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# Sustainable Public Procurement and Social Inclusion

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WP2 Procurement to achieve the SDGs



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# Policy Brief: Sustainable Public Procurement and Social Inclusion

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*This document is directed at policy-makers, practitioners who work at procurement agencies, and actors involved in the design and implementation of new practices and regulations for social sustainability in public procurement*

## Key Insights

- Public procurement policies can be effectively leveraged with the objective of social inclusion
- Recent evidence shows that these policies can have limited direct extra-costs associated with it
- Fewer bids, more winner concentration and sub-optimal incentives could be the main risks

## Policy Recommendations

- **Be precise** with what you're looking for and how you will value it in the selection process
- **Consider bidder training programs** as alternative or complementary tools
- **Limit the number of instances** a firm can be benefited by the policy, if the intention is to integrate firms more broadly into the economy

## Introduction

Modern developed economies increasingly implement public procurement policies with the intention of driving positive social change. **Are these policies effective in achieving this? What are the downsides? How can we overcome them?**

This brief provides an assessment of these questions, showcases the main takeaways from both the economic literature and the author's own research, and provides policy recommendations.

## Why do we care?

Most view promoting economic inclusion as not only a moral imperative but also a strategic necessity. Public procurement is often viewed as a potent tool that could be harnessed to this aim. This has propelled the inclusion of social considerations in public contracts. However, the extent to which this practice is sound policy-making is a subject of debate. Relying on well-founded economic evidence is essential for smart procurement policy design.

## Effective at Driving Positive Change

Recent evidence shows that bidding discounts in public contracts can be an effective tool for the inclusion of disadvantaged firms.<sup>1</sup> In line, our preliminary results suggest that the use of social award criteria does not deter firm development compared to firms that won a standard contract.<sup>2</sup> However, there are also examples of non-effective implementations of policies for social inclusion in public procurement.<sup>3</sup> **Public procurement can be effective at driving the intended social goal, but it's case dependent.** Evidence tells us that a specific definition of exactly how much the contracting authority will value the sustainability dimension, and a concrete definition of it, are key to induce the intended effects.<sup>4</sup>

## Undesired Distortions

There is evidence that the use of award criteria targeting social inclusion can have **a limited effect on prices.**<sup>1</sup> However, the use of this policy has been associated with **more winner concentration**, even within the disadvantaged

group intended to be benefited;<sup>5</sup> and our research indicates it's also associated with **fewer bids** overall.<sup>6</sup> Moreover, firms could structure themselves around public contract-specific demands, which could **negatively affect their competitiveness in other markets.** This could become an issue if the intention is to integrate firms more broadly into the economy. However, for programs aimed at people with disabilities or other serious disadvantages, where the main objective is not broad economic integration, this is not as relevant.

## Mitigating Distortions

Bidder training programs can make firms more likely to bid and to do so more aggressively.<sup>7</sup> This could in turn reduce contract prices, potentially covering program costs. Hence, targeting bidder training programs at disadvantaged firms could be a way to increase their participation, while not undermining costs. Concerning the sub-optimal incentives associated with sustainable criteria, limiting the number of instances a firm can benefit from a given policy could encourage firms to not over-rely on sustainable contracts. This latter point could also help to reduce any concentration issues directly, by not allowing firms to benefit indefinitely from the policy.

## Conclusion

**Under the right conditions, public procurement has been shown to be an effective tool for social inclusion. However, it has also been associated with downsides: fewer bids, more concentration among winners, and the potential for sub-optimal incentives for firms. In light of these issues, bidder training programs arise as a potential alternative or complementary tool, capable of increasing the chances of targeted firms to participate and win contracts, while also limiting higher prices, or even reducing them. Furthermore, when aiming at a broader introduction of the targeted firms in the economy, limiting firms from over-relying on special treatment is advised.**

## References

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