Business Software Alliance

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Study to Assess the Impact of the Public Procurement Order on Software and Cloud Industry

SUMMARY

Demand for software and cloud services in India is growing fast. The public cloud services market is expected to grow by 23.4 percent each year between 2022 and 2027, reaching $17.8 billion by 2027.

The cloud and software sector not only drives innovation and high-quality job creation but also underpins the country's digital infrastructure—making it a key pillar of India's socio-economic development. It fuels innovation, creates skilled jobs, and supports the country's digital backbone. To maintain this momentum, it is important that government policies help the industry grow efficiently and sustainably.

Procurement Policy in Focus: Make in India-Public Procurement Order (MII-PPO)

In 2014 the Government of India introduced the Make in India-Public Procurement Order (MII-PPO) to promote local value addition and manufacturing. This policy requires companies bidding for central government contracts to meet a certain percentage of local content—known as the local content requirement (LCR).

While the LCR can be implemented in the context of traditional manufacturing—where local value is measurable through materials, labour, and components—it does not align with the global and intangible nature of software and cloud services. This makes it challenging to compute domestic value addition using the formula currently prescribed by the Government of India. A more tailored approach to assess and incentivise domestic contributions is needed in this sector.

As explained in the Study, this is a crucial gap. It is time to evaluate the MII-PPO policy to better advance Digital India goals.

What the Study Found

This study includes findings from interviews and research involving over 30 stakeholders—government buyers, software and cloud providers, and industry experts. It highlights several key, unintended, and problematic results of the current system, including:

- Lower bidder turnout for high-quality or specialized software
- Procedural hurdles leading to higher costs for the Government
- Service quality challenges, including degraded data security, affecting overall efficiency and reliability

Key Takeaways and the Way Forward

The key takeaways from the study to unlock the full potential of this sector within the MII-PPO framework are:

- **Need for an in-depth assessment of local capabilities in the software and cloud sectors.** A thorough analysis of domestic entities' success at qualifying for tenders may warrant removing the LCR mandate or the domestic value additions targets for software and cloud services.
- **Develop an LCR formula that adopts a point-based framework.** If retained, the LCR formula should shift focus from a cost-of-production approach to a more graded, points-based approach recognizing the holistic contribution the software and cloud services industries make to the Indian economy.
- **Introduce preferences for MeitY-empanelled entities.** Empanelled cloud service providers are already required to make significant investments in local infrastructure. They should receive preferences under a revised MII-PPO framework, consistent with the 2024 changes for entities under the Production-Linked Incentive scheme.

As India advances its digital transformation, the government should deliberate on changes to the MII-PPO policy to strengthen Indian capabilities, holistically achieving intended policy outcomes of the policy in the software and cloud sector—ultimately boosting domestic capabilities while enabling smart and inclusive growth.

About BSA

The Business Software Alliance (www.bsa.org) is the global trade association of the enterprise software industry, representing companies that are leaders in artificial intelligence, cybersecurity, cloud computing, quantum, and other breakthrough technologies. We work in over 20 markets in the US, Europe, and Asia, advocating for policies that build trust in technology so that every industry sector and the public can benefit from innovation. Follow BSA at @BSAnews.

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