

From the Editor: In this issue of showCASE, our expert discusses how a strategic approach to public procurement could help generate opportunities for more businesses to grow while at the same time advancing a broader socio-economic agenda in the European Union.

Strategic Public Procurement for the Long-Term Growth of the European Union

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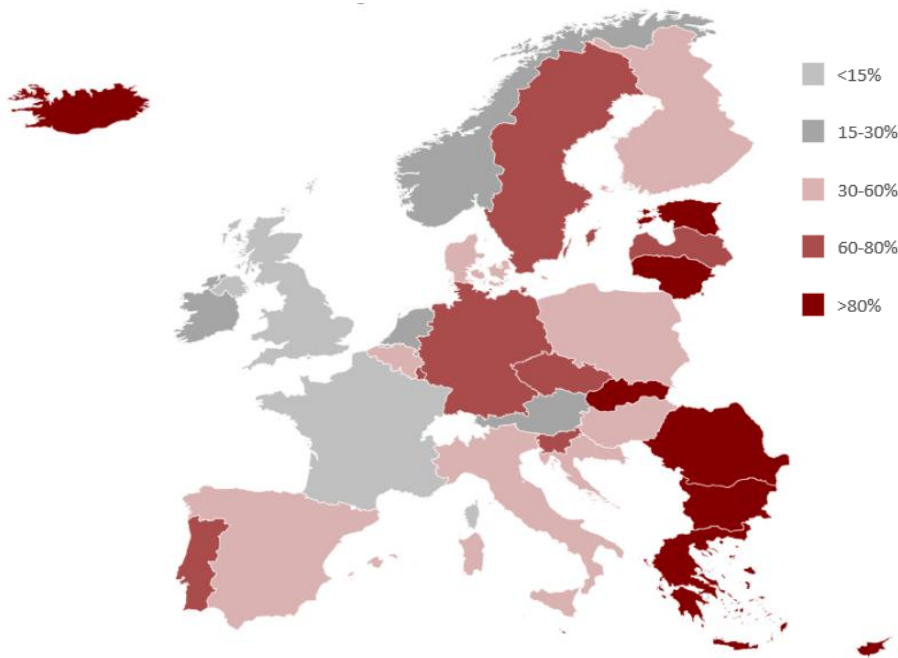
Although the European Union (EU) public procurement framework was originally designed to establish a level playing field for all EU companies as well as to ensure competitiveness and efficiency of the public sector, the ongoing shift of the EU strategic priorities towards circular economy also calls for the inclusion of an extra-economic rationale in the award and execution of public contracts. In this regard, the *Strategic Public Procurement*, an [all-embracing concept designed to reconcile economic, social, environmental, and innovation factors within the procurement system](#), provides an alternative framework that is inspired by the broader [Europe 2020](#) strategy. The growing political interest in the concept from international organisations (e.g. OECD) and individual Member States is vindicated by the concept's intrinsic potential to create new market opportunities ([particularly for small and medium-sized enterprises](#) – SMEs), and stimulate growth and innovation while fostering broader socio-economic objectives of the EU.

Strategic Public Procurement as a guiding principle of the European public policy

Despite the ever expanding scope of the procurement framework, the inclusion of the [most economically advantageous tender](#) (MEAT) principle in 2014, and continuous efforts to ensure higher flexibility and accessibility of the system, the application of one of the core principles of the EU public procurement – [maximisation of value for public money](#) – remains confined to orthodox economic efficiency considerations. Indeed, while the MEAT principle was designed specifically to account for extra-monetary merits of tenders, an important number of contracting authorities still award contracts based on the lowest price criteria exclusively. As evidenced by the [2018 Single Market Scoreboard](#), the rate remains high throughout the EU, reaching above 60% in 15 Member States and above 80% in 8 Member States (see *Figure 1*).

As targeted initiatives such as the mandatory inclusion of non-price criteria have failed to address the [structural weaknesses of the procurement system](#) (e.g. bid rigging and dumping practices), both scholars and policy makers discuss the importance of directing the long-term policy orientations to the structural transformation of the procurement culture and of the mindset of both contracting authorities and bidders. In this regard, as highlighted by the experience of some Member States (e.g. Austria, Denmark), special attention should be given to the build-up of [strategic procurement practices](#) that accommodate quality and the long-cycle approach as prime award criteria.

Figure 1. Share of contracts awarded only on the basis of the lowest price



Source: own calculations based on the data retrieved from the *Single Market Scoreboard (2018). Performance per Policy Area. Public Procurement*. Available at: <https://bit.ly/2MvitUI>.

In fact, the need for extra-economic considerations has already been envisioned in the [2004/18/EC Directive](#), which underlined the importance of social and environmental considerations within the tendering procedures. Furthermore, in line with the broader [Europe 2020](#) strategy and the resulting conceptualisation of the [horizontal industrial policy](#), the European Commission has promoted [modernisation of the procurement market](#) to support the shift towards resource-efficient and low-carbon economy. Yet, it was only following the signature of the [2015 Paris Agreement](#) and the implementation of the [2014 European Public Procurement Reform](#) that the sustainability paradigm and the so-called ‘strategic’ approach came to be recognised as among the guiding principles of the EU public policy in public procurement.

Specifically, alongside digitalisation and improvements in the procurement environment of SMEs, the main novelties introduced by the Reform fostered the following aspects of public contracts: 1) the [environmental](#), including ‘life-cycle costing’ (LCC) tools and eco-labels; 2) the [social](#), such as social inclusion and responsibility; and 3) the [innovation-oriented](#), including ‘innovation partnerships’. In this light, strategic procurement appears as a broad policy orientation that strives to reconcile economic and environmental components while fostering innovation and higher social standards. Furthermore, to promote the development and implementation of new elements, the 2014 Directive was supported by several EU-level initiatives and instruments.¹

At the national level, significant divergences persist. Thus, while a number of Member States (e.g. Austria, Denmark, France, Spain) stand out as long-established pioneers of green and innovation procurement systems, the majority of countries still lack a comprehensive regulatory framework. Moreover, as highlighted by the 2019 DG CONNECT study

¹ See for example:

European Commission (2016) *Buying Green! - A Handbook on green public procurement*. 3rd edition. Available at:

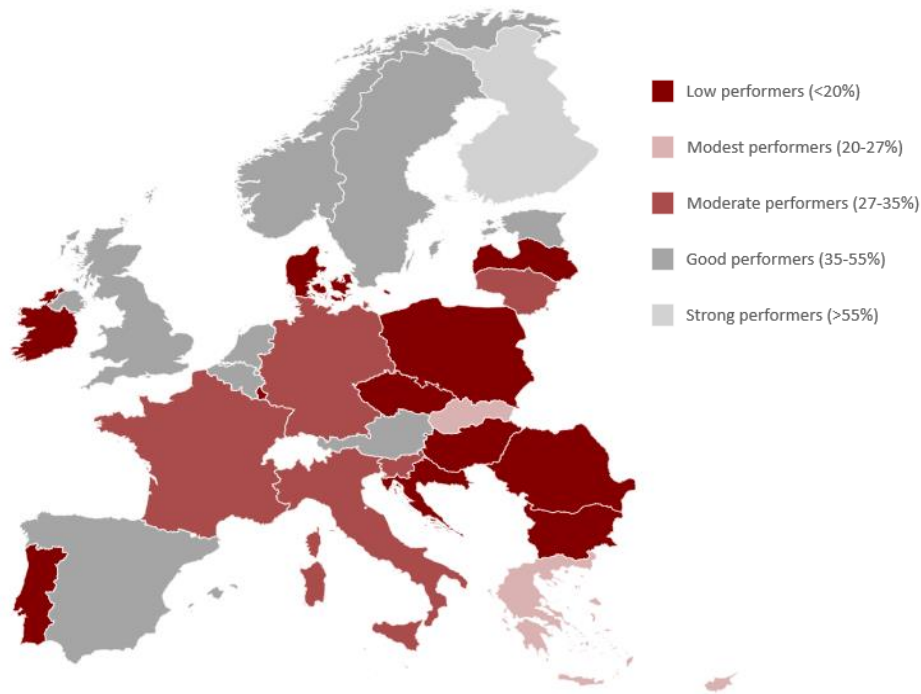
<https://ec.europa.eu/environment/gpp/pdf/Buying-Green-Handbook-3rd-Edition.pdf>; and

European Commission (2018) *Guidance on Innovation Procurement*. Available at:

<https://ec.europa.eu/transparency/regdoc/rep/3/2018/EN/C-2018-3051-F1-EN-MAIN-PART-1.PDF>

cited above, public procurement's innovation-supporting capacity in the majority of Member States remains incipient, with only about 27.4% of the available potential on average put to use within the EU (see *Figure 2*).

Figure 2. Degree of advancement of the innovation procurement policy framework



Source: own calculations based on the data retrieved from DG CONNECT (2019). Benchmarking of national innovation procurement policy frameworks across Europe. Available at: <https://bit.ly/2meS42V>.

The role of SMEs and start-ups within the public procurement system

Accounting for [99% of all EU businesses](#) and about [86% of the net job creation within the EU on average](#), the SME sector is of great importance for the long-term growth, competitiveness, and sustainable development of the EU. SMEs' intrinsic potential for innovation, socio-economic significance, and key role in the post-2008 crisis recovery (as evinced by their [47% share in the growth of valued added](#) between 2008 and 2017) have secured their position as a [backbone of the EU growth](#), making them a strong focus of the EU public policy for years. Yet, despite a number of initiatives² fostered over the last decades, [access to finance](#) remains one of the main bottlenecks to growth and internationalisation of the European SMEs. Public procurement, in this context, appears as a crucial mechanism that could allow to expand market presence and support sustainable business models that contribute to a higher financial and operational stability of SMEs. The *Strategic Public Procurement*, in turn, is a significant lever to promote green and social economy widely represented in the SME sector. Additionally, a more dynamic organisational culture, less hierarchical structure, and higher flexibility of the SMEs make them uniquely suited to tackle new business opportunities and capture new markets created by the *Strategic Public Procurement* through [eco-entrepreneurship and eco-innovation](#).

Start-ups, as a particular category of SMEs that are designed to grow fast, require special considerations in the design of a public procurement framework in order to account for their recency on the market and their intrinsic focus on innovations. As a result of their limited market experience as well as restricted capital and human resources, start-ups

² As European Charter for Small Enterprises (2000), Small Business Act (2008), COSME - Competitiveness of Enterprises and Small and Medium-sized Enterprises (2014), and others.

face unique challenges to involvement with public authorities. Indeed, as highlighted by a [recent survey](#), only 20% of Polish start-ups were involved in public procurement, while only 4% would describe themselves as regular participants. Among the causes of such underrepresentation are a lack of knowledge on the tendering procedures, significant time constraints, as well as the self-perceived unsuitability of own products for the public sector. Yet, as suggested by the experience of some Member States, there exists a large room for mutually beneficial and long-lasting synergies between start-ups and the public sector. An exemplary case of such cooperation is [govtech](#) (a portmanteau of 'government' and 'technology') – a mechanism designed to engage start-ups in the development of solutions to specific challenges faced by the public authorities (e.g. deployment of AI in border protection). In the long term, the insights from such synergies can redefine public procurement practices and fuel structural modernisation of the public sector itself. Furthermore, some experts point out to the benefits of the 'functional procurement' as a way to unleash the innovation potential and clear the bottlenecks to SME involvement. The concept, as referred to in the [recital 74 of the Directive 2014/24/EU](#), focuses on the functional description of the product instead of the product-based approach, which may block innovation by pre-specifying the product's features. The functional approach is particularly relevant with regard to the transition towards the *Strategic Public Procurement* as it allows innovative and sustainable solutions to enter the market.

Wrapping up

The significant economic weight of the public sector turns public procurement into a strategic tool in the transition towards sustainable consumption and innovation-driven growth. In this light, further policy actions are needed to adapt and open up the EU public procurement system to innovations, as well as to incentivise for the development of national strategic procurement practices.

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Trade, Innovation, Productivity

On October 14, the 3rd annual report on the implementation of the EU free trade agreements (FTAs) was released. Despite growing global economic frictions, EU economies continue to benefit from the trade network brought about by FTAs. Following the entry into force of the new agreements with Japan, Singapore, and Vietnam in the first half of 2019, 41% of the external EU trade in goods was covered by the preferential agreements. Similarly to the previous year, in 2018, Switzerland, Turkey, and Norway were the largest preferential EU trade partners, and they absorbed respectively 24%, 12% and 8% of the preferential exports. Yet, according to the report, in 2018, the growth of the trade between EU and its FTA partners slowed down to 3.2% (compared to 7% in 2017). Transport equipment and machinery, although stagnating, remain the sector with the largest EU exports. At the same time, mineral products, chemicals, and non-agricultural exports experienced the highest annual growths of 5.9%, 2.5%, and 1.9% respectively.

Labour Markets and Environment

On October 21-22, the Regional Conference on Population Dynamics, Human Capital and Sustainable Development in South-East Europe took place in Sarajevo. Organised by the United Nations Population Fund (UNFPA), the conference gathered over 100 participants, including high-level representatives of governments and international organisations, as well as academia and civil society. According to recent UNFPA estimates, 9 out of 10 fastest shrinking nations are located in Eastern Europe, and the discussion accordingly focused on the ongoing demographic change in the region, especially high outmigration and low birth rates. In this regard, strengthening human capital through higher investment in health, education, and innovation was identified as one of the priority areas for action. Furthermore, UNFPA Regional Director for Eastern Europe and Central Asia Alanna Armitage underlined the need to include development of human capital within the broader reforms aimed at reduction of inequalities and support of growth, good governance, and the rule of law in the region.

Macroeconomics and Public Finance

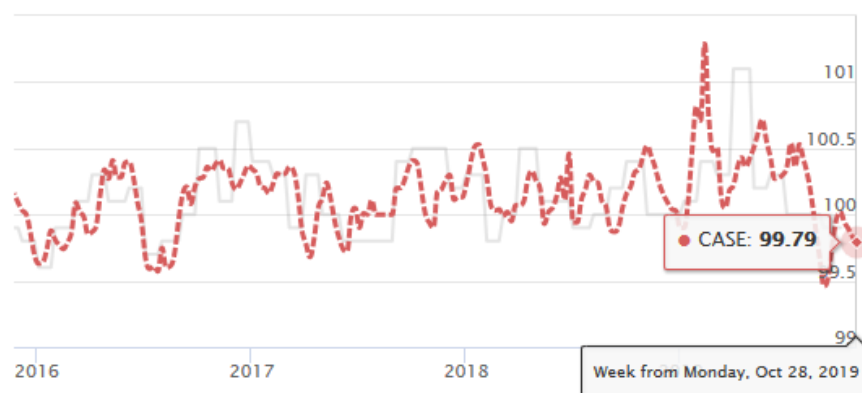
According to the study *Estimating International Tax Evasion by Individuals* co-authored by CASE for the European Commission, in 2016, individuals held over EUR 7.5 trillion in offshore wealth globally, which translates to 10.4% of the world's GDP. The value of hidden wealth has been increasing on average over the studied period (2001-2016), and it was non-OECD countries, led by China (a 21-fold increase between 2001 and 2016), that contributed to this growth the most in the recent years. Offshore wealth held by EU citizens amounted to EUR 1.5 trillion in 2016, over 65% of which can be attributed to the four largest economies: Germany, France, the UK, and Italy. Polish citizens held EUR 32 billion in tax havens in 2016, considerably less than any of these four countries but with a major, three-fold increase since 2004. The study also attempted to estimate the revenue lost to international tax evasion schemes: the average value for EU countries amounted to EUR 46 billion between 2001 and 2016 (in Poland, EUR 0.5 billion on average annually). You can read the entire report [here](#).

The Weekly Online CASE CPI

The online CASE CPI is an innovative measurement of price dynamics in the Polish economy, which is entirely based on online data. The index is constructed by averaging prices of commodities from the last four weeks and comparing them to average prices of the same commodities from four weeks prior. The index is updated weekly. For more information on our weekly online CASE CPI, please visit: <http://case-research.eu/en/online-case-cpi>.

The late October read-out of the Online CASE CPI shows that the trend of price decreases, which started in the second part of August, continues. The decreases, however, are limited to only three out of the ten main categories of the inflation basket, namely *Clothing* (a drop by 2.4%), *Transportation* (by 0.6%) and *Housing* (by 0.5%). The other categories show that prices temporarily stabilised, and any hopes for the food price jumps observed in the first part of the year being offset with price decreases in fall did not materialise.

Our Weekly Online CASE CPI



Online CASE CPI (- - - -) vs GUS CPI (—)

Monthly CASE Forecasts for the Polish Economy

Every month, CASE experts estimate a range of variables for the Polish economy, including future growth, private consumption, investments, industrial production, growth of nominal wages, and the CPI.

CASE economic forecasts for the Polish economy
(average % change on previous calendar year, unless otherwise indicated)

	GDP	Private consumption	Gross fixed investment	Industrial production	Consumer prices	Nominal monthly wages
2019	4.3	4.4	7.5	4.9	2.3	7.2
2020	3.2	3.5	2.5	2.5	2.9	4.0

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