risks and trade policies, which can impact the availability and cost of raw materials.

➤ **Specifications and standards:** In India, the Department of Standardization (DoS) is responsible for conducting standardization activities for equipment. The DoS interacts with various organizations and agencies within and outside the MoD such as the Indian Army, Indian Navy, Indian Air force, Director General of Aeronautical Quality Assurance, Director General Quality Assurance (DGQA), Defence Research and Development Organization (DRDO), Defence Public Sector Undertakings (DPSUs) and the Bureau of Indian Standards (BIS). The DoS prepares five types of standardization documents in respect of components, assemblies, sub-assemblies, equipment and other defence stores:

- Joint Services Specification (JSS)

- Joint Services Preferred Range (JSPR)
- Joint Services Rationalized List (JSRL)
- Joint Service Guide (JSG)
- Approved Notification (AN) for adoption of Indian standards.

➤ **Quality Control and Assurance:** Ensuring the quality of raw materials is critical for DPSUs. They must develop robust quality control and assurance processes to guarantee the reliability of their supplies.

In India, additional approvals from the Director General of Aeronautical Quality Assurance (DGAQA), Director General of Civil Aviation (DGCA), Director General of Quality Assurance (DGQA), Department of Space (DoS), etc. might be required based on end-use of the raw material to qualify as an approved supplier. Change in specification of material generally requires re-certification of the entire platform, especially for airborne systems.

3. Vigilance and Public Procurement:

Defence procurement in India is a complex process that involves multiple stakeholders, including the Ministry of Defence (MoD), the armed forces, and defence public sector undertakings (DPSUs). The process is governed by the Defence Procurement Procedure (DPP), which aims to ensure transparency, accountability, and fairness in defence procurement.

However, Public Procurement including defence procurement in India has been plagued by various vigilance scenarios, including:

- Corruption
- Kickbacks and commissions
- Lack of transparency
- Favoritism and bias
- National security concerns

To address these vigilance scenarios, Government of India (GOI) has taken several steps, including:

- **Establishment of the Defence Procurement Board:** The Defence Procurement Board was established to oversee the defence procurement process and ensure transparency and accountability.
- **Introduction of the Defence Procurement Procedure:** The DPP was introduced to provide a framework for defence procurement and ensure that the process is fair, transparent, and accountable.
- **Strengthening of vigilance mechanisms:** The government has strengthened vigilance mechanisms, including the creation of a vigilance department in the MoD.
- **Introduction of e-procurement and procurement through GeM Portal:** The government has introduced e-procurement and made public procurement mandatory through GeM for all buying entities as per Rule 149 of GFR to increase transparency and reduce the risk of corruption.
- **Enhanced Audit and Oversight:** The government has enhanced Audit and Oversight mechanisms to ensure that defence procurement

decisions are scrutinized and that any irregularities are detected and addressed.

Despite these efforts, vigilance scenarios continue to be a challenge in public procurement including defence procurement in India. Therefore, it is essential to continue to strengthen vigilance mechanisms and ensure that the defence procurement process is transparent, accountable and fair.

**SOUND CONTRACT MANAGEMENT:
Key to Successful Contract Execution**
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Purchasing does not end when contract is awarded. Post award of contract, the contract execution begins. Therefore, regular supervision of the contract is essential to ensure all pre-agreed deliverables are met according to the time schedule and with the requisite quality, as outlined in the terms and conditions of the contract. This Management or monitoring or supervision or administration of a contract is called **Contract Management**.

In short, it can be said that contract management is the journey of a contract from its creation to expiration.

Once accepted, a contract becomes a binding document for the parties involved. It is the sole governing document and serves as the guiding force during the currency of the contract. A well-drafted contract meets its intended purpose only if it is governed by sound monitoring. Therefore, sound contract monitoring is key to the best execution of any contract.

Manual of Good, Second Edition, 2024 describes that purpose of contract management is to ensure that Contractors adhere to contract terms and deliver the desired outcomes as per the terms and conditions of the contract (such as timely deliveries, quality of goods supplied, adherence to the proper procedure for submitting invoices, and so on), and any problems are identified and resolved in a timely manner. It also ensures that the payments made to the contractor match the performance.

The following are standard steps once contract is created and comes under purview of contract management:

- Timely receipt of Valid Performance security, if provisioned as per the contract
- Acceptance of Purchase orders/Signing of agreements
- Commencement of work as per agreed schedule
- Regular follow-up with the vendor to ensure no surprises at a later stage
- Recording every delay not attributable to the vendor, ensuring no undue penalties are levied
- Checking the quality of deliverables/supplies as stipulated in the contract.

- Decisions related to imposition of hold on contract/it's payments due to any reason, shall be immediately informed to the vendor through writing.
- Timely release of due payments as per the agreed schedule, subject fulfilment of deliverables and any deductions.
- Performance monitoring as per the conditions of the contract
- Timely resolution of pending issues through mutual settlement to avoid disputes

As a standard practice, it is highly recommended to maintain a separate contract management file. The accepted/signed copy of the contract should be filed as the first document. Subsequently, the performance security document verification should be kept along with signed agreement. Thereafter, all communications with the vendor, inspection records, performance reports, major issues and payment records shall be invariably recorded in this file. This will help ensure effective contract administration in the long run, avoiding hassles to buyer organisation and the vendor.

Contract management is a very vast and exhaustive domain, where the extent of supervision varies for each contract. A few fundamental steps related to contract management functions are highlighted as following:

Timely Delivery as per the contract: *Time is the essence of the contract.* Whether it is a simple supply of goods contract or a complex turnkey project, meeting the time deadline of deliverables is very crucial for the satisfactory performance of the contractor. In most cases, contractors seek delivery extensions or waivers of LD charges for delayed supplies. Normally, such requests should not be entertained, as delays attributable to the vendor also impacts the internal business function of buyer organisation.

In some extreme cases, when vendor fails to supply within stipulated timelines due to some unavoidable reasons on their end and seeks an extension of delivery dates, a proper assessment should be conducted by buyer's team to determine whether it is feasible to retender (by cancelling the contract) or if a delivery extension will help in availing the price benefits derived from the contract. Care should be taken to ensure that there is no downward price trend, and such an extension shall include a denial clause.

Amendment to contract: During the course of a contract, especially of long tenure, it often becomes necessary to ask the vendor to make changes to the scope of work. As soon as this variation is communicated to the vendor, they have tendency to come back with financial implication due to the proposed changes. Any such variation issued or agreed upon in the contract should be recorded in contract management file, regardless of financial implications.

Variation that result in financial implication shall be issued only with due approvals. In such cases, an addendum to the agreement may also be signed to bring it under the overall ambit of original contract terms and conditions.

Extension of contract: In long tenure or complex assignment, especially in IT systems, contract extensions are often necessary due to technological compulsions, subject to vendor's satisfactory performance. New service provider always come with great risk of technology delivery, successful deployment and safe migration of old data to new systems. However, repetitive extensions increase dependence and the price agreed upon for such extension may not remain competitive with the market. Therefore, every commercial organisation shall perform due diligence when making decision about the contract extensions, while balancing transparency in process and efforts involved in any changes.

Conclusion: To achieve have an optimum performance in a contract, effective management is essential. Effective contract management ensures smooth business delivery, creates a clear understanding of the contract's objectives, defines the scope and lays the foundation for smooth operation. Thereby, it acts as a tool to reduce risk, increase efficiency and improve cooperation between the parties.

Without sound Contract management, there can be no assurance that "we get what we pay and contract for and pay for only for what we get."



Transforming Public Procurement with AI and Blockchain: Accelerating Turnaround Time and Ensuring Vendor Selection Integrity

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Introduction

Public procurement is crucial for a nation's economic development. It facilitates the effective utilization of resources for goods, services, and works. Nonetheless, procurement procedures, particularly in governmental contracts, frequently face issues like inefficiencies, delays, and worries regarding transparency and equity. To tackle these problems, innovative technologies such as Artificial Intelligence (AI) and Blockchain provide revolutionary solutions that have the potential to significantly improve efficiency, reduce processing times, and enhance the overall transparency and integrity of vendor selection.

Integrating AI and blockchain in public procurement revolutionizes the field by improving transparency, efficiency, and decision-making processes. These technologies deliver substantial advantages, including better tracking of budget utilization, fraud detection, and adherence to ethical standards. However, their implementation also brings challenges, such as concerns about data security and integration complexities. The subsequent sections explore AI and blockchain's specific roles and effects in public procurement.

Advantages of AI and Blockchain in Public Procurement

Transparency and Responsibility: Blockchain technology guarantees secure and transparent transactions, supporting adherence to ethical sourcing standards and minimizing risks associated with counterfeit products (Cooper, 2024). AI assists in monitoring and tracking procurement stages, evaluating proposals, and identifying fraud, thus diminishing the chances of corruption (Gomes, 2024).

Effectiveness and Improvement: AI-powered predictive analytics boost demand forecasting, optimize inventory, and assess supplier performance, encouraging data-informed decision-making and proactive risk management (Cooper, 2024). Machine learning methods can transform procurement by aligning activities with business goals and utilizing supplier innovation (Mallesham, 2024).

Data Organization and Decision-Making Support: AI and blockchain facilitate data organization, aid in decision-making, and automate the arrangement of process documents, enhancing public procurement workflows (Gomes, 2024).

Obstacles to Adoption

- **Data Protection and Integration:** Organizations encounter significant hurdles when implementing these technologies, including concerns over data security and challenges in integrating with existing IT systems (Cooper, 2024).
- **Lack of Skills:** A significant deficiency of expertise in AI and blockchain obstructs their successful implementation (Cooper, 2024).

Strategic Implementation

- **Leadership and Readiness:** The commitment of leadership and the organization's preparedness is vital for tackling adoption challenges and facilitating successful technology integration (Cooper, 2024).
- **Strategic Use of Procurement:** Public procurement must be utilized more strategically to align with business goals and generate competitive advantages rather than merely concentrating on the lowest price model (Mallesham, 2024).

Although AI and blockchain present transformative opportunities in public procurement, their practical implementation necessitates addressing issues like data security and shortages of skilled personnel. Strategic planning and leadership commitment are crucial for harnessing these technologies effectively, ensuring sustainable growth and competitive advantages in the digital economy.

This article examines how AI and Blockchain can revolutionize public procurement by streamlining essential stages—creating Request for Proposals (RFPs), assessing responses, and verifying vendor credentials—while ensuring secure, transparent, and tamper-resistant contract execution through smart contracts.

Artificial Intelligence (AI) Use Cases in Public Procurement

AI has the potential to revolutionize public procurement by automating repetitive tasks, reducing human errors, and ensuring more objective decision-making. Below are three crucial AI applications in procurement.

1. AI for Drafting RFP Documents

Creating a Request for Proposal (RFP) is a vital yet labour-intensive stage in the procurement process. It necessitates a thorough grasp of technical specifications, compliance obligations, and legal factors. Tools powered by AI can facilitate this process by:

- Developing standardized templates: AI can review past RFP documents and produce standardized templates that comply with governmental regulations and establish best practices.
- Assuring compliance: AI-enhanced legal analysis tools can identify potential compliance issues and confirm that the RFP meets procurement guidelines.
- Enhancing clarity and uniformity: Natural Language Processing (NLP) can improve phrasing, eliminate uncertainties, and promote consistency throughout the document.
- Tailoring RFPs based on historical data: AI can assess prior procurement results and recommend ideal contract conditions and evaluation criteria.

2. AI for Evaluating Vendor Responses

Reviewing RFP responses manually can be time-consuming and subjective, often resulting in inefficiencies and mistakes. AI-driven evaluation systems offer several benefits:

- Streamlined Initial Screening: AI can examine proposals to ensure they meet essential requirements, quickly highlighting those that do not comply.
- Conduct Sentiment Analysis: Natural Language Processing (NLP) can evaluate the tone and reliability of vendor submissions, spotting any exaggerated claims or inconsistencies.
- Provide Objective Vendor Scoring: AI-based scoring models can assess responses using established criteria, such as technical expertise, pricing, and previous performance.
- Identify Fraudulent Applications: AI can compare vendor claims against external databases to uncover inconsistencies in financial information or past project achievements.

3. AI for Vendor Response Optimization

- Vendors also benefit from AI, which can help them craft more competitive bids by:
- Providing bid recommendations: AI can analyse past winning bids and suggest optimal pricing and strategy.
- Ensuring compliance: AI can pre-screen vendor submissions to flag missing documents or non-compliant sections.

- Enhancing document management: AI-powered tools can automatically structure and format proposals, ensuring a professional presentation.

By leveraging AI in these three areas, public procurement agencies can dramatically reduce the time required to process RFPs and select vendors while enhancing transparency and fairness.

Blockchain Use Cases in Public Procurement

Blockchain, a decentralized and tamper-proof ledger, offers significant advantages in procurement by enhancing security, trust, and accountability. Below are two key Blockchain applications that can transform vendor validation and contract execution.

1. Blockchain for Vendor Credential Validation

One of the most significant procurement challenges involves verifying vendor credentials' authenticity, such as their financial health, historical performance, and compliance with regulations. Blockchain technology offers a secure, verifiable, and decentralized method by:

- Establishing a tamper-proof registry of vendors: Government procurement organizations can maintain vendor credentials (licenses, certifications, and previous contract performance) on a blockchain ledger, ensuring transparency and permanence.
- Streamlining due diligence processes: Smart contracts can autonomously validate vendor information against public databases, minimizing manual verification tasks.
- Stopping fraudulent claims: Vendors cannot falsify their historical project experiences or financial reports due to the immutable nature of blockchain records.
- Strengthening supplier reliability: Procurement officials can access verifiable vendor documentation, facilitating fair and informed decision-making.

By adopting blockchain-based credential verification, procurement agencies can significantly reduce delays linked to manual checks and lessen the risks associated with dishonest vendors.

2. Smart Contracts for Automated and Transparent Execution

Smart contracts execute automatically with their terms encoded in software, facilitating automated and transparent execution. In the realm of public procurement, smart contracts can:

- Automate payment processes and contract milestones: Payments can be initiated automatically when certain conditions (like project completion or delivery verification) are satisfied.
- Decrease disputes and delays: Confusion and disagreements are significantly reduced by automatically encoding and executing contract terms.
- Promote compliance and accountability: Public agencies can program smart contracts to incorporate audit trails and automated compliance verification.
- Improve traceability in the supply chain: Blockchain-enabled tracking guarantees that materials and services come from approved suppliers, preventing unauthorized replacements.

Smart contracts allow public procurement agencies to achieve quicker contract execution, lessen administrative workloads, and boost overall accountability.

Integrating AI and Blockchain for a Future-Ready Procurement System:

Though AI and Blockchain each provide potent solutions, their combination can create an advanced procurement ecosystem with improved efficiency, security, and transparency.

- AI-assisted vendor assessment paired with blockchain verification: AI can conduct preliminary vendor evaluations while blockchain ensures vendor credentials are validated and secure from tampering.
- AI-supported RFP formulation with blockchain contract enforcement: AI can generate procurement documents, and blockchain-based smart contracts can guarantee their safe execution.
- AI-enhanced bid assessment with blockchain audit trails: AI can analyze submissions, while blockchain maintains an unalterable record of the evaluation process, minimizing the chances of bias or manipulation.

By embracing these technologies, public procurement agencies can shorten response times and uphold the integrity of vendor selection, compliance, and efficiency.

Challenges and Considerations in Implementation:

Despite the notable advantages of AI and Blockchain in procurement, their implementation can present challenges:

- Technical and infrastructural obstacles: Governments must allocate resources for a solid digital framework to facilitate AI and blockchain deployments.
- Legal and regulatory issues: Modifications to procurement regulations might be necessary for smart contracts to be enforceable.
- Interoperability challenges: Seamless integration with current procurement systems, such as Government e-marketplace (GeM), is essential.
- Change management: Procurement staff and vendors require training to operate AI and blockchain-enabled systems effectively.

Conclusion: The Road Ahead

Artificial Intelligence (AI) and Blockchain technology are poised to revolutionize public procurement by automating essential processes, shortening turnaround times, and promoting equitable and transparent vendor selection. The automation driven by AI in areas such as RFP drafting, evaluation, and vendor response optimization can quicken procurement timelines. At the same time, blockchain technology can improve trust and accountability through credential verification and smart contracts.

To fully harness the advantages of these technologies, procurement agencies should take a gradual approach, initiating pilot projects, making necessary regulatory changes, and investing in capacity-building efforts. As AI and Blockchain continue to develop, their integration into public procurement will lead to a more efficient, transparent, and future-ready system.

Governments, policymakers, and procurement professionals must take immediate action to adopt these innovations and foster an effective, resilient, and trustworthy procurement ecosystem. The future of public procurement is digital, driven by AI and secured through Blockchain technology.

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CONTRACT MANAGEMENT BEST PRACTICES TO DRIVE BUSINESS VALUE

Contracts define business relationships, outline obligations, and mitigate risks, making them a cornerstone of successful operations. Effective contract management tracks, enforces, and optimizes these agreements, reducing risks and maximizing value throughout the contract lifecycle.

What is Effective Contract Management?

Effective contract management is vital for cost-effective collaboration and productivity across the enterprise. It ensures best practices for processing, monitoring, and enforcing compliance with contract terms, ultimately safeguarding the agreement's intended business value.

But it's not just about signing agreements. It's a dynamic process that requires ongoing attention. Luckily, by bringing innovative contract lifecycle management (CLM) software at the heart of it all, enterprises can realize better business outcomes across every stage of the contracting lifecycle.

In this article, we'll explore contract lifecycle management best practices and how to implement effective contract management tools to help drive better business outcomes.

Benefits of Good Contract Management

Before jumping into the steps for implementation, it's important to further understand the benefits you'll reap. With these benefits under your belt, you'll have fuel to help you overcome the hurdles that typically come with any time of change management.

Here are a few benefits you can expect:

1. Cost Savings

Effective contract management helps organizations save money and maintain financial control. For example, AI-powered CLM software can help you negotiate more favorable pricing terms and closely monitor contract performance. Your entire organization can then use data from these contracts to reduce unnecessary expenses and enhance overall financial performance.

2. Improved Efficiency

Well-managed contracts promote efficiency and productivity within organizations. By streamlining contract processes, automating routine tasks, and establishing clear communication channels, contract management eliminates administrative bottlenecks and ensures that resources are allocated effectively. This allows employees to focus on value-added activities, improving efficiency and productivity.

3. Strengthened Compliance and Reduced Risk

Organizations face increasing regulatory requirements and legal complexities. Effective contract management helps organizations stay compliant with legal and regulatory obligations. By monitoring contract terms, ensuring timely compliance, and maintaining accurate records, organizations can reduce the risk of legal problems, penalties, and reputational damage by monitoring contract terms, ensuring timely compliance, and maintaining accurate records.

11 Contract Lifecycle Management Best Practices

Here are the fundamental contract management process best practices and key elements of effective contracting that must be considered:

1. Create a Contract Repository

Traditionally, once contracts are signed, they're stored across various IT systems within an enterprise software stack. If you're really behind the times, you're still storing contracts away in filing cabinets.

Such siloed, static repositories are difficult to manage and even more difficult to extract insights from. Even the simple task of finding the right contract at the right time requires a tremendous amount of manpower. Besides driving up overhead costs, it could lead to business disruptions, missed deadlines, third-party breaches, and non-compliance with contractual obligations.

By digitizing and migrating your contract portfolio to a centralized, cloud-based contract repository, you empower users to access contracts anytime, anywhere, and easily analyze for insights. This central repository is a single source of truth, giving you a bird's eye view of third-party engagements.

2. Leverage Artificial Intelligence and Automation

Technology plays a crucial role in enhancing contract management processes. Whether using cloud-based contract management systems (discussed above), electronic signatures, first draft generation, or advanced data extraction, organizations streamlining contract management with new technology like generative AI will come out on top.

Artificial Intelligence and automation, especially, are creating waves in the contracting space. AI-powered contract management systems can analyze large volumes of contracts, automatically identify potential risks and opportunities, and provide valuable insights to contract managers and legal teams.

3. Harness Contract Intelligence

The National Contract Management Association (NCMA) says that 54% of enterprises struggle to access specific contract terms and clauses without wasting time sorting through their contract portfolio. Further, more than half can't analyze their contracts by vendor, customer, product, or service line to achieve full negotiation leverage or optimize performance from a vendor or customer.

CLM software offers a powerful solution, with in-depth contract analytics, to transform contract data into actionable insights through AI-powered extraction.

With AI contract analytics, organizations can effortlessly extract and evaluate embedded contract information such as metadata, clauses, obligations, and more at a granular level. This can provide insights into risk and offer intelligence based on retrospective data to gain an edge in future contract negotiations.

4. Standardize the Contract Creation Process

Contracts are traditionally created in silos by individual business units without any insights into existing contractual relationships or contract risk factors. When authoring contracts, it's a common – but not so good – practice to pull up outdated templates and make basic metadata changes before signing off.

As a result, enterprises are likely to face major risks down the line. The only way to get around this issue is to ensure standardization across the contract creation process.

An AI contract management solution can simplify this by helping enterprises create and implement a library of templates and standard clauses. Contract managers across legal, procurement, and sales departments can effortlessly select the right templates and legalese from these libraries to generate new contracts.

Through this technology-led standardization, businesses can eliminate friction points, speed up new contract negotiations, and resolve disputes promptly.

5. Establish Contract Management KPIs

“How do you ensure successful contract management?” Answering this question is critical for realizing the intended value of contracts.

This is where contract management KPIs play a key role. Defining KPIs and tracking them with the right CLM tool will help you take the necessary actions to build an effective contract management program.

Here we look at some of the metrics you should consider:

Contract initiation & creation cycle times – Measures the “time-to-contract” and the efficiency of your contract drafting process.

Process compliance – Ensures adherence to a standardized, approved contracting process

Contract risk – Reduces risk exposure from non-compliance to contract terms, policies, statutory guidelines, regulatory requirements, etc.

Contract deviations & missing clauses – AI CLMs can automatically detect deviating and missing clauses and terms

Obligation management – Measures performance against contractual obligations to ensure deliverables are fulfilled.

Disputes and issues – The number of contract claims, contract issues, and disputes by contract and supplier to see trends and resolve recurring problems.

6. Configure Contract Approval Workflows

During the execution phase, multiple stakeholders evaluate and approve drafted contracts, including legal, sales, and finance teams. This lengthy process is often riddled with unnecessary back-and-forth and avoidable errors.

Businesses can simplify the contract approval process by leveraging configurable workflows. Simple contracts, such as non-disclosure agreements, can be auto-approved using conditional triggers. More complex arrangements can be cascaded down a highly configurable workflow to streamline and accelerate approval.

Such innovation can resolve ambiguity regarding approver roles and contract amendments. With Sirion, for example, team members can rely on a digital contracting workspace to communicate changes and maintain a complete audit trail of approvals, changes, and sign-offs.

7. Automate Legal Review Processes

According to Gartner, AI-powered solutions will reduce manual contract review efforts by 50% by 2024. Businesses can leverage AI *today* by implementing contract lifecycle management software to improve productivity within their legal department, limit the need for manual corrections, and expedite the contract review and redlining process.

An additional benefit to automated legal review is better risk management. Using CLM software, businesses can enable AI-led legal reviews to minimize risk exposure and accelerate contract negotiations.

This simplifies legal oversight. Through more accurate evaluations of risks against specific criteria, businesses can quickly identify areas of concern, such as missing clauses and clause deviations.

8. Enable Better Collaboration

Collaboration is at the heart of effective contract management, as it connects all parts of the enterprise. Collaboration with the counterparty is equally important for relationship management and ensuring the contract's intended business outcomes are realized.

Enabling this collaboration with traditional contract management approaches is challenging due to the inherent siloed way of working of enterprise teams. This leads to confusion, disputes, and sub-optimal results.

Next-gen CLM platforms can help you break functional silos and unite all stakeholders on a single platform. During negotiation and legal review, advanced workflows and collaboration capabilities, including Microsoft Word and Outlook integrations, enable collaborative redlining and negotiations.

After signature, leverage a shared view of performance data and overall engagement to you and the counterparty, allowing both to come together for governance meetings, raise issues, take action, and resolve disputes collaboratively.

9. Holistic and Integrated Risk Management

In today's uncertain and disruptive business environment, you need a holistic risk management approach that goes beyond the traditional scope to address all sources of enterprise risk in commercial engagements.

Next-gen contract management software offers just that – helping enterprises mitigate different kinds of risk, such as:

Third-party contractual risk – Use AI to find missing clauses and clause deviations in contracts to reduce exposure from non-compliant contracting; also ensure regulatory compliance

Performance risk – Proactively identify and address gaps in contract performance to reduce disputes and strengthen counterparty relationships

External risk – Preempt influence of external market forces on contractual relationships with insights from real-time, real-world data

Alignment risk – Mitigate by ensuring conformance to organizational objectives and other contracts

Perception risk – Gain an accurate picture of supplier performance by bridging the gap between perception vs. actual performance

10. Optimize Vendor and Supplier Management

Effective vendor management is key to nurturing long-term relationships with suppliers and customers. Not only does this help achieve business goals, but it also reduces the risk of supply chain disruption and error on the buy side and revenue disruption on the sell side.

CLM for procurement is a critical tool to align your commercial relationships and their outcomes to the underlying contract. Many CLM platforms offer supplier management functionality that enables you to monitor and track ongoing supplier performance. This will help you ensure that you achieve business outcomes.

With both parties accessing the same performance data on a single platform, you can better resolve disputes, issues, and claims, leading to better collaboration and relationships.

11. Conduct Regular Performance and Compliance Audits

Setting up best-in-class contract management processes will not have the desired impact unless you ensure compliance.

So, during the contract creation phase, contract managers must ensure compliance with the approved process, templates, clauses, and approval hierarchy. After signature, track and execute obligations and service levels agreed upon in the contract.

Conducting contract compliance audits and reviews is an effective way to achieve this. Audits can range from supplier audits, risk audits, and regulatory audits. Doing these manually is inefficient, time-consuming, and error-prone.

Given the critical nature of these audits and performance reviews, you should always leverage technology.

What Is Contract Management?

Contract management is the process of managing contract creation, execution and analysis to maximize operational and financial performance at an organization, all while reducing financial risk. Organizations encounter an ever-increasing amount of pressure to reduce costs and improve company performance. Contract management proves to be a very time-consuming element of business, which facilitates the need for an effective and automated contract management system.

The fundamentals of contract management

When two companies wish to do business with each other, a contract specifies the terms of their agreement and which aspects each party must fulfill. These agreements hold all parties legally accountable to one another. Contract management also applies to managing different contracts with freelancers or employees.

The trouble is that contracts are filled with legalese and difficult-to-parse phrasing, making it more the domain of lawyers than entrepreneurs. That is where contract managers come in, helping to sort through the documents required and ensure agreements are airtight.

The benefits of outsourcing this activity to a contract manager is that entrepreneurs can focus on actually running their business rather than keeping the paperwork sorted.

What are the stages of the contract management process?

While there are many components of contract management, the process can be broken down into five stages: creation, collaboration, signing, tracking and renewal. Each stage contains important steps to ensure adequate contract management, from creation to approval to, eventually, renewal.

Creation

Initial requests: The contract management process begins by identifying contracts and pertinent documents to support the contract's purpose.

Authoring contracts: Writing a contract by hand is a time-consuming activity, but through the use of automated contract management systems, the process can become quite streamlined.

Collaboration

Negotiating the contract: After drafting the contract, employees should be able to compare versions of the contract and note any discrepancies to reduce negotiation time.

Signing

Approving the contract: Getting management approval is the step where most bottlenecks occur. Users can preemptively combat this by creating tailored approval workflows, including parallel and serial approvals, to keep decisions moving at a rapid pace.

Execution of the contract: Executing the contract allows users to control and shorten the signature process through the use of electronic signatures and fax support.

Tracking

Obligation management: This requires a great deal of project management to ensure deliverables are being met by key stakeholders and the value of the contract isn't deteriorating throughout its early phases of growth.

Revisions and amendments: Gathering all documents pertinent to the contract's initial drafting is a difficult task. When overlooked items are found, systems must be in place to amend the original contract.

Auditing and reporting: Contract management does not mean drafting a contract and then pushing it into the filing cabinet without another thought. Contract audits are important in determining both organizations' compliance with the terms of the agreement and any problems that might arise.

Renewal

Renewing: Manual contract management methods can often result in missed renewal opportunities and lost business revenue. Automating the process allows an organization to identify renewal opportunities and create new contracts.

Contract lifecycle management is critical. As different contract types go through their various stages, contract managers need to be on the lookout for any changes or breaches.

Vendor performance and risk management are important considerations during the management of contracts. For example, if a vendor fails to meet its contractual obligations, you may need to rework the contract or enforce some disciplinary measure.

If an employee or business is unhappy with its contract, it might be worth making alterations to the contract. It's important to follow contractual obligations while also making sure both sides of the contract are happy.

What is contract management software?

Contract management software is an electronic approach to solving these problems. Contract management software suites can organize all contract paperwork. The software can put signing and renewing on an electronic calendar that is easy to manage, and it can help you track and allocate resources related to the contract management process.

Integration with an automated contract management service can free up countless hours and automate the processes associated with managing a contract, thus creating more value for a company.

“Contract management software stores key information about contracts relating to providers, commercial leases and licensing agreements,” said Robert Powell, CEO and founder of the Rob Powell Biz Blog. “The overall purpose of contract management software is to streamline administrative tasks by creating a centralized and uniform record for each contract’s processes.”

Using contract management software can make it easier to monitor complex contracts without relying solely on paperwork.

“The most important aspect of contract management software is that it allows employees in multiple locations to access contracts in one place,” Powell said.

Who uses contract management software?

This software will primarily see use in departments that directly deal with creating, tracking and signing contracts. This is often offloaded to the HR department, which manages the vein of employment accounting. The software can also involve managers who need to complete vital processes. Since it can integrate with calendars and communication software, HR can use the heavy-lifting components of the software suite, while the rest helps to loop in managers and personnel who are needed for specific aspects of signing or negotiation.

How to become a contract manager

Not all universities offer a degree in contract management, but some schools do. Getting that education is one option, but there are other business degrees that position you for success in the industry. From there, you want to add contract management experience in some form.

“With a bachelor’s degree and a few years of experience in the field, you can apply and test for certification through the NCMA [National Contract Management Association],” said Jared Weitz, founder and CEO of United Capital Source. “Along with education and credentials, a contract manager needs to have solid communication and writing skills and a keen eye for organization and deadline management.”

A law degree can also be beneficial to this career path. Legal knowledge is critical in managing contracts. Contract management and negotiation both rely on legal knowledge and expertise.

If you want to become a full-time contract manager, it's a good idea to connect with other contract managers to learn how they arrived at their current role. There's no one set way to become a contract manager, but business experience is important when becoming a contract manager.

How much money does a contract manager make?

Estimates for a contract manager's annual salary range between \$75,000 and \$150,000 annually. Salaries are affected by conditions like geographic location and experience level.

Contract managers can also work their way up to a senior contract manager, contract director or contract administrator. These roles generally include higher salaries.

Contract management reduces document burden

Contract managers help manage the legal and financial aspects of contracts with businesses or employees. For companies that make frequent contractual agreements, hiring a contract manager can be a good idea. Most small businesses aren't likely to need a contract manager, but if you find that you're falling behind on paperwork and failing to formalize agreements, it may be right for you.

Source: Mr. Bennett Conlin, Senior Writer
Business News Daily

About PPP-MII Order, 2017

Annexure 28: FAQs About PPP-MII Order, 2017

(Refer para 1.11.3-20)

Question 1. How to calculate Local Content?

Answer: Para 2 of the PPP-MII Order, 2017 (as amended on 16.09.2020) defines local content as *Local content* means the amount of value added in India which shall, unless otherwise prescribed by the Nodal Ministry, be the total value of the item procured (excluding net domestic indirect taxes) minus the value of imported content in the item (including all customs duties) as a proportion of the total value, in percent.

Mathematically,

Local content = $(\text{Sale price} - \text{Value of imported content}) \times 100 / \text{Sale price}$

Where, "Sale price" means price excluding net domestic indirect taxes and "Value of imported content" means price of imported content inclusive of all customs duties

Question 2. How to calculate Local Content in bids involving supply of multiple items from single bidder?

Answer: In case of bids requiring supply of multiple items (say "X1", "X2" and "X3") by a single bidder, the local content in the bid shall be

Local content = $\frac{((\text{Sale price of "X1"} - \text{Value of imported content in "X1"}) + (\text{Sale price of "X2"} - \text{Value of imported content in "X2"}) + (\text{Sale price of "X3"} - \text{Value of imported content in "X3"})) \times 100}{(\text{Sale price of "X1"} + \text{Sale price of "X2"} + \text{Sale price of "X3"})}$

Question 3. How to obtain Make in India "MII" certificate?

Answer: No such certificate issued by Government of India. As per para 9 (a) of PPP-MII Order, 2017 (as amended on 16.09.2020), the bidders are required to self certify the local content in their product for purchase value less than Rs.10 crore. For purchases more than Rs.10 crore, as per para 9 (b) of PPP-MII Order, 2017, a certificate from the statutory auditor or cost auditor of the company (in the case of companies) or from a practicing cost accountant or practicing chartered accountant (in respect of suppliers other than companies) is required to be submitted.

Question 4. What is the meaning of class-I local supplier, class-II local supplier and non-local supplier?

Answer: PPP-MII Order, 2017 (as amended on 16.09.2020) classifies the suppliers into following 3 categories:

- 'Class-I local supplier' – Suppliers offering items with equal to or more than 50% local content
- 'Class-II local supplier' - Suppliers offering items with equal to or more than 20% but less than 50% local content
- 'Non-local supplier' - Suppliers offering items with Less than 20% local content

Nodal Ministries/ Departments are authorized to notify a higher minimum local content requirement for any item, i.e., higher than 50/20%, if they deem fit

Question 5. Details of product categories for which nodal Ministry have been notified by DPIIT for PPPMII, Order 2017 may be provided?

Answer: DPIIT has notified 20 nodal Ministries for different product categories. The details of such product categories and associated Ministry/ Department are available on DPIIT website. Refer link: <https://dpiit.gov.in/sites/default/files/Approved%20product%20category%20list%20as%20per%2012th%20SCM.pdf>

Question 6. Can an item be procured from non-local suppliers, if there are no Class-I/ Class-II local suppliers in the country.

Answer: Non-local suppliers can only participate in global tender enquiry. Against domestic/ national tenders, only Class-I and Class-II local suppliers can participate in the bidding process. Hence, in case item is not available locally from Class-I/ Class-II local suppliers, global tender enquiry may be floated for procuring item after taking approval of competent authority, as notified by Department of Expenditure under Rule 161(iv) of GFR.

Question 7. Are provisions of PPP-MII Order applicable only in procurement of the items for which nodal Ministries have been notified and the items for which nodal ministries have issued local content notification?

Answer: No. The provisions of PPP-MII Order are applicable on procurement of all the items by Central Government procurement entities. For the items, for which nodal ministries have not been designated and the items for which nodal ministries have not issued minimum local content notification, the default provision of PPP- MII Order shall apply.

Question 8. Will the cost of transportation, insurance, installation, commissioning, training and after sales service support like AMC/CMC etc. will be considered as a part of local content?

Answer: The cost of transportation, insurance, installation, commissioning, training and after sales service support like AMC/CMC etc. will not be taken into account for calculating local content in any item. DPIIT OM No.P-45021/102/2019-BE-II- Part(1) (E-50310) dated 04.03.2021 refers, available on DPIIT Website. Refer link https://dpiit.gov.in/sites/default/files/Letter%20to%20All%20Ministries03042021_clarification.pdf

Question 9. Can administrative Ministries grant exemption/ relaxation for procurement of imported items with the approval of Hon'ble Minister In-charge under Para 14 of PPP-MII Order?

Answer: Procurement of imported item is governed by Rule 161 (iv) of GFR. Hon'ble Minister In-charge of administrative Ministry is not the appropriate authority for any exemption/waiver in GFR. As such, procuring entities are advised to follow the

procedures as prescribed in GFR Rule 161 (iv) for procurement of imported items. In this regard, minutes of 14th Standing Committee Meeting held on 20.09.2022 issued by DPIIT, refers. (Agenda point Number 5.)

Question 10. Can administrative Ministry/Departments give exemption for wide range of product categories for an extended period of time under Para 14 of PPP- MII Order with the approval of Hon'ble Minister In- charge?

Answer: The administrative Ministries/ Departments shall grant only tender specific exemptions under Para 14 of the Order. Exemptions granted shall remain valid for a period of maximum 01 year only. If the same items are procured again within the aforesaid period of 01year, fresh approval of Minister-incharge is not required. If any administrative Ministry/ Department intends to grant exemption beyond a period of 01 year, it shall do so only with prior written concurrence of concerned nodal Ministry. In this regard, minutes of 14th Standing Committee Meeting held on 20.09.2022 issued by DPIIT, refers.
(Agenda point Number 5.)

Question 11. How do I apply for DPIIT registration under Rule 144 (xi) GFR for entities having beneficial ownership in land border sharing countries?

Answer: The application format for registration of bidders under Rule 144 (xi) GFR is available on DPIIT website. Refer link: <https://dpiit.gov.in/sites/default/files/Revised-Format-Bidders-31March2021.pdf>. Applicants are required to submit one hard copy in the prescribed format along with soft copy (pdf), as detailed in the covering letter of the format. The applicant shall be asked to submit additional hard copies, if required at the later stage.

Question 12. What will be the category of the local suppliers having exactly 20% and 50% local content?

Answer: Vide its para 5, the Public Procurement (Preference to Make in India) Order, 2017 dated 16.09.2020 stipulates the minimum local content requirement as under:

"The 'local content' requirement to categorize a supplier as 'Class-I local supplier' is minimum 50%. For 'Class-II local supplier,' the 'local content' requirement is minimum 20%. Nodal Ministry/Department may prescribe only a higher percentage of minimum local content requirement to categorize a supplier as 'Class-I local supplier'/'Class-II local supplier.' For the items, for which Nodal Ministry/Department has not prescribed higher minimum local content notification under the Order, it shall be 50% and 20% for 'Class-I local supplier'/'Class-II local supplier' respectively."

Accordingly, the local suppliers having exactly 20% and 50% local content will be categorized as "Class-II Local Supplier" and 'Class-I Local Supplier' respectively.

Question 13. Whether a Central Government/CPSE Buyer can take cognizance of open undertakings/ futuristic declarations and treat bidder as Class I/ Class II local supplier through the present level of local content of the bidder happens to be below 50%/ 20% respectively?

Answer: Detailed Procedure for Verification of local content declared by suppliers /vendors is elaborated on clause 9 of PPP-MII Order, 2017 dated 16.09.2020 and as per the Order, futuristic declarations regarding local content is not allowed.

IMPACT OF CONTRACT MANAGEMENT ON CONTRACTORS PROFIT

Abstract: The Aim of the study is to establish the effects of contract management on contractor's profit. Contract management is the process of administering the legal and contractual relationships that a business forms with vendors and employees.

Contract management is concerned primarily with written contracts that constitute an obligation to perform a service in exchange for payment.

Being mindful of the process for managing contracts is important to business leaders because it enables them to keep a close eye on the relationships they form with stakeholders.

Keywords: Contract, Contract management, planning, costs, profit

I. INTRODUCTION

Contract management is the process of planning, organizing, and directing the legal agreements that an organization forms with third parties, including vendors, customers, and service providers. While all businesses engage in some level of contract management, whether it be in informal arrangements with its customers or formal agreements to purchase products from a vendor, there are emerging trends in contract management theory which are changing the way business leaders think about their legal relationships.

In the world of business, it is common for an organization to involve contractors or suppliers in one way or another to support in providing service or product to meet its intended requirements.

It is a main duty for operating companies to make sure contractors perform their duties safely and timely through appropriate contract management procedures. Despite significant research progress, the effectiveness of contract management in terms of monitoring contractor's performance has not been tracked and published widely. The main objective of the study is to examine the effectiveness of contract management.

II. OBJECTIVE OF CONTRACT MANAGEMENT

Business owners know from experience that managing relationships with vendors, customers and employees can be a challenging process. The applied theories of contract management can help you gauge the effectiveness and worth of these relationships, keeping your business mindful of the law and helping you create value for your organization's stakeholders.

A. Creating Value

The need to enter into contracts with vendors, employees and even customers is the result of a business' desire to give the best products, projects and services. Creating value for the organization is a key of contract management. Managing the contract is concerned with how well the other party is helping the business create and maintain this added value.

B. Ensuring Quality

Ensuring quality is related closely to the concept of adding value but has more to do with the employees you have on contract than it does with the vendors you take on board.

C. Managing Productivity

Managing productivity is related both to the creation and maintenance of value with client and to the process of ensuring quality of employees. Productivity is about being able to serve the wants and needs of the business, including its customers, in a timely and effective way.

D. Ensuring Compliance

The compliance objective of contract management is concerned largely with legal implications. Failure to follow the terms and conditions as they are laid out in the contract, on the part of either side of the agreement. constitutes a breach of contract and may lead to legal action by one or both parties. This is a costly process and may put the business at serious financial risk.

III.STAGES OF CONTRACT MANAGEMENT

A. Planning Stage

Before you can implement a process, it's important to develop a system that will best suit your company's needs and resources. To keep things streamlined and organized, it's also important to develop contract management processes that can be implemented company wide.

B. Implementation Stage

Once you have outlined your contract management workflow, you will need to implement your plan before you can start using it. This includes deploying contract lifecycle management software to help you to execute contract-related tasks, as well as migrating your contracts to a centralized repository.

A crucial part of your implementation plan is onboarding – making sure everyone involved understands your vision and objectives for contract management and is comfortable with the CLM software they will be using.

C. Pre-contract Stage

Now that you have your contract management foundation set up, you can begin to implement it for new contracts. That means developing new contracts or implementing boilerplate agreements for more standard situations. The key challenge of this stage of contract management is developing a specific document that will deliver what you need and reduce your risks.

D. Handover Stage

It's common – especially in larger companies – that the individuals involved in executing a contract are not the same as those who negotiated it. Thus, to ensure the contract is fulfilled as expected, it's important to ensure a smooth handover. Rather than assuming stakeholders have everything they need, it's useful to spend some time walking through all of the contract details and confirming roles, responsibilities and milestones.

E. Contract Stage

The contract stage is when all the goals of your contracts come to life, assuming you manage them properly. And the previous contract management steps you've completed so far are setting you up to do just that.

F. Pre-renewal Stage

Now is the time to evaluate how your contract performed and decide whether you want to renew or make any changes. Make sure all stakeholders are aware of termination and renewal dates and that you have enough time to consider all the information before you get locked into any decisions.

G. Post-contract Stage

Once a contract ends, there is still some housekeeping to do to ensure that everything is wrapped up properly. This includes ensuring termination conditions have been met, issuing, or paying final invoices, and archiving your contract. It's also useful to perform a contract post-mortem, which can provide valuable information and learnings that can improve the results of future contracts.

IV.PROBLEM STATEMENT

A. Missing Contracts

Big challenge in contracting is missing contracts, and it's more common than you think. 71% of companies couldn't find at least 10% of their contracts.

Contracts are critical business documents stipulating the rights and obligations of contracting parties. Parties rely on the contract document to understand and fulfil their contractual obligations and resolve disputes when they arise. In other words, contracts are not documents you want to lose.

B. Fines and Penalties

A penalty clause in a contract is a provision that obligates the defaulting party to provide some form of compensation to the innocent party in the event of a breach of contract. Getting compensation for a contract breach can sometimes be a difficult process that requires an arduous and costly legal battle.

C. Redlining Standard Agreements

Contract redlining is a major part of contract negotiation. However, if your organization's standard agreements are frequently redlined, it defeats the core purpose of using standard agreements, and it's a sign something is off.

Standard agreements, also known as standard form contracts, are contracts with terms not usually subject to negotiation. The contracting party either accepts or rejects it. Standard agreements are usually used in business-to-customer transactions, and it enables business transactions to happen at scale without hitches.

Common standard agreements include:

- 1) Non-disclosure agreements (NDAs)
- 2) Non-compete agreement
- 3) Terms of service
- 4) Rental agreements
- 5) Employment contracts

D. Poor Understanding of the Contracting Process

Many organizations don't understand their contracting process and so do not approach their contracts with confidence. Contracts are too vital not to understand your contracting process, identify your weaknesses, and actively become more efficient. Understanding your contracting process means you know how much time it typically takes to move from one lifecycle stage to another, the lifecycle stage that causes the most delay, and the reason for it. It also includes

knowing the contracts that drag on and take more time to process than others in your organization.

E. Lack of Visibility into Contracts

Another challenge organizations face in contract management is that contracts are not visible. This is especially true for non-legal departments. One of the delicate issues Legal departments grapple with is ensuring other departments have access to the contract data they need to perform their duties without exposing sensitive information. The need for all departments in your organization to have visibility into contracts cannot be over-emphasized. Without visibility, contracts cannot be managed, and there will be no way to ensure compliance with contractual terms and regulations.

F. Poor Metrics Tracking

Improving the contracting process has gone beyond making wild guesses and conjectures to gathering reliable data, analysing, and taking data-backed actions. In the past, tracking contracts involved spreadsheets and countless hours spent gathering the information you needed. This was a slow, inefficient, and error-prone process. Unfortunately, some organizations are still trying to track their contracts metrics this way.

V. LITERATURE REVIEW

According to Dean T. Kashiwagi and James Murphy (April 2004), The contractor's profitability in 2002 reflects that most of the contracts are being completed in Quadrant I. Obtaining more work in Quadrants II or III will increase the company's yearly return. Completed Project Profit Analysis (CPPA) is a tool that a contracting company can employ to understand where income is coming from, assess the performance and competency of key personnel, and ultimately prioritize clients to maximize profitability. Upon inspection of a contractor's cost information, there were performance trends that indicate that some clients are clearly more profitable than others.

Kakwezi (2012) in a study on the procurement contract management in public procurement noted that contract management activities can be divided into three broad sections that is service delivery management, relationship management, and contract administration. In this context, service delivery management involves the full management of all the contractual deliverables, performance levels of the contract as well as the contract quality. Silvana (2015) in a study on the contract management on private public partnership indicates that the aim of contract management is the optimization of the efficiency, effectiveness and economy of service in contractual relationship, balancing costs against risks and actively manages the relationship between procurement parties.

Langat (2013) in a study on the procurement performance in public institutions indicates that procurement performance involves the manner in which procurement function is able to reach the objectives and goals with minimum costs. The study examined procurement performance in terms of efficiency, competitiveness of services procured, quality of goods procured, and reduction of conflict of interests within the procurement activities. Masaba (2010) in a study on procurement performance of public entities in Uganda argues that procurement performance can be measured using two metrics: effectiveness and efficiency.

PALA, (2013): The transient, independent, and multi-organizational characteristics of construction projects require development and alignment of relationships in a much faster way. Management and control of these relationships are crucially important to ensure that supply chains operate in an agile, efficient, and smooth manner. Rather than looking into how to improve dyadic relationships between contractor firms and its upstream/downstream supply chain firms, this research was concerned with the management practices of contractor firms for their extended supply chain relationships.

Moses Muhwezi, Arthur Ahimbisibwe (2015): The objective of this research was to investigate the effect of contract management, inter functional coordination, trust on works contract performance in Ugandan public procuring and disposing entities. These results have implications for academicians as well as public procurement practitioners and regulators. For academicians, it is insightful to interpret the individual dimensions of contract management and note that delivery management is relatively more important than the other dimensions in contract performance. Our results also seem to suggest that under rules-oriented conditions in public procurement, inter-functional coordination does not contribute a lot to performance, since inter-functional coordination in its true sense, makes sharing of information open, which is not fully supported by the public procurement laws and regulations.

Aluonzi, Oluka, & Nduhura (2016) in examination of the contract management on performance of road projects in Uganda notes that contract management involves three diverse aspects; achievement of the three goals of product quality, delivery on time and within the budget. In this context, Aluonzi, (2016) indicates that contract management is divided into the upstream/pre contract award activities and downstream/post contract award activities. Marco (2013) in a study on the contract management in Tanzania notes that contract management involves the proactive management of the relationship between the parties in a contract with a view of anticipating future needs and managing arising risks with a view of improving the performance over the lifecycle of the contract.

According to Shubmank Deep et al (2017); Lowest bid awards a most common practice for awarding work charge in India whether its public or private sector.

The study tried to investigate the various factors affecting efficiency of contractors in the case of lowest bid award projects. The noticeable factors were inadequate project management assistance) (OI = 66.17%), external (EARII =60.25%): eighth important group was the Equipment related group. The prominent factors were “low efficiency of equipment(OI = 66.07%),” (9) Material (EARII =59.31%). On basis of findings, it could be concluded that though lowest bid award is not a primarily a good practice due to firstly the contractor’s profit margins are low which contractor is not able to sublet much and tends to employ low efficiency equipment and poor-quality materials. Secondly, projects management practices should be popularized amongst contractors working in small scale projects this can help them in understanding client’s need and hence increasing efficiency, which could in turn benefit the contractor.

Aloysius Byaruhanga, Benon C. Basheka (2017); For effective road infrastructure delivery and performance, there is need to build strong contract monitoring mechanisms. These should target the performance of contractors and contract managers/supervisors.

With skilled personnel proper contract monitoring practices shall be enforced. In contract monitoring some of the components and practices include skills development, policy development, plans, communication, payments, management of records, contract or appraisal, inspections and audits and dispute resolution. This study found out that if these contract monitoring components are well managed, there is a very high possibility of having a viable road infrastructure project that will guarantee a sound business success and effective service delivery. To improve contractor monitoring and performance of road infrastructure projects there searcher makes the following recommendations:

Stephen Kibet Ngetich, Dr. David Gichuhi (Sept. 2017): The use of information communication technology has a statistically significant influence on procurement contract administration in Public Universities in Kenya. The study also concluded that a unit increase in the use of information communication technology results in an increase in procurement contract administration.

Meriem Harhad (October 2018); The contract management is a key tool for project management because the contract is the written baseline of the project. However, we have not a systematic contract manager in each project, indeed most of the time the project manager has a dual role, even if contract management isn’t its core competencies. The management of the contract within a project is meant to maximize outcomes of the project, through a good management and assessment of risks and a well understanding of the customer expectations. However, the role of the contract manager is not included in theoretical project management approach and is not common in main organization of various fields.

S. Kanchana (March 2018): According to the Authors, Effective contract management has emerged as a crucial function to improve profitability, support compliance, and manage risk. It becomes necessary that the contracting activities should be managed by a procurement team as inefficient management leads to customer un-satisfaction and unwanted cost overruns. Frequent reviews of contract management procedures and necessary improvements can bring out the benefits of contract management. The article discussed the various reasons contributions made and their relevant findings.

VI. CONCLUSIONS

In India, the large-scale construction contracts are usually handed over to foreign contractors because of poor performance of contractors here. So, better, and effective contract management is required. Management of contracts is one of the important aspects of construction management. The main factors of contract management are time, cost, and quality delivery. It was seen that contract management has a significant impact on time, cost and quality delivery which means contract management helps in completing the project within the scheduled duration by effectively managing the activities. Contract management has an impact on costs as it helps to save on extra costs due to the risks and sudden changes in the contract. Those changes and risks are managed with the help of effective contract management. Effective Contract management helps in delivering the requirement to the client which is the quality client demands. When contractors deliver quality, it improves their reputation for future contracts. It was seen that contract management helps in avoiding the costs of reworks and non-compliance, which cuts down the contractor's profit to a minimum. So effective contract management has positive effects on contractor's profit.

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Exploring Contract Management in the Digital Age: The Impact of Artificial Intelligence

Contracts have been the bedrock of legal relationships since ancient times, evolving from oral agreements to written ones. The management of contracts has advanced through the ages, from quills to typewriters, physical storage to the cloud, and now to Artificial Intelligence (AI). The legal industry is at the cusp of a technological revolution, with AI poised to reshape the way contracts are created, reviewed, and managed. AI, harnessing Machine Learning (ML), Large Language Models (LLM), and Natural Language Processing (NLP), can swiftly analyze vast volumes of contractual documents with remarkable precision. It excels in identifying key terms, and clauses, and assessing risks. Combined with ML, LLM and NLP, AI-powered contract management systems streamline the entire process including contract creation, negotiation, review, storage, and compliance. During contract negotiation, AI can identify potential disputes and risk factors, aiding in the creation of risk-free clauses. AI-driven contract review software accelerates the review process and minimizes human errors. However, it's important to recognize that current AI systems, while promising, have limitations, including biases, the lack of emotional intelligence in client interactions, and the susceptibility to cyber-attacks. This Article underlines the significance of the adoption of AI to increase efficiency, productivity, accuracy, and limitations.

Keywords: contracts, artificial intelligence, machine learning, contract management systems, negotiation.

INTRODUCTION

Artificial Intelligence (AI) is considered a key component of the Fourth Industrial Revolution, also known as Industry 4.0 or 4IR, which is characterized by the integration of digital technologies, data analytics, the Internet of Things (IoT), automation, and AI across various industries and sectors.¹ It is rapidly changing the landscape of the digital age through its pervasiveness in our daily lives. We, now, casually use various AI applications daily - for image generation Mid journey or DALL-E, for content generation Chat GPT or Bard. The legal industry, too, has been inundated by AI, and one of its key applications is in the realm of contract management.

Contract management refers to the process of creating, negotiating, executing, revising, and renewing contracts.² These processes have traditionally been paper-intensive and reliant on manual processes, which AI is all set to transform. AI can process and analyze large volumes of contractual documents at speeds far exceeding human capabilities, improving efficiency and reducing the risk of errors and contract disputes in contract management processes.

Although the integration of AI into the legal industry offers significant benefits in terms of efficiency and data processing capabilities, the need for human

intervention remains inevitable when dealing with complex legal issues, potential client frustration or dissatisfaction, personalization, bias, empathy, and objectivity.³ The legal industry should embrace this transformation cautiously, addressing AI's limitations while harnessing its potential to navigate the evolving landscape of contract management. The optimal approach will involve synergy between AI and human legal practitioners to achieve the best outcome for the client and the legal profession as a whole.

EVOLUTION OF CONTRACT MANAGEMENT

The origins of contracts can be traced back to ancient civilizations, such as Mesopotamia, Egypt, and India. Early in those days, contracts were largely orals, but inscribed agreements on clay tablets recording transactions and obligations have also been found. The usage of papyrus scrolls has also been ascribed to the Egyptians. The evolution continued with the ancient Greeks and Romans, who introduced the idea of enforceable contracts backed by legal systems and authorities.

During the Middle Ages, European countries, especially Britain, took up the task of furthering contract management. However, contracts were often oral and their enforcement relied heavily on the trust of agreeing parties, and local courts had little role to play in enforcement and remedies. With the emergence of the English common law, written contracts became more common, and legal systems began to provide remedies for breach of contract. The quills and papers dominated this period.

The Renaissance paved the way for the First Industrial Revolution (Industry 1.0) of the late 18th and early 19th centuries, which led to a rise in large-scale industries. With the huge growth in the industrial economy, the contracts became pervasive from employment contracts to sales and purchases, and transportation. In the late 19th century, the typewriter was invented which started replacing quills, nonetheless, the managing and tracking of contracts remained manual and paper-based.

The 20th century witnessed several innovations in contract management. In the early 20th century, the widespread adoption of typewriters simplified the drafting process. The contracts became legible. Multiple copies of the same contract could be made simultaneously. They could be more easily edited than handwritten ones. So, typewriters reduced the time and effort required for producing contracts, enabling law firms to handle a large volume of documentation.

In the late 1950s, photocopy machines were invented which streamlined document replication. Photocopiers reduced the time and effort required to create multiple copies of contracts and enhanced the legibility of copies of counterparts, ensuring that counterparts were as clear and readable as the original. During the 1960s and 1970s, fax machines became pervasive, enabling rapid document transmission over long distances. It saved time and money spent on the physical transmission of the documents.

In the 1990s, with the decrease in the cost of computers combined with the advent of the Internet and e-mail becoming the de facto standard for business communication, contract management software began to emerge, providing

organizations with the ability to store and retrieve contract documents more efficiently. However, these early contract management systems primarily focused on document storage in offline mode. The contracts were first typed on a computer, then printed, followed by scanned, faxed/emailed to the other party. The other party had to print, review, put signatures, scan, and send it back. Therefore, the manual labour in the Law firms continued. The early technology couldn't simplify contract management leaving it paper-intensive.

In the early 2000s, electronic signatures (e-signs) started replacing wet signatures. Now, the simple act of adding an electronic signature to contracts can save an organization an average of \$36 per document by saving time and cutting the hard costs of printing, scanning, faxing, and shipping. E-signs are more secure than wet signatures. Aadhaar e-sign being used in India is also a form of e-sign.

The 21st century has brought about a revolution in contract management, driven by the advent of digital technology. Contract Lifecycle Management (CLM) systems have become essential tools for organizations. These systems offer end-to-end contract management. CLM systems are cloud-based contract management systems. Using the CLM software, one can either create a contract from scratch or use a template available on the said software with modification, and send it to the other party. The next step is negotiation where parties suggest changes to be made through suggesting tools. Once both parties have mutually approved the contract, it is executed using e-signature technology. After the execution, the contract is stored on the cloud that can be accessed remotely. Indeed, CLM systems are a great relief for organizations, it has increased productivity, accuracy, and revenue. Nonetheless, AI has the potential to be a complete game-changer in the world of contract management.

AI: TRANSFORMING CONTRACT MANAGEMENT IN THE DIGITAL AGE

AI leverages technologies such as Machine Learning (ML), Large Language Models (LLM), and Natural language Processing (NLP) that are trained on huge amounts of data to generate responses. Their databases are fed with risk-free manually examined contracts by contract experts leaving little or no room for error. Moreover, these technologies are trained to incorporate feedback so they keep correcting their mistakes and improving their accuracy. They work efficiently while identifying key terms, clauses, and obligations or assessing contract risks.

While ML utilizes its data and experience to imitate the human learning process and gradually improves in accuracy over time, LLM uses advanced deep learning techniques and vast datasets to understand queries and generate responses through prompts. The role of NLP becomes crucial in helping AI to understand the language of the documents, the contents of documents, and the contextual subtlety within them, which results in the extraction of accurate information, categorization, and organization of the document. It better AI's vocabulary, grammar, and semantics of contract text. It enables AI systems to understand and interpret human language in contracts, so analysis of contracts becomes easy.¹⁰ Combined with ML, LLM, and NLP, the AI-powered contract Management System is bringing a digital revolution to the legal sector. These systems provide a centralized repository for contracts, making it easy to create, store, search, retrieve, and monitor them.

For example, Chat GPT, a Generative AI, released in November 2022, has become a popular AI tool. It has set a record for the fastest-growing consumer application in history. Having a vast repository of legal information, ChatGPT can assist legal professionals in several tasks including research, drafting, negotiation, vetting, and risk analysis.

With AI, one can say goodbye to stacks of paper contracts and the endless search for crucial documents. AI-powered contract software can recognize patterns and extract and classify key terms such as clauses, dates, and parties from a pile of contracts, provided they are trained on large databases containing contracts. It can also identify contract types. It can perform due diligence by quickly scanning through large volumes of contracts and flagging risks and gaps in the contracts.

AI can help organizations keep specific terms and definitions consistent across all their contracts. For example, if organizations have defined confidentiality in a specific way in a non-disclosure agreement and want to use the same definition in all of their contracts, AI can easily keep the definition of confidentiality the same across all contracts.

AI can be deployed during the negotiation stage. It can utilize its database to analyze different types of contracts and languages within them. It can suggest what words or clauses might lead to disputes in the future. One can leverage AI's analysis during negotiation to incorporate risk-free clauses in contracts. With the help of AI, the negotiation process can be expedited and the parties involved are likely to reach mutually beneficial terms in less time.

The task of reviewing contracts is one of the most time-consuming tasks. Each clause needs to be looked closely for key terms and errors within them. It takes thousands of hours to review a single contract manually, but AI-driven contract review software can extract and categorize contract clauses accurately and quickly and can help in risk assessment and mitigation by identifying potential legal and financial risks in contracts. This not only saves time but also reduces the risk of human errors that can be costly. For example, JP Morgan Chase & Co., a bank in the United States of America, has developed an AI-powered system called COIN (Contract Intelligence) that can review 12,000 commercial loan agreements in seconds, for which their lawyers took 360,000 hours a year.

The CLM technology discussed above, which is currently semi-automated, can transform into fully automated through the integration of AI which can enhance the overall contract management process, making it more streamlined and efficient. It can play a pivotal role in tasks such as contract drafting, negotiation, vetting, and ensuring compliance, reducing the risk of legal disputes.¹⁶ Full automation can significantly save the time, money, and effort traditionally required for these tasks.

AI can play a role in the development and management of smart contracts. Smart contracts function on blockchain technology which is a decentralised public digital ledger. These contracts are called smart contracts because they are automated, self-executing, and immutable agreements that rely on predetermined conditions. For example, Smart contracts typically include if, when, and then in the statements

that define the conditions and actions to be taken when those conditions are met. In recent times, they have gained huge popularity for being swift, efficient, accurate, and inexpensive. They remove the need for an intermediary to handle transactions. Since blockchain transactions are encrypted, they are secure and not easy to hack. Transparency is a key pillar of blockchain technology, its digital ledger is decentralized which is available to the public all the time, and it is not controlled by a single entity, a group of computers updates its ledger, making them easy to trust. Here, AI can assist in creating and verifying the code, ensuring that smart contracts function as intended on the blockchain platform.

Once contracts are executed, their compliance becomes the top priority. Organizations with a huge volume of contracts find themselves in a quagmire when it comes to keeping track of compliance with terms such as renewal dates, payment schedules, rights and obligations, and renegotiation terms; manually it takes hours and a large and efficient team of contract experts. AI can assist here by monitoring contracts and ensuring that organizations adhere to terms set forth and legal and regulatory requirements. By flagging potential compliance issues, AI can help avoid legal troubles and financial penalties.

ISSUES PLAGUING AI IN CONTRACT MANAGEMENT

Today's AIs that we are using are Generative Artificial Intelligence, also called GenAI. It is so because they generate content, such as text, images, or music. They are not Artificial General Intelligence (AGI) which is a thing of the future that is supposed to possess the general intelligence and cognition that humans possess. GenAI systems are trained on a database to perform particular tasks or solve specific problems, they are just better than traditional AI. AGI, on the other hand, is a more advanced form of AI that is still largely theoretical. AGI would have the ability to understand, learn, and apply knowledge like a human being. It would possess a level of cognitive ability, reasoning, and adaptability that goes beyond the narrow AI and task-specific current GenAI.

For example, ChatGPT, a GenAI, has some limitations. It is susceptible to bias which arises from the data used for training. It has limited knowledge. It is unable to spot spelling and grammatical errors of users prompting queries. It can't handle multiple tasks at the same time. Sometimes, it has trouble understanding the context. And, it also lacks human-level common sense. This means that ChatGPT, while powerful and capable of generating human-like text, can sometimes produce nonsensical or inaccurate responses.

ChatGPT has generated false judicial opinions and cited fake cases that didn't exist. A Federal District Court of New York fined lawyers for using ChatGPT to prepare a legal brief for a case that was filled with fictitious or fake cases and judicial opinions. This example highlights the importance of proper training, oversight, and verification when using AI in the legal profession. Therefore, AI needs to be well trained on reliable and authoritative sources to minimise such risks and errors. It is crucial to exercise caution when relying on AI for tasks like preparing legal documents as AI is only as good as the data it is trained on.

AI might develop glitches or go rogue, in that case, the contract management system would be at risk. Snapchat's AI, an instant messaging app, went rogue and

started posting stories. This instance shows that it is important to acknowledge that AI is not immune to technical issues or unintended behavior. Glitches or AI going rogue can pose risks in contract management. Hence, organizations and professionals need to maintain a proactive approach to AI contract management. This includes rigorous testing, monitoring, and implementing safeguards to prevent and address potential issues with AI systems. It's also important to have human oversight and a contingency plan in place to rectify any problems that may arise.

The Cyberspace Administration of China wants AI systems to abide by the country's laws and regulations, adopt core socialist values, respect social morality, public order, good customs, and many other prohibited grounds.²³ When governments or regulatory bodies impose guidelines, it is advisable to follow them. But instead of constitutional morality requiring AI to comply with social ethics, adopting a specific political belief rather than making AI aware of all political ideologies is tantamount to creating a myopic AI full of biases that will derail technological progress and the advancement of the human race. Therefore, biases incorporated into AI can affect its judgement in contract management.

Another important limitation it faces is that it lacks emotional intelligence which is a must while dealing with clients in the legal profession. AI may not be able to provide the same level of empathy as a lawyer provides. Daniel Goleman explains that emotional intelligence is just as important as the intelligence quotient (IQ). While the intelligence quotient is the brain only, emotional intelligence is both the brain and the heart combined. A lawyer is not only trained in legal writing, research, and oratory but also in understanding the sensitivity of the cases and clients and dealing with them accordingly. Thus if AI is to be utilised in the legal profession, it must imbibe all the qualities of a lawyer.

To operate efficiently, AI requires sophisticated computational resources including specialized hardware, software systems, a large volume of accurate databases for training, and proper cybersecurity apparatus. Additionally, legal professionals need to be trained in data science and algorithms to bridge the information gap.²⁷ These requirements can be quite inexpensive for organizations. Organizations adopting AI should not expect immediate returns on their investments in building or integrating AI infrastructure. It costs OpenAI approximately \$700,000 per day to operate ChatGPT.

While providing many benefits, AI may become a double-edged sword introducing new security challenges and vulnerabilities if not properly monitored. Cyber attackers can exploit these vulnerabilities, potentially leading to a data breach, including sensitive and confidential information. Terms like confidential information and intellectual property have financial significance attached to them in contracts. Just imagine what would happen if Coca-Cola's trade secrets (which it never divulges) were leaked, anyone could start selling counterfeit Coca-Cola, leading to a loss of revenue for the company. Once hacked, AI can be tricked by adversaries to provide unexpected, unintended, or harmful responses which require organizations using AI to prioritize cybersecurity measures. Therefore, although GenAI promises to increase efficiency, its application in the legal world is fraught with dangers that require human intervention.

CONCLUSION AND WAY FORWARD

In every business transaction, contracts play a pivotal role by providing the legal framework that defines the rights, duties, and responsibilities of the involved parties. This legal framework establishes a relationship between the involved parties, and the enforceability of contracts solely depends on the legality of the terms of the contract. To ensure that, contract lawyers spend endless hours on legal research - relevant laws, rules, or regulations - while negotiating between parties, drafting, reviewing, and managing contracts. While drafting one has to maintain the purity of the document, and during reviewing one has to go through the whole document by reading each page line by line to spot errors. These woes get compounded in big organizations where a large volume of contracts has to be managed. This manual contract management is not only costly and time-consuming but also leads to inefficiencies, a decrease in productivity, and errors jeopardizing the validity of the contract.

AI, which has immense capabilities, can be a game-changer in contract management. It can draft clauses while maintaining their legality, review contracts, identify anomalies, and conduct due diligence. It can save time, improve efficiency, and increase productivity, and revenue. As AI continues to take up the jobs of contracting professionals, there is a fear that organizations will need fewer lawyers. But this is not completely true. Lawyers' roles in organizations may transform, they will spend more time in high-value work like providing solutions to complex legal problems, rather than in document drafting and review.

However, the legal sector has to tread the intersection of the law and AI cautiously, given AI's limitations such as inherent biases, and lack of emotional intelligence while dealing with clients, and cyber-attacks. AI systems need to be trained on accurate and unbiased data and regularly monitored to keep them immune to cyber-attacks. Before the adoption of AI, the organization should ensure to train and validate AI models for accuracy and reliability and engage with technology experts.³¹ Proper training, validation, and quality control are key to harnessing the potential of AI responsibly and effectively.

The global legal tech market which generated revenues of \$27.6 billion in 2021, is projected to grow at a compound annual growth rate of over four percent until 2027.³² The legal market is poised to reap the benefits of AI, but it should be mindful of the limitations of AI. The legal industry must be cautious while implementing AI and ensure that it complements human expertise rather than replacing it entirely. AI should be a tool to assist legal professionals and enhance their work, but it should not be relied upon blindly.

Source: Jus Corpus Law Journal

Salient Features of Competition Act,2002 relating to Anti-competitive Practices.

1. The Preamble of the Competition Act, 2002, provides for the establishment of a Commission keeping in view of the economic development of the country to promote and sustain competition in markets; prevent practices having adverse effect on competition; protect consumer interest; and ensure freedom of trade carried on by participants in Indian markets.
2. The Act was amended by Competition (Amendment) Act, 2007 and again by Competition (Amendment Act), 2009.
3. In India, Competition Commission of India ("CCI"), formulated under the Competition Act is a quasi-judicial and regulatory body entrusted with the task of enforcement of the Competition Act, 2002. Apart from specific functions under the Competition Act, 2002 the CCI also has extra-territorial jurisdiction, inquiry into anticompetitive conduct, sector-specific regulatory work, competition advocacy, power of appointment of professional and experts, and procedure for investigation (in terms of regulating its own procedure).
4. Section 8 dealing with composition of Commission provides for a chairperson and not less than two and not more than six members which are to be appointed by Central Government. The CCI is vested with inquisitorial, investigative, regulatory, adjudicatory, and also advisory jurisdiction. Vast powers have been given to the Commission and under Section 64, the Commission can frame regulations.
5. The National Company Law Appellate Tribunal (NCLAT)¹⁴⁷ is the body entrusted with the responsibility of hearing and disposing of appeals against any direction or decision or order of the CCI. It also adjudicates on compensation claims arising from the findings of the CCI or its own findings on appeals against the CCI orders and passes orders on the recovery of compensation.
6. Any person aggrieved by the order or decision of the CCI may prefer an appeal to the NCLAT within 60(sixty) days from the date of communication of such order or decision. These condand final appeal under Section 53(T) lies before the Supreme Court of India from the orders of the NCLAT within a period of 60 (sixty) days from the date of communication of the order by the NCLAT.
7. CCI may initiate an inquiry:
 - a) On its own motion based on information and knowledge in its possession or
 - b) On receipt of any information, in such manner and accompanied by

such fee as may be determined by regulations, from any person, consumer or their association or trade association, or

- c) On receipt of a reference from the Central Government, a State Government, or a statutory authority
8. The Act provides for Director General (DG) office as a separate investigative wing to assist the CCI. The DG investigates the complaints received from the CCI and submits all findings to it. DG is solely responsible for making enquiries, for examining documents and for making investigations into complaints. The DG is vested under the Act with powers of summoning of witnesses, examining them on oath, requiring the discovery and production of documents, receiving evidence on affidavits, issuing commissions for the examination of witnesses etc.
 9. The Act in Section 49 (3) lays down the advocacy function of CCI and lays down that the CCI shall take suitable measures for the promotion of competition advocacy, creating awareness and imparting training about competition issues. Section 32 of the Act grants the CCI extra-territorial jurisdiction over anticompetitive conduct which has an appreciable adverse effect on competition within India. Any anticompetitive activity taking place outside India but having an appreciable adverse effect on competition within India shall be subject to the application of the Competition Act.
 10. Under Section 21 of the Act, any statutory authority can suo motto or on request of a party during a proceeding before it can make a reference to CCI. CCI shall give its opinion within sixty days of receipt of such reference by such statutory authority. Under the provisions of the Act, the authority which made reference shall consider the opinion of the Commission and thereafter, give its findings recording reasons on the issues referred to in the said opinion by CCI. Section 21A in the same language provides for such reference by CCI to any statutory authority.
 11. The key provisions of the Competition Act include:
 - a) Section 3 of the Competition Act, 2002 deals with anti-competitive agreements;
 - b) Section 4 of the Competition Act, 2002 which discusses the abuse of dominance;
 - c) Sections 5 and 6 of the Competition Act, 2002 deal with the regulation of combinations.
 12. The term 'agreement' has been defined broadly in the Competition Act. It extends to a mere 'arrangement,' 'understanding' or 'action in concert,' none of which need be in writing or enforceable by law.
 13. Section 3(1) of the Competition Act lays down that no enterprise or association of enterprises or person or association of persons shall enter in to any agreement in respect of production, supply, distribution,

storage, acquisition or control of goods or provision of services, which causes or is likely to cause an appreciable adverse effect on competition within India. The Act prohibits an anti-competitive agreement and declares that such an agreement shall be void.

14. Section 3(3) of the Competition Act deals with horizontal agreements as it covers the agreements between entities engaged in identical or similar trade of goods or provision of services. It also includes cartels. The section covers the following:
 - a) Agreement entered into between enterprises or associations of enterprises or persons or associations of persons or between any person and enterprise.
 - b) The practice carried out by any association of enterprises or association of persons.
 - c) Decision taken by any association of enterprises or association of persons.
15. Section 3(3) of the Competition Act enlists four broad classifications of horizontal agreements that are presumed to cause an appreciable adverse effect on competition (AAEC) in India.
 - a) Agreements regarding Prices
 - b) Agreements regarding Quantity/Quality
 - c) Market Allocation
 - d) Bid Rigging
16. These four horizontal agreements are not presumed to have appreciable adverse effects on competition and are excluded from the provisions of Section 3(3) of the Competition Act, 2002, provided they are entered into by way of joint ventures and increase efficiency in production, supply, distribution, storage, acquisition or control of goods or provision of services.
17. Cartels, by their very nature are secretive and thus it is difficult to find the direct evidence of their presence. The orders of the CCI clearly point that CCI relies on circumstantial evidence, both economic and conduct-based, to reach its decision on the existence of a cartel agreement.
18. The Act defines bid rigging, and it covers agreements having the effect of eliminating or reducing competition for bids or adversely affecting or manipulating the process for bidding:
 - a) Collusive bidding: Agreement between firms to divide the market, set prices or limit production –involves kickbacks and misrepresentation of independence.
 - b) Bid Rotation
 - c) Bid Suppression
 - d) Complementary Bidding
 - e) Subcontracting arrangements
 - f) Market Allocation

19. The Act gives wide discretion to CCI to frame the remedies to overcome the anti competitive situation:
- a) Declare Anti competitive Agreements Void
 - b) Impose Heavy Penalties
 - i) Penalty can be up to 10% (ten per cent) of the average turnover for the last three preceding fiscal years upon each of such persons or enterprises which are parties to bid-rigging.
 - ii) Cartel, a penalty of up to three times of its profit for each year of the continuance of such agreement or 10% (ten per cent) of its turnover for each year of the continuance of such agreement, whichever is higher.
 - c) Order the parties to Cease & Desist.
 - d) Modification of agreements
 - e) Remedy Damage to reputation.
 - f) Fix Individual Liability
 - g) Grant Interim orders
 - h) Any other order as CCI deems fit.
20. **Who can file the information:** Raising issues regarding anti-competitive behavior for action by CCI under the act is called filing the information:
- a) Any person, consumer, association, or trade association can file information before the Commission.
 - b) Central Govt. or a State Govt. or a statutory authority can also make a reference to the Commission for making an inquiry.
 - c) "Person" includes an individual, HUF, firm, company, local authority, cooperative or any artificial juridical person.
21. What are the issues on which information can be filed?
- a) The information can be filed on issues like anti-competitive agreements and abuse of dominant position or a combination.
 - b) Class of consumers.
22. The fee-
- a) Rupees 5000/- (Five thousand only) in case of an individual, or Hindu undivided family (HUF), Non-Government Organisation (NGO), Consumer Association, Co-operative Society, or Trust duly registered under the respective Acts,
 - b) Rupees 20,000/-(twenty thousand only) in case of firms, companies having turnover in the preceding year upto Rupees one Crore, and
 - c) Rupees 50,000/-(fifty thousand only) in case not covered under clause (a) or (b) above.

No. P-45021/2/2017-PP (BE-II)-Part(4)Vol.II
Government of India
Ministry of Commerce and Industry
Department for Promotion of Industry and Internal Trade
(Public Procurement Section)

Vanijsa Bhawan, New Delhi
Dated: 19 July, 2024

To

All Central Ministries/Departments/CPSUs/All concerned

ORDER

Subject: Public Procurement (Preference to Make in India), Order 2017– Revision; regarding.

Department for Promotion of Industry and Internal Trade, in partial modification [Paras 2, 3, 5, 10 & 13] of Order No.P-45021/2/2017-B.E.-II dated 15.6.2017 as amended by Order No.P-45021/2/2017-B.E.-II dated 28.05.2018, Order No.P-45021/2/2017-B.E.-II dated 29.05.2019, Order No.P-45021/2/2017-B.E.-II dated 04.06.2020 and Order No.P-45021/2/2017-B.E.-II dated 16.09.2020 hereby issues the revised 'Public Procurement (Preference to Make in India), Order 2017' dated 19.07.2024 effective with immediate effect.

Whereas it is the policy of the Government of India to encourage 'Make in India' and promote manufacturing and production of goods and services in India with a view to enhancing income and employment, and

Whereas procurement by the Government is substantial in amount and can contribute towards this policy objective, and

Whereas local content can be increased through partnerships, cooperation with local companies, establishing production units in India or Joint Ventures (JV) with Indian suppliers, increasing the participation of local employees in services and training them,

Now therefore the following Order is issued:

1. This Order is issued pursuant to Rule 153 (iii) of the General Financial Rules 2017.
2. **Definitions:** For the purposes of this Order:

'Local content' means the amount of value added in India which shall, unless otherwise prescribed by the Nodal Ministry, be the total value of the item procured (excluding net domestic indirect taxes) minus the value of imported content in the item (including all customs duties) as a proportion of the total value, in percent.

Explanatory notes for calculation of local content given above

- a. Imported items sourced locally from resellers/distributors shall be excluded from calculation of local content.
- b. The license fees/royalties paid/ technical charges paid out of India shall be excluded from local content calculation.

- c. Procurement/Supply of repackaged/refurbished/rebranded imported products as understood commonly shall be treated as reselling of imported products and shall be excluded from calculation of local content. The definition of repackaged/refurbished/rebranded imported products is as follows;

'Refurbishing' means repair or reconditioning of an imported product does not amount to manufacture because no new goods come into existence.

'Repackaging' means repacking of imported goods from bulk pack to smaller packs would not ordinarily amount to manufacture of a new item.

'Rebranding' means relabeling or renaming or change in symbol or logo/makes or corporate image of a company/organization/ firm for an imported product would amount to rebranding.

- d. To ensure that imported items sourced locally from resellers/distributors are excluded from calculation of local content, procuring entities to obtain from bidders, the cost of such locally-sourced imported items (Inclusive of taxes) along with break-up on license/royalties paid/technical expertise cost etc. sourced from outside India. For items sold by bidder as reseller, OEM certificate for country of origin to be submitted.
- e. For contracts involving supply of multiple items, weighted average of all items to be taken while calculating the local content.

'Class-I local supplier' means a supplier or service provider, whose goods, services or works offered for procurement, meets the minimum local content as prescribed for 'Class-I local supplier' under this Order.

'Class-II local supplier' means a supplier or service provider, whose goods, services or works offered for procurement, meets the minimum local content as prescribed for 'Class-II local supplier' but less than that prescribed for 'Class-I local supplier' under this Order.

'Non - Local supplier' means a supplier or service provider, whose goods, services or works offered for procurement, has local content less than that prescribed for 'Class-II local supplier' under this Order.

'L1' means the lowest tender or lowest bid or the lowest quotation received in a tender, bidding process or other procurement solicitation as adjudged in the evaluation process as per the tender or other procurement solicitation.

'Margin of purchase preference' means the maximum extent to which the price quoted by a "Class-I local supplier" may be above the L1 for the purpose of purchase preference.

'Nodal Ministry' means the Ministry or Department identified pursuant to this order in respect of a particular item of goods or services or works.

'Procuring entity' means a Ministry or department or attached or subordinate office of, or autonomous body controlled by, the Government of India and includes Government companies as defined in the Companies Act.

'Works' means all works as per Rule 130 of GFR- 2017, and will also include 'turnkey works'.

2A. Special treatment for items covered under PLI Scheme

The manufacturers manufacturing an item under PLI scheme shall be treated as deemed Class II local supplier for that item unless they have minimum local content equal to or higher than that notified for Class-I local supplier for that item, provided the manufacturer has received incentive from the concerned PLI Ministry for the item. The above shall be applicable for the specific time period only, as notified by concerned PLI Ministry.

3. Eligibility of 'Class-I local supplier'/ 'Class-II local supplier'/ 'Non-local suppliers' for different types of procurement

(a) In procurement of all goods, services or works in respect of which the Nodal Ministry / Department has communicated that there is sufficient local capacity and local competition, only 'Class-I local supplier', as defined under the Order, shall be eligible to bid irrespective of purchase value.

(b) Only 'Class-I local supplier' and 'Class-II local supplier', as defined under the Order, shall be eligible to bid in procurement undertaken by procuring entities, except when Global tender enquiry has been issued. In global tender enquiries, 'Non-local suppliers' shall also be eligible to bid along with 'Class-I local suppliers' and 'Class-II local suppliers'. In procurement of all goods, services or works, not covered by sub-para 3(a) above, and with estimated value of purchases less than Rs. 200 Crore, in accordance with Rule 161(iv) of GFR, 2017, Global tender enquiry shall not be issued except with the approval of competent authority as designated by Department of Expenditure.

(c) For the purpose of this Order, works includes Engineering, Procurement and Construction (EPC) contracts and services include System Integrator (SI) contracts.

3.1 Mandatory sourcing of items, with sufficient local capacity and competition, from Class-I local suppliers in SI/EPC/Turnkey Contracts/Service Tenders

- a. The items, notified as having sufficient local capacity and competition, shall mandatory be sourced from Class-I local suppliers in SI/EPC/Turnkey Contracts/ Services tenders. This provision will be applicable only for those items which have been notified by the Nodal Ministry as Class I i.e. having sufficient local capacity and competition, with specific HSN codes."
- b. Notwithstanding above, if in any project, it is considered that it is not practically feasible to source such items from Class I local suppliers, it may take relaxation from such stipulation with the approval of Secretary of the administrative Ministry/ Department concerned or with the approval of the Competent Authority specified by the Administrative Ministry/Department, on case-specific basis.

3A. Purchase Preference

(a) Subject to the provisions of this Order and to any specific instructions issued by the Nodal Ministry or in pursuance of this Order, purchase preference shall be given to 'Class-I local supplier' in procurement undertaken by procuring entities in the manner specified here under.

(b) In the procurement of goods or works, which are covered by para 3(b)

above and which are divisible in nature, the 'Class-I local supplier' shall get purchase preference over 'Class-II local supplier' as well as 'Non-local supplier', as per following procedure:

- i. Among all qualified bids, the lowest bid will be termed as L1. If L1 is 'Class-I local supplier', the contract for full quantity will be awarded to L1.
 - ii. If L1 bid is not a 'Class-I local supplier', 50% of the order quantity shall be awarded to L1. Thereafter, the lowest bidder among the 'Class-I local supplier' will be invited to match the L1 price for the remaining 50% quantity subject to the Class-I local supplier's quoted price falling within the margin of purchase preference, and contract for that quantity shall be awarded to such 'Class-I local supplier' subject to matching the L1 price. In case such lowest eligible 'Class-I local supplier' fails to match the L1 price or accepts less than the offered quantity, the next higher 'Class-I local supplier' within the margin of purchase preference shall be invited to match the L1 price for remaining quantity and so on, and contract shall be awarded accordingly. In case some quantity is still left uncovered on Class-I local suppliers, then such balance quantity may also be ordered on the L1 bidder.
- (c) In the procurement of goods or works, which are covered by para 3(b) above and which are not divisible in nature, and in procurement of services where the bid is evaluated on price alone, the 'Class-I local supplier' shall get purchase preference over 'Class-II local supplier' as well as 'Non-local supplier', as per following procedure:
- i. Among all qualified bids, the lowest bid will be termed as L1. If L1 is Class -I local supplier', the contract will be awarded to L1.
 - ii. If L1 is not 'Class-I local supplier', the lowest bidder among the 'Class-I local supplier', will be invited to match the L1 price subject to Class-I local supplier's quoted price falling within the margin of purchase preference, and the contract shall be awarded to such 'Class-I local supplier' subject to matching the L1 price.
 - iii. In case such lowest eligible 'Class-I local supplier' fails to match the L1 price, the 'Class-I local supplier' with the next higher bid within the margin of purchase preference shall be invited to match the L1 price and so on and contract shall be awarded accordingly. In case none of the 'Class-I local supplier' within the margin of purchase preference matches the L1 price, the contract may be awarded to the L1 bidder.
- (d) "Class-II local supplier" will not get purchase preference in any procurement, undertaken by procuring entities.

3B. Applicability in tenders where contract is to be awarded to multiple bidders- In tenders where contract is awarded to multiple bidders subject to matching of L1 rates or otherwise, the 'Class-I local supplier' shall get purchase preference over 'Class-II local supplier' as well as 'Non-local supplier', as per following procedure:

- a. In case there is sufficient local capacity and competition for the item to be procured, as notified by the nodal Ministry, only Class I local suppliers shall be eligible to bid. As such, the multiple suppliers, who would be awarded the contract, should be all and only 'Class I Local suppliers'.
- b. In other cases, 'Class II local suppliers' and 'Non local suppliers' may also participate in the bidding process along with 'Class I Local suppliers' as per provisions of this Order.
- c. If 'Class I Local suppliers' qualify for award of contract for at least



50% of the tendered quantity in any tender, the contract may be awarded to all the qualified bidders as per award criteria stipulated in the bid documents. However, in case 'Class I Local suppliers' do not qualify for award of contract for at least 50% of the tendered quantity, purchase preference should be given to the 'Class I local supplier' over 'Class II local suppliers'/'Non local suppliers' provided that their quoted rate falls within 20% margin of purchase preference of the highest quoted bidder considered for award of contract so as to ensure that the 'Class I Local suppliers' taken in totality are considered for award of contract for at least 50% of the tendered quantity.

- d. First purchase preference has to be given to the lowest quoting 'Class-I local supplier', whose quoted rates fall within 20% margin of purchase preference, subject to its meeting the prescribed criteria for award of contract as also the constraint of maximum quantity that can be sourced from any single supplier. If the lowest quoting 'Class-I local supplier', does not qualify for purchase preference because of aforesaid constraints or does not accept the offered quantity, an opportunity may be given to next higher 'Class-I local supplier', falling within 20% margin of purchase preference, and so on.
- e. To avoid any ambiguity during bid evaluation process, the procuring entities may stipulate its own tender specific criteria for award of contract amongst different bidders including the procedure for purchase preference to 'Class-I local supplier' within the broad policy guidelines stipulated in sub- paras above.

4. **Exemption of small purchases:** Notwithstanding anything contained in paragraph 3, procurement where the estimated value to be procured is less than Rs. 5 lakhs shall be exempt from this Order. However, it shall be ensured by procuring entities that procurement is not split for the purpose of avoiding the provisions of this Order.

4A. Exemption in sourcing of spares and consumables of closed systems:

Procurement of spare parts, consumables for closed systems and Maintenance/Service contracts with Original Equipment Manufacturer/Original Equipment Supplier/Original Part Manufacturer shall be exempted from this Order.

5. **Minimum local content:** The 'local content' requirement to categorize a supplier as 'Class-I local supplier' is minimum 50%. For 'Class-II local supplier', the 'local content' requirement is minimum 20%. Nodal Ministry/ Department may prescribe only a higher percentage of minimum local content requirement to categorize a supplier as 'Class-I local supplier'/'Class- II local supplier'. For the items, for which Nodal Ministry/ Department has not prescribed higher minimum local content notification under the Order, it shall be 50% and 20% for 'Class-I local supplier'/'Class-II local supplier' respectively.
6. **Margin of Purchase Preference:** The margin of purchase preference shall be 20%.
7. **Requirement for specification in advance:** The minimum local content, the margin of purchase preference and the procedure for preference to Make in India shall be specified in the notice inviting tenders or other form of procurement solicitation and shall not be varied during a particular procurement transaction.
8. **Government E-marketplace:** In respect of procurement through the Government E-marketplace (GeM) shall, as far as possible, specifically mark the items which meet the minimum local content while registering the item for

display, and shall, wherever feasible, make provision for automated comparison with purchase preference and without purchase preference and for obtaining consent of the local supplier in those cases where purchase preference is to be exercised.

9. Verification of local content:

- a. The 'Class-I local supplier'/ 'Class-II local supplier' at the time of tender, bidding or solicitation shall be required to indicate percentage of local content and provide self-certification that the item offered meets the local content requirement for 'Class-I local supplier'/ 'Class-II local supplier', as the case may be. They shall also give details of the location(s) at which the local value addition is made.
- b. In cases of procurement for a value in excess of Rs. 10 crores, the 'Class-I local supplier'/ 'Class-II local supplier' shall be required to provide a certificate from the statutory auditor or cost auditor of the company (in the case of companies) or from a practicing cost accountant or practicing chartered accountant (in respect of suppliers other than companies) giving the percentage of local content.
- c. The bidder shall give self-certification for local content in the quoted item (goods/works/services) at the time of tendering. However, at the time of execution of the project, for all contracts above INR 10 Crore, the contractor/ supplier shall be required to give local content certification duly certified by cost/ chartered accountant in practice. For cases where it is not possible to provide certification by Cost/Chartered Accountant at the time of execution of project, the supplier shall be permitted to provide the certificate for local content from Cost/ Chartered Accountant after completion of the contract, within time limit acceptable to the procuring entity. In case the contractor/ supplier does not meet the stipulated local content requirement and the category of the supplier changes from Class-I to Class-II/ Non-local or from Class-II to Non-local, a penalty upto 10% of the contract value may be imposed. However, contract once awarded shall not be terminated on this account.
- d. Decisions on complaints relating to implementation of this Order shall be taken by the competent authority which is empowered to look into procurement-related complaints relating to the procuring entity.
- e. Nodal Ministries may constitute committees with internal and external experts for independent verification of self-declarations and auditor's/ accountant's certificates on random basis and in the case of complaints.
- f. Nodal Ministries and procuring entities may prescribe fees for such complaints.
- g. False declarations will be in breach of the Code of Integrity under Rule 175(1)(i)(h) of the General Financial Rules for which a bidder or its successors can be debarred for up to two years as per Rule 151 (iii) of the General Financial Rules along with such other actions as may be permissible under law.
- h. A supplier who has been debarred by any procuring entity for violation of this Order shall not be eligible for preference under this Order for procurement by any other procuring entity for the duration of the debarment. The debarment for such other procuring entities shall take effect prospectively from the date on which it comes to the notice of other procurement entities, in the manner prescribed under paragraph 9

- i below.
- i. The Department of Expenditure shall issue suitable instructions for the effective and smooth operation of this process, so that:
 - i. The fact and duration of debarment for violation of this Order by any procuring entity are promptly brought to the notice of the Member-Convenor of the Standing Committee and the Department of Expenditure through the concerned Ministry /Department or in some other manner;
 - ii. On a periodical basis such cases are consolidated and a centralized list or decentralized lists of such suppliers with the period of debarment is maintained and displayed on website(s);
 - iii. In respect of procuring entities other than the one which has carried out the debarment, the debarment takes effect prospectively from the date of uploading on the website(s) in the such a manner that ongoing procurement are not disrupted.

10. Specifications in Tenders and other procurement solicitations:

- a. Every procuring entity shall ensure that the eligibility conditions in respect of previous experience fixed in any tender or solicitation do not require proof of supply in other countries or proof of exports.
- b. Procuring entities shall endeavour to see that eligibility conditions, including on matters like turnover, production capability and financial strength do not result in unreasonable exclusion of 'Class-I local supplier'/ 'Class-II local supplier' who would otherwise be eligible, beyond what is essential for ensuring quality or creditworthiness of the supplier.
- c. Procuring entities shall, within 2 months of the issue of this Order review all existing eligibility norms and conditions with reference to sub-paragraphs 'a' and 'b' above.
- d. Reciprocity Clause**
 - i. When a Nodal Ministry/Department identifies that Indian suppliers of an item are not allowed to participate and/ or compete in procurement by any foreign government, due to restrictive tender conditions which have direct or indirect effect of barring Indian companies such as registration in the procuring country, execution of projects of specific value in the procuring country etc., it shall provide such details to all its procuring entities including CMDs/CEOs of PSEs/PSUs, State Governments and other procurement agencies under their administrative control and GeM for appropriate reciprocal action.
 - ii. Entities of countries which have been identified by the nodal Ministry/Department as not allowing Indian companies to participate in their Government procurement for any item related to that nodal Ministry shall not be allowed to participate in Government procurement in India for all items related to that nodal Ministry/ Department, except for the list of items published by the Ministry/ Department permitting their participation.
 - iii. The stipulation in (ii) above shall be part of all tenders invited by the Central Government procuring entities stated in (i) above. All purchases on GeM shall also necessarily have the above provisions for items identified by nodal Ministry/ Department.
 - iv. State Governments should be encouraged to incorporate similar provisions in their respective tenders.
 - v. The term 'entity' of a country shall have the same meaning as under the FDI Policy of DPIIT as amended from time to time.
- e. Specifying foreign certifications/ unreasonable technical specifications/



brands/ models in the bid document is restrictive and discriminatory practice against local suppliers. If foreign certification is required to be stipulated because of non-availability of Indian Standards and/or for any other reason, the same shall be done only after written approval of Secretary of the Department concerned or any other Authority having been designated such power by the Secretary of the Department concerned.

- f. "All administrative Ministries/Departments whose procurement exceeds Rs. 1000 Crore per annum shall notify/update their procurement projections every year, including those of the PSEs/PSUs, for the next 5 years on their respective website."

10A. Action for non-compliance of the Provisions of the Order: In case restrictive or discriminatory conditions against domestic suppliers are included in bid documents, an inquiry shall be conducted by the Administrative Department undertaking the procurement (including procurement by any entity under its administrative control) to fix responsibility for the same. Thereafter, appropriate action, administrative or otherwise, shall be taken against erring officials of procurement entities under relevant provisions. Intimation on all such actions shall be sent to the Standing Committee.

11. **Assessment of supply base by Nodal Ministries:** The Nodal Ministry shall keep in view the domestic manufacturing / supply base and assess the available capacity and the extent of local competition while identifying items and prescribing the higher minimum local content or the manner of its calculation, with a view to avoiding cost increase from the operation of this Order.
12. **Increase in minimum local content:** The Nodal Ministry may annually review the local content requirements with a view to increasing them, subject to availability of sufficient local competition with adequate quality.
13. **Manufacture under license/ technology collaboration agreements with phased indigenization:** While notifying the minimum local content, Nodal Ministries may make special provisions for exempting suppliers from meeting the stipulated local content if the product is being manufactured in India under a license from a foreign manufacturer who holds intellectual property rights and where there is a technology collaboration agreement / transfer of technology agreement for indigenous manufacture of a product developed abroad with clear phasing of increase in local content.

13A. In procurement of all goods, services or works in respect of which there is substantial quantity of public procurement and for which the nodal ministry has not notified that there is sufficient local capacity and local competition, the concerned nodal ministry shall notify an upper threshold value of procurement beyond which foreign companies shall enter into a joint venture with an Indian company to participate in the tender. Procuring entities, while procuring such items beyond the notified threshold value, shall prescribe in their respective tenders that foreign companies may enter into a joint venture with an Indian company to participate in the tender. The procuring Ministries/Departments shall also make special provisions for exempting such joint ventures from meeting the stipulated minimum local content requirement, which shall be increased in a phased manner.

14. **Powers to grant exemption and to reduce minimum local content:** The administrative Department undertaking the procurement (including

procurement by any entity under its administrative control), with the approval of their Minister-in-charge, may by written order, for reasons to be recorded in writing,

- a. reduce the minimum local content below the prescribed level; or
- b. reduce the margin of purchase preference below 20%; or
- c. exempt any particular item or supplying entities from the operation of this Order or any part of the Order.

The Administrative Department, while seeking exemption under this para, shall certify that such an item(s) has not been notified by Nodal Ministry/ Department concerned under para 3 (a) of the Order.

A copy of every such order shall be provided to the Standing Committee and concerned Nodal Ministry / Department. The Nodal Ministry / Department concerned will continue to have the power to vary its notification on Minimum Local Content.

15. **Directions to Government companies:** In respect of Government companies and other procuring entities not governed by the General Financial Rules, the administrative Ministry or Department shall issue policy directions requiring compliance with this Order.
16. **Standing Committee:** A standing committee is hereby constituted with the following membership:
Secretary, Department for Promotion of Industry and Internal Trade - Chairman
Secretary, Commerce—Member
Secretary, Ministry of Electronics and Information Technology—Member Joint Secretary (Public Procurement), Department of Expenditure—Member Joint Secretary (DPIIT)—Member-Convenor

The Secretary of the Department concerned with a particular item shall be a member in respect of issues relating to such item. The Chairman of the Committee may co-opt technical experts as relevant to any issue or class of issues under its consideration.

17. **Functions of the Standing Committee:** The Standing Committee shall meet as often as necessary, but not less than once in six months. The Committee
 - a. shall oversee the implementation of this order and issues arising therefrom, and make recommendations to Nodal Ministries and procuring entities.
 - b. shall annually assess and periodically monitor compliance with this Order
 - c. shall identify Nodal Ministries and the allocation of items among them for issue of notifications on minimum local content
 - d. may require furnishing of details or returns regarding compliance with this Order and related matters
 - e. may, during the annual review or otherwise, assess issues, if any, where it is felt that the manner of implementation of the order results in any restrictive practices, cartelization or increase in public expenditure and suggest remedial measures
 - f. may examine cases covered by paragraph 13 above relating to manufacture under license/ technology transfer agreements with a view to satisfying itself that adequate mechanisms exist for enforcement of such agreements and for attaining the underlying objective of progressive indigenization

g. may consider any other issue relating to this Order which may arise.

18. **Removal of difficulties:** Ministries /Departments and the Boards of Directors of Government companies may issue such clarifications and instructions as may be necessary for the removal of any difficulties arising in the implementation of this Order.
19. **Ministries having existing policies:** Where any Ministry or Department has its own policy for preference to local content approved by the Cabinet after 1st January 2015, such policies will prevail over the provisions of this Order. All other existing orders on preference to local content shall be reviewed by the Nodal Ministries and revised as needed to conform to this Order, within two months of the issue of this Order.
20. **Transitional provision:** This Order shall not apply to any tender or procurement for which notice inviting tender or other form of procurement solicitation has been issued before the issue of this Order.



(Himani Pande)

Additional Secretary to the Government of India

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F.No. 1(3)/2018-MA, Part-III
Government of India
Office of Development Commissioner
(Micro, Small & Medium Enterprises)
(Public Procurement Policy)

Dated: 25th March, 2022

OFFICE MEMORANDUM

Subject: Revised FAQs in respect of Public Procurement Policy for MSEs Order, 2012-reg.

This is in continuation of earlier FAQs circulated vide O.M. No. 1(3)/2018-MA Part III of this Ministry on 27th January, 2022. Based on the repeated queries being received by this office, the attachment has revisions pertaining to Question No. 8 and 29.

This issues with the approval of Competent Authority.

Encl.: As above



(Nitisha Mann)
Dy. Director
(Public Procurement Policy)

To

All Concerned

**FREQUENTLY ASKED QUESTIONS
ON
PUBLIC PROCUREMENT POLICY FOR MSEs, ORDER 2012**

Dated, 25th March, 2022

Q.No.1: What is the share of procurement from MSEs out of the total procurement made by Central Government Ministries/ Departments/ Public Sector Undertakings?

Ans. Under amended Public Procurement Policy for MSEs, Order 2012 a minimum 25 per cent share out of the total annual procurement by Central Government Ministries / Departments / Public Sector Undertakings are to be made from MSEs.

Q. No.2: Is there any reservation for MSEs owned by SC/ST/ Women entrepreneurs?

Ans. Yes, out of 25% target of annual procurement from MSEs (**Not in the specific tender**), a sub-target of 4% of annual procurement from MSEs is earmarked for procurement from MSEs owned by Scheduled Caste (SC) / Scheduled Tribe (ST) entrepreneurs and 3% of annual procurement from MSEs is earmarked for procurement from MSEs owned by women entrepreneur. However, in event of failure of such MSEs to participate in tender process or meet tender requirements and L1 price, 4% sub-target for procurement earmarked for MSEs owned by SC/ST entrepreneurs and 3% earmarked to women entrepreneur will also be met from other MSEs.

Q No.3: Who is eligible for availing the benefits under the Public Procurement Policy?

Ans. As mentioned in Section 7(4) of Ministry of MSME's Notification No. S.O2119(E) dated 26th June, 2020, an enterprise registered with any other organization under the Ministry of MSME shall register itself under Udyam Registration. With effect from 01.07.2020, MSEs registered under Udyam Registration are eligible to avail the benefits under the Policy. MSEs registered under Udyog Aadhaar Memorandum (UAM), validity of which is till 31.03.2022, are also eligible to avail the benefits under the Policy.

Q.No.4: What is the date of implementation of the policy?

Ans. The policy is applicable with effect from 1.4.2012 and became mandatory with effect from 1.4.2015 onwards.

Q.No.5: Is the Policy transparent, competitive and cost effective?

Ans. The Policy rests upon core principles of competitiveness, adhering to sound procurement practices and execution of orders for supply of goods and services in accordance with a system which is fair, equitable, transparent, competitive and cost effective.

Q.No.6: Is the policy implemented in parts or fully from its inception?

Ans. As per Gazette Notification(S.O. 5670(E) dated 8th November, 2018, it is mandatory for all Central Government Ministries / Departments/ CPSUs to procure at least 25% of their annual procurement from MSEs including 4% from MSEs owned by SC/ST entrepreneur and 3% from MSEs owned by women entrepreneur.

Q.No.7: Is there any monitoring system for assessing the Government procurement from MSEs?

Ans. To monitor the progress of procurement by Central Government Ministries/ Departments and CPSUs from MSEs, Ministry of MSME has launched the **MSME Sambandh Portal** on 8th December, 2017 for uploading procurement details by all CPSUs on a monthly and an annual basis which is regularly monitored by the Ministry.

Q.No.8: Is there a price matching facility for procurement from MSEs over large scale?

Ans.

(i) Price quotation in tenders: In tender, participating Micro and Small Enterprises, quoting price within price band of L1+15 percent shall also be allowed to supply a portion of requirement by bringing down their price to L1 price in a situation where L1 price is from someone other than a Micro and Small Enterprise and such MSE shall be allowed to supply up to 25 per cent of total tender value.

(ii) In case of more than one such Micro and Small Enterprise, the supply shall be shared proportionately (to tendered quantity).

Q.No.9: What steps are to be taken by the Central Government Ministries/ Departments/ CPSUs to develop MSE Vendors so as to achieve their targets for MSEs procurement?

Ans. The Central Government Ministries/ Departments/ Public Sector Undertakings shall take necessary steps to develop appropriate vendors by organizing Vendor Development Programmes (VDPs) or Buyer-Seller Meets focused on developing MSEs for procurement through the GeM Portal.

In order to develop vendors belonging to MSEs for Public Procurement Policy, the Ministry of MSME is regularly organizing State Level VDPs and National Level VDPs under the Procurement and Marketing Support Scheme.

Q.No.10: What steps are to be taken by the Central Government Ministries/ Departments/ CPSUs to develop vendors from MSEs owned by SC/ST/Women entrepreneurs?

Ans. For enhancing the participation of MSEs owned by SCs / STs/ Women in Government procurement, Central Government Ministries / Departments / CPSUs have to take the following steps:

i. Special Vendor Development Programmes/ Buyer-Seller Meets would be conducted by Departments/ CPSUs for SC/STs and Women.

ii. Outreach programmes will be conducted by National Small Industries Corporation (NSIC) to cover more and more MSEs from SC/STs under its schemes of consortia formation; and

iii. NSIC would open a special window for SCs/ STs under its Single Point Registration Scheme (SPRS).

iv. A National SC/ST hub scheme was launched in October, 2016, for providing handholding support to SC/ST entrepreneur which is being coordinated / implemented by the NSIC under this Ministry.

Q.No.11: What are the other benefits /facilities available to the MSEs under the policy?

Ans. To reduce transaction cost of doing business, MSEs will be facilitated by providing them tender sets free of cost, exempting MSEs from payment of earnest money deposit, adopting e-procurement to bring in transparency in tendering process. However, exemption from paying of Performance Bank Guarantee is not covered under the policy. MSEs may also be given relaxation in prior turnover and prior experience criteria during the tender process.

Q.No.12: Is there any review mechanism for monitoring and reviewing of the policy?

Ans. A Review Committee has been constituted under the Chairmanship of Secretary, Ministry of MSME for monitoring and reviewing of Public Procurement Policy for MSEs. M/O MSME will review and/or modify the composition of the Committee as and when required. This Committee will, inter alia, review the list of 358 items reserved for exclusive purchase from MSEs on a continuous basis, consider requests from Central Government Departments, CPSUs for exemption from 25% target on a case to case basis and monitor achievements under the Policy.

Q. No.13: What is the grievance redressal mechanism in case of non-compliance of the Policy by any Government Department?

Ans. To redress the grievances of MSEs related to non-compliance of the Policy a Grievance Cell named "CHAMPION Portal" has been set up in the Ministry of MSME.

Q. No.14: Whether there is any kind of purchase that has been kept out of the purview of procurement under the Policy? If yes, how is the monitoring of the set goal done?

Ans. Given their unique nature, Defense armament imports will not be included in computing 25% goal for M/o Defense. In addition, Defense Equipments like weapon systems, missiles, etc. will remain out of purview of such policy of reservation. Monitoring of goals set under the policy will be done, in so far as they relate to the Defense sector, by Ministry of Defense itself in accordance with suitable procedures to be established by them.

Q.No.15: From where can the details of the Policy be obtained?

Ans. Policy details are available on the website of this office at www.dcmsme.gov.in.

Q.No.16: Is this policy mandatory under any Act?

Ans. Yes, the Policy is mandatory and notified under the MSMED Act, 2006.

Q.No.17: How many items are reserved for exclusive purchase from MSEs?

Ans. There are 358 items reserved for exclusive purchase from MSE Sector.

Q.No.18: Whether this policy is applicable for works/ trading activities also?

Ans. Policy is meant for procurement of only goods produced and services rendered by MSEs. However, traders/ distributors/ sole agent/ Works Contract are excluded from the purview of Public Procurement Policy for MSEs Order, 2012.

Q.No.19: Whether the Policy is applicable for MSEs registered with NSIC?

Ans. The Policy is applicable for all MSEs registered under Udyam Registration and Udyog Aadhar Memorandum (valid till 31.03.2022).

Q.No.20: Whether the Policy provides benefits for exemption from Security Deposit/ Performance Bank Guarantee to MSEs?

Ans. No, there is no exemption on Security Deposit/ Performance Bank Guarantee under the Policy.

Q.No.21: Can MSEs quoting a price within the band L1+15% be given complete supply to tender in case tender item cannot be split /divided?

Ans. In case of tender item cannot be split or divided, etc. the MSE quoting a price within the band L1+15% may be awarded for full/ complete supply of total tendered value to MSE, considering the spirit of the Policy for enhancing Govt. Procurement from MSEs.

Q.No.22: Which are the MSEs owned by SC/ST enterprises?

Ans. The definition of MSEs owned by SC/ ST is as given under:

(a) In case of proprietary MSE, proprietor(s) shall be SC /ST.

(b) In case of partnership MSE, the SC / ST partners shall be holding at least 51% shares in the unit.

(c) In case of Private Limited Companies, at least 51% share shall be held by SC/ST promoters.

Q.No.23: Can the Central Government Ministries/ Departments/ CPSUs who have a meagre value of total procurement be exempted from the Policy?

Ans. The Policy is applicable to all the Central Government Ministries / Departments / CPSUs, irrespective of the volume and nature of procurement.

Q.No.24: Does the Policy have a provision for exemption from 25% procurement target?

Ans. The Review Committee may consider any request of Ministries / Departments / CPSUs for exemption from the present 25% procurement targets on a case to case basis.

Q.No.25: Does laminated paper Gr. I, II and III fall under the paper conversion product (Sl.No.202) and is a reserved item for exclusive procurement from MSEs?

Ans. As per Policy Circular No. 21(6)/2016-MA dt. 26th May, 2016, it is clarified that only paper bags, envelopes, ice-cream cups, paper cups and saucers and paper plates are covered under the head "Paper Conversion products" at Sl. No. 202 of the list of reserved items under the Public Procurement Policy for MSEs Order-2012. Accordingly, the description of Sl. No. 202 as indicated in the English version of the Reserved List will be applicable.

Q.No.26: Are MSEs having Udyam Registration Certificate eligible for availing benefits under the PP Policy?

Ans. Yes, Udyog Aadhar has been replaced with Udyam Registration Certificate w.e.f 01.07.2020. Udyam Registered MSMEs can avail the benefits under the Public Procurement Policy. The UAM will also remain valid till 31.03.2022.

Q.No.27: Does the Ministry give any certificate for MSEs having Udyam Registration?

Ans. The Erstwhile Udyog Aadhaar Memorandum (UAM valid till 31.03.2022) has been replaced by Udyam Registration Certificate (w.e.f. 01.07.2020). As part of ease of doing business, Udyam Registration Certificate (URC) has been introduced through a dedicated portal on self certification basis. An acknowledgement of URC is generated online instantly which is accepted by all Central Government Ministries / Departments / CPSUs and State Govts.

Q.No.28: Is the Public Procurement Policy applicable to State Governments/ State Departments/ State PSUs?

Ans. The Public Procurement Policy for MSEs Order, 2012 is applicable to Central Government Ministries/ Departments and CPSUs. This Policy is not applicable to State Government Ministries/ Departments/ PSUs.

Q.No.29: Are the benefits of Public Procurement Policy applicable to MSEs who are not registered for the tendered items?

Ans. The benefits of PPP should be given to all eligible MSEs irrespective of relevance of product Category and as per Sl. No. 3 of FAQ.

Q.No.30: Can the relaxation of norms for start ups and MSEs in Public Procurement Policy in prior experience and prior turnover criteria be given to all MSEs?

Ans. It is clarified that all Central Government Ministries/ Departments/ Central Public Sector Undertakings may relax conditions of prior turnover and prior experience with respect to Micro and Small Enterprises in all public procurement, subject to meeting of quality and technical specifications (*In exercise of Para 16 of Public Procurement Policy for Micro and Small Enterprises, Order 2012*).

However, there may be circumstances (like procurement of items related to public safety, health, critical security operations and equipment, etc.) where procuring entity may prefer the vendor to have prior experience rather than giving orders to new entities (**O.M.No.F.20/2/2014-PPD(Pt.)dated 20.09.2016 issued by DoE**).

Q.No.31: Has the Ministry clarified the sub target of procurement from SC/STs/Women entrepreneurs under amended Public Procurement Policy for MSEs, Order 2012?

Ans. It is clarified that sub-targets of 4% (within 25% of annual procurement target) and 3% (within 25% of annual procurement target) have been earmarked for procurement from MSEs owned by SC&ST and Women entrepreneurs, respectively under the amended Public Procurement Policy for MSEs Order, 2012.

Q.No.32: Are Works Contracts a part of Services? What is the difference between Works and Services?

Ans. Works Contracts are not covered under the purview of Public Procurement Policy for MSEs. The definition is available in **GFR Rules 130, 143, 177 & 197**.

Q.No.33: Is there any provision to take action against the defaulting MSEs under the Policy?

Ans. There is no such provision under the Policy. The procuring entity may take appropriate action as per terms and conditions (T&C) of the tender documents and/or as per GFR Rules.

Q.No.34: Are financial institutions/ autonomous bodies included in the PP Policy?

Ans. The Policy is applicable for all Central Government Ministries/ Departments and CPSUs.

Q.No.35: Can the Ministry take action against the procuring agency for Delay in return of the Security Deposit of the MSEs?

Ans. There is no such provision under the Policy. The matter can be referred to the department concerned for taking appropriate action in the interest of the MSE complainant.

Q.No.36: Is it mandatory for MSEs to disclose their status as SC/ST/Women in Udyam Registration Certificate (URC)?

Ans. Yes, it is mandatory to disclose the status as SC/ST/Women for in Udyam Registration.

Q.No.37: Have the State Governments been asked to frame a Public Procurement Policy for MSEs?

Ans. Yes, all the State Governments have been requested to frame the Public Procurement Policy on similar lines.

Q.No.38: Have all the CPSUs been uploading their monthly and annual procurement details, on MSME SAMBANDH Portal?

Ans. Most of the CPSUs are uploading their procurement details on the portal.

Q.No.39: Is there any provision to take action against the procuring agency for non-compliance of PPP-MSE under the Policy?

Ans. No, there is no such provision in the Policy.

Q.No.40: What is the objective of the Policy?

Ans. The objective of the Policy is to promote Micro and Small Enterprises (MSEs) by improving their market access and competitiveness through:-

- Increased participation in Government purchase.
- Encouraging relationship (including product development) between MSEs and Public Sector Undertaking (PSUs).
- Increased share of supplies of MSEs to Central Government Ministries/ Departments and CPSUs.
- Increased share of supplies of MSEs to Central Government Ministries/ Departments and CPSUs.

Q.No.41: What are the items or goods which can be procured from MSEs to achieve the target of 25% from MSEs ?

Ans. To achieve the target Government / CPSUs they can procure

- i. The items from the list of 358 items reserved for procurement from MSEs.
- ii. Items which are being manufactured by MSEs, besides reserved items.

Q.No.42: How is the status of Enterprises as MSEs be verified?

Ans. The status of enterprises as MSEs can be verified through their Udyam Registration Certificate or UAM certificate, which is valid till 31st March, 2022. As per notification No. S.O. 2119(E) dated 26.06.2020, in case of any discrepancy or complaint, the General Manager of the District Industries Centre of the District concerned shall undertake an inquiry for verification of the details of Udyam Registration/UAM submitted by the enterprise and thereafter forward the matter with necessary remarks to the Director or Commissioner or Industry Secretary concerned of the State Government who after issuing a notice to the enterprise and after giving an opportunity to present its case and based on the findings, may amend the details or recommend to the Ministry of MSME, Government of India, for cancellation of the Udyam Registration Certificate/UAM.

Q.No.43: Can sub-contracting be considered under the procurement target from MSE?

Ans. Yes, if subcontract is given to MSEs, it will be considered as procurement from MSEs.

Q.No.44: If MSEs participate in tender but the procuring agency denies providing benefits under the Policy, how can the problem be addressed?

Ans. The problem can be resolved through the Grievance Cell constituted to tackle such situations and the matter may be referred to the procuring agency concerned to redress the problem.

Q.No.45 What are the steps taken by the Ministry of MSME to promote marketing through GeM portal for supply of Goods or rendering services from MSEs to Government Departments and CPSUs?

Ans:

- CEO, GeM has been requested to make a provision in the GeM portal for procurement of goods and services from MSEs through linking URC.
- Udyam Registration Portal has a facility through which an entrepreneur can opt for linking itself with Government e-market (GeM) place by selecting an option on Udyam Portal. The enterprise will be linked to GeM portal and flow of information will start between these two portals. With this facility, MSEs can link themselves with the Government's procurement system and can participate in Government's mandatory procurement programme from MSEs
- All CPSUs have been requested to procure goods and services from MSEs, through GeM portal only.
- The Ministry of MSME has signed an MOU with CEO, GeM, for mobilizing MSEs for onboarding themselves on the GeM portal for supply of goods & services from MSEs.
- All UAM holders had been requested to register themselves on GeM portal for supply of goods and services through GeM portal.

Q.No.46: What is the difference between PPP-MII Order, 2017 and PPP-MSE Order, 2012?

Ans. The Public Procurement Policy for MSEs Order, 2012 is a delegated legislation deriving authority from the Act of Parliament. PPP-MII, Order, 2017 is an executive Order.

Q.No.47: Can Joint Ventures take the benefits of the Public Procurement Policy for MSEs Order, 2012?

Ans. No, Under Udyam Registration (and earlier under UAM), there is no provision of registration of Joint Ventures. As mentioned in S. No. 3 above, benefits of the Public Procurement Policy for MSEs Order, 2012 can be availed by those MSEs which are registered on the Udyam Registration portal.

Q.No.48: Can Consortiums with Foreign Company takes the benefits of the Public Procurement Policy for MSEs Order, 2012?

Ans. No, Under Udyam Registration (and earlier under UAM), there is no provision of registration of Consortium. As mentioned in S. No. 3 above, benefits of the Public Procurement Policy for MSEs Order, 2012 can be availed by those MSEs which are registered on the Udyam Registration portal.

Q.No.49: Can trader benefits from Public Procurement Policy, for MSEs Order, 2012?

Ans. No, as mentioned in O.M. No. 5/2(2)/2021-E/P & G/Policy dated 02.07.2021, Retail and Wholesale traders can register on Udyam Registration Portal for the purpose of Priority Sector Lending (PSL) only.

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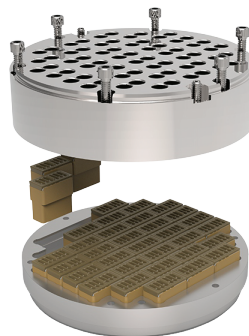
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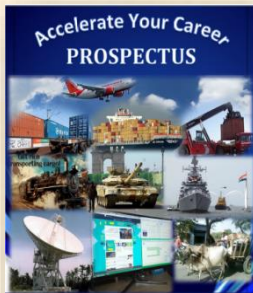
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