



Ministry of Foreign Affairs of the
Netherlands



INCLUSIVE **PUBLIC PROCUREMENT** PLAYBOOK

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UNDP is the leading United Nations organization fighting to end the injustice of poverty, inequality, and climate change. Working with our broad network of experts and partners in 170 countries, we help nations to build integrated, lasting solutions for people and planet. Learn more at undp.org or follow at [@UNDP](https://twitter.com/UNDP).

About Business Call to Action:

Launched at the United Nations in 2008, Business Call to Action (BCtA) is UNDP's global inclusive business platform advancing core business solutions for development. BCtA recognizes and advances inclusive businesses with a clear commitment to benefiting people in low and middle-income markets while advancing the Sustainable Development Goals. BCtA is supported by the Swedish International Development Cooperation Agency, the Dutch Ministry of Foreign Affairs, the Swiss Agency for Development and Cooperation and the Arab Gulf Programme for Development.

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INTRODUCTION

Public procurement is an important fundamental component of sustainable development. It is increasingly recognized as a potential strategic tool for:

Achieving policy objectives, such as the protection of the environment (green public procurement).

Tackling global challenges, such as climate change (low carbon public procurement).

Achieving social outcomes like job opportunities, decent work (socially responsible public procurement).

Promoting socially responsible suppliers into the global value chain (inclusive public procurement).

All of these are now included under the umbrella of sustainable public procurement (SPP), which is “a process whereby organisations meet their needs for goods, services, works and utilities in a way that achieves value for money on a whole life basis in terms of generating benefits not only to the organisation, but also to society and the economy, whilst minimising damage to the environment” (DEFRA 2006). See Figure 1

As an important policy instrument, governments can use public procurement to stimulate private sectors in a manner that promotes more opportunities for business enterprises that are still at the base of the economic pyramid (BOP), (i.e. small business enterprises, women-owned businesses etc) through what is now known as “inclusive public procurement” (IPP).

Sustainable Public Procurement

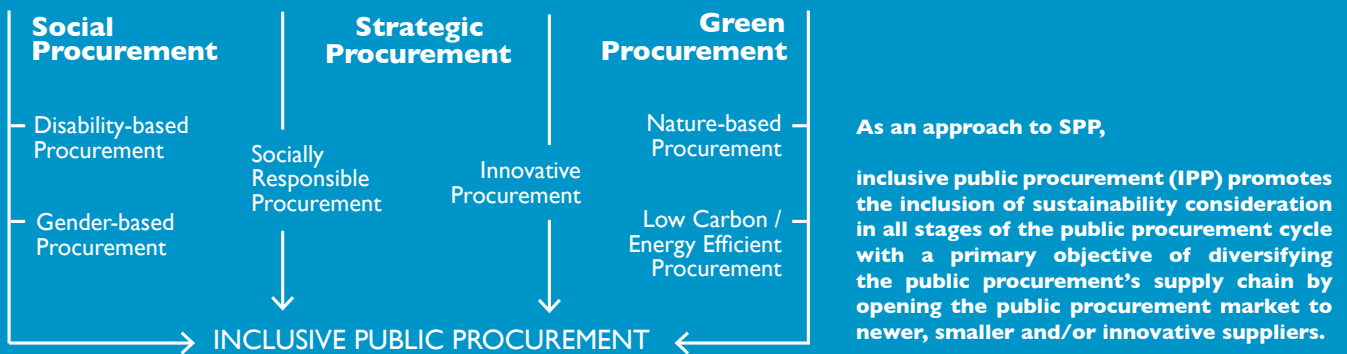


Figure 1. Inclusive Public Procurement: a strategic public procurement

As an approach to SPP, IPP is designed to maximise equitable economic, social, and environmental benefits with the primary aim of promoting supplier diversity through economic inclusion in the supply chain of small businesses (JMA, 2020) and other socially disadvantaged groups, such as women-owned enterprises, minority owned businesses. (Lohrentz, 2015).

Current policies and practices show that IPP calls not only for efficiency, growth, and value for money but also the accomplishment of strategic goals linked to sustainability, which fulfils both environmental and social objectives. (Brooks, 2014) Thus IPP promotes social and economic objectives while also encouraging procurement actors to focus equally on social, environmental, and profit concerns – or what is popularly known as the “triple bottom line” (Uehara, 2020).



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EXECUTIVE SUMMARY

There are at least seven strategies promoting IPP which both public and private companies, including support organisations such as international organisations or networks, can use as guides in using public procurement. These strategies not only address their need for supplies but also use public procurement as a strategic tool to promote socio-economic goals, in particular the access of SMEs to the public procurement market. These strategies are not mutually exclusive, hence, contracting authorities may opt to adopt one or all of these strategies in public procurement project.

Irrespective of the IPP strategy, it is important for contracting authorities to understand how IPP may be integrated into the whole procurement cycle (see Figure 2). In fact, it is advisable to evaluate even before actually beginning any procurement process (i.e. in the pre-procurement cycle) if IPP is supported by existing pre-inclusive public policies of the government (Strategy 1 on the adoption of pre-inclusive policy measures). In the absence of such policies, procuring entities opting to promote IPP should champion the inclusion of pre-inclusive policy measures that support available IPP strategies (Strategy 2 – 6) in the procurement cycle.

Without a specific pre-inclusive policy measure, contracting entities may run the risk of potential implications (sometimes legal) of limiting competition (among others) in public procurement.

With an IPP policy (whether voluntary or mandatory), contracting entities may to their discretion incorporate IPP strategies (in case of voluntary IPP) or ensure that they are adopted (in case of mandatory IPP policies) during the procurement planning stage. For example, if preferential treatment or procurement by lot is applicable, (see sections on Strategy 2 and 3 for details), contracting authorities may include them in their procurement plan and identify specific IPP outcomes for the purpose of contract monitoring and evaluation (Strategy 7). They may also incorporate other IPP strategies such as bid preference (Strategy 4) and subcontracting measures (Strategy 5) in requirement definition, tendering or sourcing methodologies, evaluation and selection criteria and contract awards.

Irrespective of the stage in the procurement cycle, contracting authorities should monitor the implementation of available IPP policies that support SMEs competitiveness and liquidity (Strategy 6).

In the absence of any IPP policies, contracting authorities are still encouraged to monitor any policies that support SMEs competitiveness and liquidity, and adopt them (as far as practicable) without running the risk of potential litigation or (at the very least) be the champion in lobbying for the adoption of IPP policies in their procurement regulations.

Pre-procurement

Procurement Cycle

IPP Policy Formulation and Implementation

Inclusive Business Models and Sustainable Public Policy (in place)

FORMATION OF GOVERNMENT CONTRACT

Performance of Government Contract

Procurement Planning

Requirement Definition

Tendering / Sourcing

Evaluation & Selection

Contract Awards

Contract Management

Challenges

Unfriendly Business Environment

Risk aversion in public procurement

Restrictive Procurement Design

Incoherent policies and SME's limited competitiveness

Procurement Policies

SPP Action Plan Procurement Regulations with SPP

Specific IPP Goal / Target

SMEs Prequalification

Use of less 'restricted' tendering

Proportionate evaluation and selection criteria

Incentives for IB models

Setting KPIs for IPP outcomes

Procurement Practices

Mandatory / Voluntary sustainability requirements

Annual Spends for SME's in public procurement / procurement exclusive for SME's

SMEs Certification / Registration

Waiver of procurement related fees, i.e. pay to access of procurement opportunities

Use of consortium bids (with SMEs)

Incentives for large companies / prime contracts with subcontracting practices in favour

Feedback and complaint mechanisms

Strategies

1

2

4

3

5

6

7

Pre-inclusive policy measures

Preferential Treatment and Procurement by Lot

Bid preference and Subcontracting

Monitoring and Reporting IPP Results as Strategic Initiatives

SUPPORTING SMES COMPETITIVENESS AND LIQUIDITY

Figure 2. IPP Strategies in Public Procurement Cycle

IPP PLAYBOOK OVERVIEW



What is the purpose of the IPP Playbook?

The Inclusive Public Procurement Playbook (IPP playbook) highlights seven (7) strategies for promoting IPP. It provides public procurement stakeholders with a set of initiatives that can be implemented in advancing supplier diversity whilst ensuring the advancement of equally important public procurement principles such as competition, integrity, transparency, and fairness.

Each strategy describes existing policies, guidelines, and procurement practices that will help address some of the challenges faced by small and medium enterprises (SMEs) participating in public procurement.

How was the IPP playbook developed?

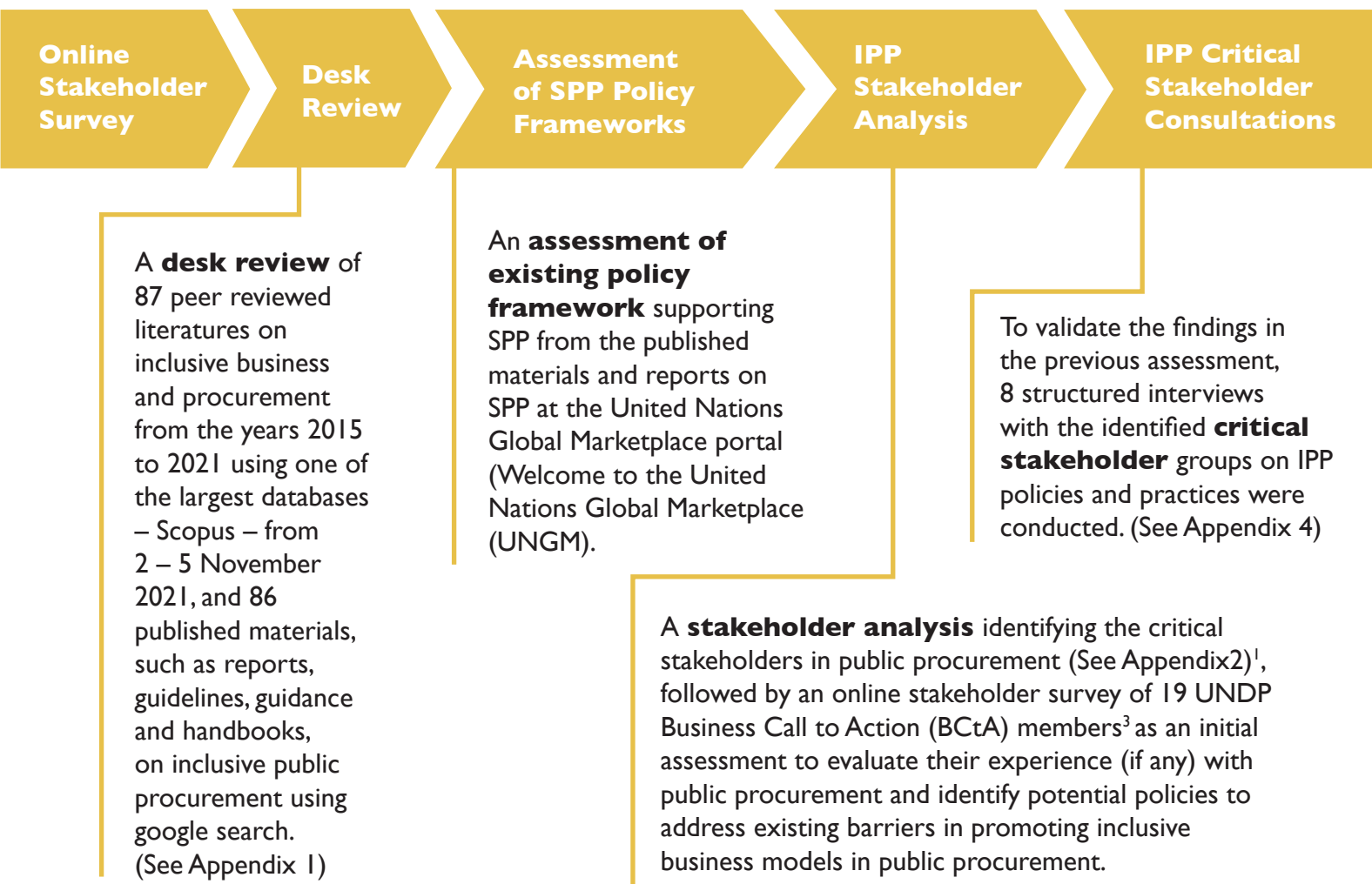


Figure 3. Methodologies in developing the IPP Playbook

¹ The IPP critical stakeholders were identified from relevant literatures that discussed the interests/needs, including contributions of various stakeholders in the success of IPP (e.g., World Bank, 2006; Yukins & Schooner, 2007; Schooner, 2008; ASEAN, 2020). See Figure 4 for Critical IPP Stakeholders.

² From 29 November to 5 December 2021, an online targeted stakeholder survey was conducted for the sole purpose of gathering initial feedbacks from BCtA members on their experience in public procurement, including the reasons for not participating in public procurement. Nineteen (19) BCtA members participated in this survey. For more information, refer to Appendix 3.

Who is the IPP playbook for?

Since IPP is particularly focused on increasing the opportunities for small businesses to participate in public procurement, the IPP Playbook is aimed at the critical IPP stakeholders.³

CRITICAL IPP STAKEHOLDERS

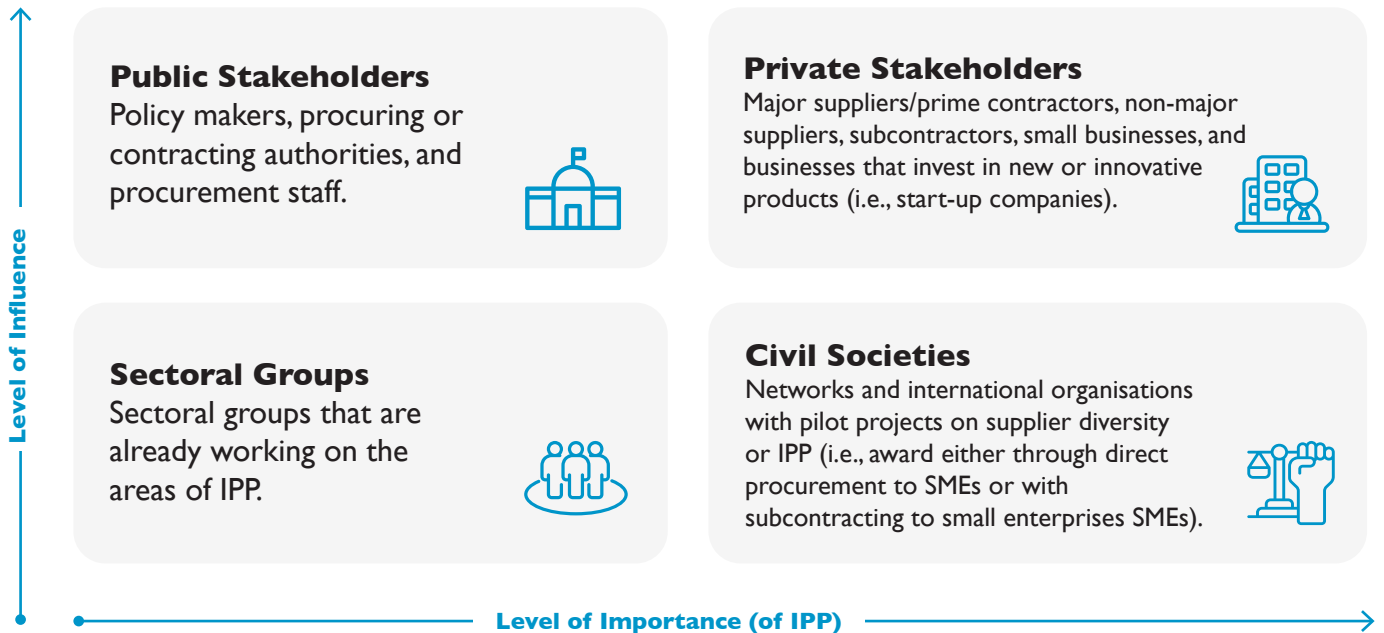


Figure 4. Critical IPP Stakeholders

What will you find in the IPP playbook?



Figure 5. Scope of IPP Playbook

³ For more information, refer to Appendix 3. The IPP playbook provides a generic approach to discuss the concept, key factors, and critical issues in adopting the suggested IPP strategies. The best available IPP practices from low-, middle-, and high-income countries are highlighted in every strategy. Therefore, contracting authorities may opt to implement these strategies irrespective of a country's income level. While the country-specific examples are provided in some of the strategies, i.e., Strategy 2, 4 and 5, these are not exhaustive as they are based solely on materials covered in the desk review.

⁴ While the country-specific examples are provided in some of the strategies, i.e., Strategy 2, 4 and 5, these are not exhaustive as they are based solely on materials covered in the desk review.

GLOSSARY OF TERMS*

Bid preference schemes refer to procurement measures that allow contracting authorities to include in the tender specifications a provision to preference bids that support SMEs' participation in public procurement. This may be in the form of either a discounted bid in favour of SME bids (for example of 5%), or a margin of preference (for example of 10%) against the lowest bid of a competing non-SME bidder resulting in the award of the contract to the competing SME bidder with the lowest evaluated bid, or a bid preference in favour of the bid of prime contractors with subcontracting requirements in favour of SMEs by assigning a higher score/value to the participating prime contractor.

Demand-based barriers refer to barriers that discourage SMEs from participating in public procurement or which affect their willingness to participate in public procurement, for example restrictive procurement designs or administrative burdens on the part of SMEs' inclusive public procurement.

Innovation public procurement (also known as "public procurement for innovation" - PPI) refers to a procurement process by which procuring entities/contracting authorities provide procurement opportunities for SMEs with innovative products ready for testing or commercialization or which provide funding for SMEs to develop new products or significantly improve existing products by way of public procurement.

Preferential treatment (also known as "set-asides") refers to government measures for procurement which may be set aside for particular groups or sectors of the economy, or those sectors or groups who may receive a preferential treatment in the procurement procedure concerned (UNCITRAL, 2011).

Procurement by lot (also known as "unbundling of contracts" or "division by lots") refers to the procurement policies which allow contracting authorities to support SMEs in public procurement either by direct contracting with a public body (through the use of preferential treatment or set-aside) or by participation with SMEs as a subcontractor, supplier or service provider to a prime contractor in the delivery chain.

*Terms are defined based on how they are used in the IPP Playbook.

Pro-inclusive measures refer to government policies which support sustainable public procurement in general or any government measures which either promote supplier diversity or advance local development targets, for example the promotion of small businesses in public procurement.

Public procurement refers to the process by which governments (including state-owned enterprises known as procuring entities or contracting authorities) purchase goods, services and works.

Small and medium enterprises (SMEs) refer to businesses within a country-specific threshold in terms of revenues, assets, or a number of employees. They are “non-subsiary, independent firms which employ fewer than a given number of employees. The most frequent upper limit designation for an SME is 250 employees in the case of the European Union or fewer than 500 employees in the case of the US. Small firms are generally those with fewer than 50 employees, while micro-enterprises have at most 10, or in some cases, 5 workers” (OECD, 2005).

Subcontracting refers to procurement measures which encourage the formation of SMEs consortia in cases when a single SME cannot on its own pursue a procurement contract due to technical or financial limitations or allow the use of a voluntary agreement which encourages a prime contractor to create subcontracting opportunities in favour of SMEs.

Supply-based barriers refer to barriers that limit the accessibility of SMEs in public procurement due to pre-existing conditions which affect the ability of SMEs to participate in public procurement, for example unfriendly business environments and limited SMEs’ competitiveness. Supporting SMEs’ competitiveness and liquidity refers to procurement measures which allow contracting authorities to adopt initiatives that promote SMEs to be more competitive in public procurement. This may include setting up specific and more accessible procurement portals for SMEs, simplifying payment procedures through advance or instant payment in the case of SMEs’ suppliers, or reducing administrative costs of SMEs in public procurement, for example the waiver of certain fees.

INCLUSIVE PUBLIC PROCUREMENT PLAYBOOK



CASE FOR CHANGE



STRATEGY 1

PRO-INCLUSIVE POLICY MEASURES



STRATEGY 2

PREFERENTIAL TREATMENT



STRATEGY 3

PROCUREMENT BY LOT



STRATEGY 4

BID PREFERENCE SCHEMES



STRATEGY 5

SUBCONTRACTING



STRATEGY 6

SUPPORTING SMES COMPETITIVENESS
AND LIQUIDITY



RECOMMENDATIONS

MONITORING AND REPORTING IPP RESULTS
AS STRATEGIC INITIATIVES (STRATEGY 7)

CASE FOR CHANGE

Recognizing the potential contributions of small and medium enterprises (SMEs) to employment, productivity and innovation, many governments have policies and initiatives, including measures for SMEs' access to public procurement markets (OECD, 2018).

Establishing business relationships with governments could increase the volume and stability of demand for SMEs and thus provide a favourable environment for them to invest and scale up.

Governments can provide funding for technology-related investments (e.g. small business innovation research) or purchase technology-related products from local SMEs at subsidised prices (e.g. public procurement for innovation). In fact, in many countries, SMEs are major players in public procurement (Aguilar, 2016).

BENEFITS OF SMES PARTICIPATION IN PUBLIC PROCUREMENT

Greater employment (SMEs are more labor-intensive compared to larger firms)

Incremental multiplier effects through decentralized procurement with a disproportionately positive impact on local economies through repeated cycles of localized expenditure

More varied competition through use of targeted assistance, including "set-asides" and/or bid price preference, and

Decreased influence of established networks of larger firms (that may exclude SMEs through collusive or corrupt bidding practices). (ADB, 2012)

Nonetheless, several barriers prevent the exhaustion of the possibilities for SMEs participation in public procurement either by limiting their accessibility to public procurement (supply-based barriers or barriers that limit the ability of SMEs to participate in public procurement) or discouraging SMEs from even participating (demand-based barriers or barriers that affect the willingness of SMEs to participate in public procurement).

More than 70% of SMEs surveyed considered financial requirements the most challenging aspect of participating in public procurement. Of this 70%, 51.4% came from difficulty meeting financial capacity requirements, 14.29% came from other causes such as delays in advance and progressive payments. Following financial requirements, other challenges included requirements for professional qualifications/accreditations and terms and conditions of the proposed contracts.

(UNDP BCtA 2021 Stakeholder Survey)

These include:

- ▶ Very restrictive procurement designs, resulting in the exclusion of SMEs
- ▶ Excessive requirements, such as high technical specifications or complexity in the contracting process
- ▶ Incoherent policies, such as encouraging participation from SMEs, but not allowing the submission of joint bids to address the technical deficiency
- ▶ Risk aversion culture among public procurers caused by the nature of public procurement as one of the highly regulated functions of the government
- ▶ Limited competitiveness of SMEs due to financial constraints
- ▶ Unfriendly business environments arising from possible "cut-throat competition" in the market.

To address these barriers, several strategies have been adopted such as the reservation of a fair proportion of government contracts to SMEs (preferential treatment or SMEs set-aside), avoiding restrictive specifications, division of procurement contracts by lot, encouraging SMEs to form groups or consortiums (through, for example, subcontracting arrangements), and promoting more "business-friendly" procurement practices that support SMEs' competitiveness.



▲ UNDP India

STRATEGY I

PRO-INCLUSIVE POLICY MEASURES

“

“[...]public procurement is a policy instrument that triggers development[...]a good entry point to promote various types of social, economic and environmental benefits to multiple beneficiaries[...] including SMEs[...]”

– Public procurement expert, International organization

STRATEGY I

PRO-INCLUSIVE POLICY MEASURES

Like most of the sustainability considerations, the inclusion of socio-economic considerations such as the promotion of local communities and SMEs in public procurement requires a specific policy supporting SPP in general. The desk review shows that there are at least three ways in which SPP may be implemented:

- Through a national overarching or thematic area on sustainable development, more particularly on sustainable consumption and production.
- A procurement regulation inclusive of sustainability considerations (Canares and Schalkwyk, 2020).
- A specific SPP roadmap or a sectoral program promoting SPP (Uehera, 2020).

In some cases, constitutional provisions can promote the participation of SMEs in public contracting by enacting supplementary SPP legislation that explicitly governs the role of public authorities in mitigating social inequities, promoting social and economic progress, and recognising special and differential treatment for small businesses. See for example the 1978 Spanish Constitution and the Constitution of Brazil, which established differential treatment for small businesses as a core principle.

CRITICAL POINTS

- Public procurement is highly regulated.
- IPP should be supported by a specific procurement policy in order of preference:
- Procurement legislation with IPP provisions
- SPP action plan or policy with IPP targets
- National sustainability strategy with SPP provision
- In the absence of IPP policy, it is important to lobby for the development of SPP policies with pro-inclusive measures.

KEY FACTORS

SMEs (often referred to as “small business”) are usually identified as one of the priority targets for local development.

SMEs may include independently owned and operated businesses that are not dominant in their field of operation and meet the size, definition and standards developed by a competent authority under the statutory delegation authority. For example, the US Small Business Authority identified “small business” to refer to those businesses with a 500-employee cap, industry-specific standards (100 -1500) employees, full or part time, and with annual average revenues from US\$.075 to US 35.5 (Kidalov, 2013).

Registration as a small business in the corporate registry (e.g., Brazil) or a certification from an independent evaluation (e.g., SBA certification in the case of the US) is sometimes required.

Pro-inclusive public procurement measures

Subject to prevailing legislation, pro-inclusive public procurement measures may include:

- ◆ Specific volume procurement spends in favour of SMES, e.g. 20% of the total value of prime government contracts to be awarded to SMEs. (e.g., India).
- ◆ Exclusive SMEs bidding procedures for a specific procurement threshold, e.g. \$45K USD. (e.g., Brazil).
- ◆ Exemption from the requirement of contract consolidation or contract bundling through procurement by lots. (e.g., Austria).
- ◆ Electronic SMEs database
- ◆ Specific measures such as prompt payment or waiver of procurement related fees to submit tenders.

Promoting innovation as a procurement consideration that is procurement of innovative products, (71.43%) or as a procurement practice (i.e. adopting innovative practices such as e-procurement 85.71%) is perceived to promote inclusive businesses participation in public procurement, followed by measures addressing the challenges for SMEs participation in public procurement (i.e., embedding SMEs in the procurement process, 71.43%).

(UNDP BCtA 2021 Stakeholder Survey)



▲ Adobestock

STRATEGY 2

PREFERENTIAL TREATMENT

“

“One thing that we need to be careful about reserved contracts as the only tool for inclusion is that it may not be enough small businesses coming to bid... training and capacity building both for procurement officers and SMEs on how to dismantle barriers may help SMEs win a contract even without preferential treatment.”

- Public procurement expert, International NGO

STRATEGY 2

PREFERENTIAL TREATMENT

Preferential treatment (also known as “SMEs set-aside”) refers to measures where procurement may be set aside for particular groups or sectors of the economy. These sectors or groups may receive a preferential treatment in the procurement procedure concerned.(UNCITRAL, 2011).

Governments in both developing and developed countries have already introduced procurement policies that provide preferential treatment to SMEs, either by setting aside specific procurement projects to SMEs or by exempting them from costly requirements.

KEY FACTORS

Preferential treatment requires prior legislation. See *Table 1 below for some examples of legislative agendas for preferential treatment.*

Preferential treatment provides a specific procurement threshold, usually for contracts of lower value.

Compliance with procedural requirements is essential in implementing preferential treatment, such as the requirement of at least two responsible small businesses and awards made at fair market prices.

CRITICAL POINTS

- Trade agreements are made with public procurement provisions such as the World Trade Organisations Government Procurement Agreement (WTO-GPA). Whenever these agreements apply, it is important to ensure that the covered transactions in the said agreements are not subject to preferential treatment.
- *Prohibition against unfair treatment or lack of competition.* Adopting preferential treatment often results to potential conflict against the principles of fair treatment and open competition when tenderers are requested to submit inadequate or lacking tender. The contracting authority is not obliged but is often prohibited from granting preferential treatment to a tenderer who submitted a less than adequate tender (Simovart, 2021).
- *Promotion of transparency.* The publication of preferential treatment policies (i.e. administrative rules on preferential treatment) in a medium that is readily accessible to all is essential. This can be either a positive or negative list of entities that are subject to these rules, with contact points for possible inquiries, and the inclusion of preferential treatment in any bid evaluation criteria that will be published in the procurement notice.
- Identify the sensitive sector and products which are covered in the preferential treatment. This may be, for example, the agriculture sector and locally produced agricultural products.

- + Better access of SMEs to public markets by removing the barriers preventing SMEs from winning public contracts.
- Limiting competition resulting from excessive familiarization and localization of public procurement opportunities.
- = Publication of public procurement opportunities reserved for SMEs, as well as all policies on their preferential treatment.



▲ UNDP / S. Omer Sadaat / 2017

AGRICULTURE: PUBLIC FOOD PROCUREMENT FROM SMALLHOLDER FARMERS

Through public food procurement, governments can promote more sustainable, healthy, and inclusive food systems through initiatives which aim to provide a market channel to smallholder farmers. Such initiatives should consider capacity development strategies, adaptations to food baskets/menus, and multi-stakeholder arrangements. This can also remove key barriers to entering public food procurement markets such as addressing competition challenges in public procurement processes, simplifying requirements, and reducing transactions cost for smallholder farmers. (FAO and UNDP, 2018) See Inclusive Food Public Procurement section for some country-specific examples.

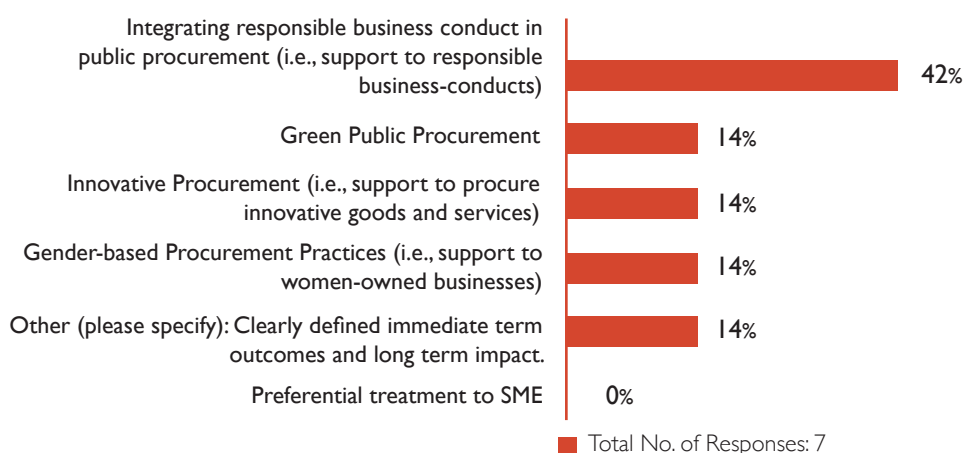
Table 1. Countries applying preferential treatment in public procurement

PREFERENTIAL TREATMENT	SPECIFIC REQUIREMENT (MODEL LANGUAGE)	COUNTRIES
SMEs Reservation Scheme	At least 30% of the annual procurement budget with at least 60% of that amount for SMEs	Korea (Rep.of) China
	At least 20% of goods and services to micro entities	India
	At least 10% of the procurement value from SMEs	Australia
	At least 23% of all federal government contracting should be awarded to small businesses with targeted goals established for the following small business categories: women-owned small business (5%), small, disadvantaged business (5%), service-disabled veteran-owned small business (3%), and historically underutilised business zone (3%)	US
Mandatory SMEs set-aside	All procurement over CAD 5000 is reserved to Aboriginal businesses, mostly SMEs	Canada
	Every federal government purchase with an anticipated value above the micro-purchase threshold of USD 3 500 and up to the Simplified Acquisition Threshold (SAT) of USD 150 000 is required to be automatically and exclusively set aside for small businesses. There must be at least two or more (Rule of Two) responsible small business concerns that are competitive in terms of market prices, quality, and delivery for an automatic set-aside to take place. Above USD 150 000 shall also be set aside if the Rule of Two is met, and above USD 700 000 or USD 1.5 million for construction.	US
	At least 30% of the value of contracts of ZAR 30 million or more must be subcontracted to specified disadvantaged groups, including youth and women	South Africa Kenya

Nonetheless, it is still worth noting that none of the 7 respondents in the UNDP BCtA 2021 Stakeholder Survey considered preferential treatment of SMEs as the best policy to promote a responsible business model. One possible explanation is UNDP BCtA members' preference for subcontracting as a strategy to open more opportunities for SMEs to participate in public procurement without affecting their liquidity due to the "possible delays in payment" in government procurement. (See Strategy 5 for more information)

Which of the following procurement policies could best support the participation of inclusive businesses in public procurement processes?

Procurement policies that best support the participation of inclusive businesses in public procurement processes, Survey 2021



⁵ From the seven IPP strategies herein discussed, Strategy 2 on preferential treatment is the most common IPP strategy in providing incentives for SMEs to access public procurement opportunities. Many governments have designed specific legal provisions and/or policies that grant preferential treatment to SMEs (World Bank, 2016). See Table 1 for specific examples.



STRATEGY 3

PROCUREMENT BY LOT

STRATEGY 3

PROCUREMENT BY LOT

Procurement by lot which is also known as “unbundling of contracts”, “division into lots”, or “breaking contracts down to smaller contracts” supports the participation of SMEs in public procurement in at least two ways:

Direct contract with a public body

Participation as a subcontractor, supplier, or service provider to a prime contractor in the delivery chain.

While public procurement policy usually supports buying in quantities that generate economies of scale to maximise savings, it is also known as “contract bundling”, “contract aggregation” or “contract consolidation”. This is subject to certain limitations, such as ensuring the participation of SMEs in government contracts. In fact, before contract bundling requirements are applied, procuring agencies are required to justify contract consolidation, showing substantial benefits in terms of cost savings, quality improvements, reduction in acquisition cycle times, better terms and conditions, or any other benefits.

KEY FACTORS

Contracting authority must consider different alternatives, including balancing the impact of procurement by lot on the market against its own economic, technical and contract management interests.

Procurement by lots allows the requirement for prime or main contractors to “unpack” or “unbundle” their contract into smaller contracts in order to procure the services of SMEs and/or engage with SMEs as joint venture partners, and/or structure their resources to provide work for SMEs.

In effect, major/prime contractors may be required to:

- subcontract portions of the contract to SMEs
- obtain manufactured articles from SMEs
- obtain supplies and materials from SMEs
- engage professional, technical or managerial service providers who are SMEs

Procurement by lot is a useful tool to obtain efficiency gains. It is also a means to avoid or solve specific medium-term issues, such as concentration problems in public markets and/or to achieve other valuable goals of public authorities (such as security of supply).

CRITICAL POINTS

- De facto exclusion of SME’s competitors. SMEs are unable to compete for consolidated procurement, therefore it is essential for procuring agencies to ensure that the projected benefits (such as cost savings) are substantial enough to justify the de facto exclusion of SMEs.
- Potential contradiction between division into lots as a priority and the importance of demand aggregation (consolidation of contracts/centralization of purchases). Division of lots aims at diversifying the contractor pool of public markets while demand aggregation aims at professionalisation of buyers. Therefore, they are not necessarily contradictory when applied in a balanced way for different objectives.
- Be cautious of potential “cartels” in the market by applying the rule of thumb of ensuring that there will be fewer lots than prospective bidders for those lots.
- Be cautious also that procurement by lots is consistent with the procurement prohibition on “contract splitting” or the breaking up of contracts for the sole purposes of circumventing the procurement requirement of open and competitive procurement.



WHEN NOT TO DIVIDE?

- ▶ When it is better for technical reasons to satisfy the needs and interests of a specific contracting authority to have a single contractor, or it is impossible to obtain efficient solutions in terms of contract management, or if there was more than one contractor such as in complex works.
- ▶ When the contract requires significant investment on the part of the contractor, and it would be irrational or impossible to demand that investment from more than one economic operator.

▶ When there is a reasonable need for uniformity of different equipment on different sites. Although in this case, the contracting authority should be required to show that such uniformity could not be created or replicated by technical specifications inserted in the tender documents.

▶ When the market structure shows clear signs of anti-competitive agreements between companies such as the number of prospective lots being so small that they would not interest economic operators in the market and thus would raise prices.

Mere convenience is insufficient to consolidate contracts, when it must pass at least the proportionality test (in the case of the EU).
(Raimundo, M.A., 2018)

On the options on whether to divide a contract or not, it is important for procuring entities to weigh some of the positive and negative effects of procurement by lot. (See Figure 6 on the positive and negative impacts of procurement by lots.)

While procurement by lot can promote more competition especially in favour of small suppliers, the same may also result in its reduction by potential exclusion of disinterested prime contractors or large suppliers. In such a case, it is more advisable to use “procurement by lot through subcontracting” instead of “direct contracting in favour of small suppliers”.

It is also important to counterbalance the social benefits of promoting more SMEs participation through procurement by lots with the potential reduction of value for money (in case of limited procurement budget) due to potential loss of the benefits of economies of scale in contract aggregation.

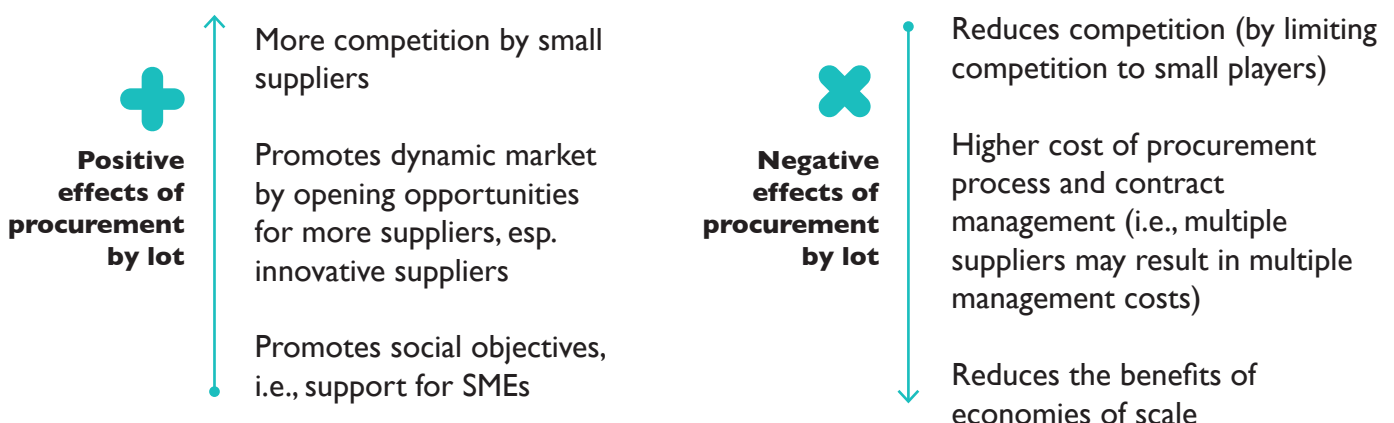


Figure 6. Positive and negative impacts of procurement by lots

Country-specific examples on procurement by lot

While there are very limited reported examples on how procurement by lots has been used to support inclusion, there are reported assessments on the use of procurement by lots, more particularly in European countries, by giving the EU member countries the freedom to decide whether or not to divide a contract into lots and the nature of lots. Article 46⁶ and Recitals 78 and 79 of the 2014 EU Directive on Public Procurement cover the division of contracts into lots.

- One example of procurement by lots can be how the German Procurement Regulation for Public Works includes a requirement to divide contracts into lots with exceptions for economic or technical reasons (OECD, 2016).
- Likewise, the 2015 UK procurement regulation provides for the authority of “contracting authorities to decide to award a contract in the form of separate lots and may determine the size- and subject-matter of such lots”, which seemingly mandates the contracting authorities “to provide an indication of the main reasons for their decision not to subdivide into lots, which shall be included in the procurement documents” (European Commission, 2021).
- Another example is in Sweden, where there was a proposal to add a filter to select procedures divided into lots to make public procurement more accessible for SMEs (European Commission, 2021).



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⁶ Article 46(1) provides that contracting authorities are free to decide whether or not to divide a contract into lots. However, where a contracting authority decides not to divide a contract into lots, it must provide the reasons for its decision (also known as “Divide or explain”).



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STRATEGY 4

BID PREFERENCE SCHEMES

STRATEGY 4

BID PREFERENCE SCHEMES

Public procurement can enhance SME participation by addressing their limited capacity in tender specifications through a bid preference schemes. It can either be through:

bid price preference schemes for SMEs in the form of discounted bids. Those from eligible SMEs are discounted by a given margin such as 5% or

margin of preference (e.g. 10%) against the lowest bid of a competing non-SME bidder. This results in the award of the contract to the competing SME bidder with the lowest evaluated bid, after application of the bid preference schemes.

CRITICAL POINTS

- Bids of small businesses prevail when prices are exactly as those offered by medium and large-sized enterprises
- Bids prevail by allowing the small business with the lowest bid out of all the small business bidders to leverage a lower price to cover the bid of a medium or large enterprise when the difference bids are up to 10% in traditional bidding categories or 5% in a reverse auction
- Provide a second chance for small businesses to win a public tender and allow the government to contract products, services or works for a lower price.



KEY FACTORS:

Country-specific bid preferences

France	Geographical proximity criterion or allocation of specific contract value (i.e. one-third of their markets) may be considered in favour of "local SMEs".
Ghana	A procurement entity may grant a margin of preference for the benefit of tenders for work done by domestic contractors for the benefit of tenders for domestically produced goods or for the benefit of domestic suppliers of services.
Korea (Republic of)	6-10% SME bid preference
China	Procuring entities allow large-size enterprises to subcontract or form consortium with SMEs. Government suppliers may perform the awarded contracts through a subcontracting arrangement so long as it is agreed to by the purchaser.
USA	Prime contractors receive bid discounts if they sub-contract with micro local business enterprises.
Papua New Guinea	Bid preference ranging from 4 – 15% for bids of national companies in contracts with a value greater than \$8.9 million. Contracts valued from \$3 – 8.9 M are required to have at least 50% national content.

- + Increase competitiveness of non-preferred businesses by acknowledging that they are unable to compete at the same price points.
- Possible confusion over the goals of the inclusive businesses, which are generally meant to achieve market rate returns (World Bank, 2016).
- = In some instances, bid preference is applied to prime contractors with subcontracting requirements with local and diverse suppliers by assigning a higher scores/value to said firms or to SMEs participating in a bidding consortium.



▲ UNDP India

STRATEGY 5

SUBCONTRACTING

STRATEGY 5

SUBCONTRACTING

Subcontracting requirements in favour of SMEs are likewise allowed. These include:

SME consortia formation by promoting SME engagement even when the size of the contract is not sustainable for a single SME to pursue.

Use of a voluntary agreement after awarding a contract encouraging prime contractors to create subcontracting opportunities, ie. a plan to purchase from women-owned businesses or SMEs.



KEY FACTORS:

Country-specific subcontracting arrangements

Brazil Subcontracting of small businesses in a public tender won by medium or large-sized enterprises may be required provided that any contracts deriving therefrom do not exceed 30% of the amount of the total contract.

US Large contracts must contain provisions for sub-contracting to small businesses. All tenders for public construction contracts worth over \$1 million, and all supply contracts over \$500,000, must contain a comprehensive subcontracting plan for incorporation into the final contract. The plan must include (1) percentage goals for utilising small disadvantaged and small women-owned subcontractors, (2) the total dollar amount planned for sub-contracting to small disadvantaged and small women-owned businesses, (3) a description of the bidder's effort to provide procurement opportunities to small disadvantaged and small women-owned businesses, (4) assurance that the "utilisation" of small disadvantaged and small women-owned businesses will be inserted in all sub-contracts that offer further sub-contracting possibilities, (5) assurance that any report which demonstrates compliance with the plan will be furnished as required on a quarterly basis, and (6) and identification of records that will be maintained to document sub-contracting actions and contracts with small disadvantaged and small women-owned businesses.

UK Large private sector companies such as Hewlett Packard may be required to publish their government subcontracting opportunities on Contracts Finder. There will be a commitment to make government IT contracts more flexible including disaggregating future contracts and delivering quicker and cheaper solutions.

China Procuring entities are allowed to subcontract to SMEs large-sized enterprises which are awarded government contracts. Government suppliers may perform contracts through a subcontracting arrangement so long as it is agreed to by the purchaser.

CRITICAL POINTS

- Large contractors may be required to include a clause promising maximum practicable opportunity for subcontracting to small businesses.
- The use of small business subcontracting may be included as an evaluation criterion and a responsibility factor for the award of prime contracts.
- Contracting agencies may be authorised to offer incentives to large firms for subcontracting to small firms.
- For high dollar negotiated contracts, prime contractors may be required to prepare small business subcontracting plans. There should be non-binding goals for small business participation in which primes must show only good faith in pursuing.
- Incentives may be provided for partnerships between big and small businesses as well as for technology transfer.
- Where the supplier enters a subcontract for the purpose of performing the contract, a term requiring payment to be made to the supplier within a specified period not exceeding 30 days from receipt of a valid invoice as defined by the subcontract requirements is allowed.
- Other measures could include putting in place a procedure to allow subcontractors to lodge complaints directly with the procuring officials or entities.
- Clauses in the original contract can include provisions for the treatment of subcontractors and penalties for breach of contract.
- A further option may be to allow subcontractors to carry on with the contract under a new prime contractor if the original contractor is forced to pull out.
- SMEs should be encouraged to develop business strategies around subcontracting so they can maximise their advantages of innovation and flexibility without being restricted by unhelpful economic policy.
- In a well-managed supply chain, the innovation from SMEs should flow up to the final consumer and the increase in their business should have the desired effect on the economy of increased wealth and job creation
- A provision for verification of these clauses is necessary through a conduct of “spot checks” or audit provisions.

- + Allow suppliers (e.g., SMEs) to use the experience and potential of other entities, such as prime contractors, to show compliance with the requirement of the procuring entities.
- Possible payment gridlocks in the settlement of accounts with subcontractors affecting the latter’s liquidity (especially SMEs acting subcontractors).
- = Requirement for prime contractors to show proof of advance payment to subcontractors, more particularly on enforceable remuneration for completed works.

PROHIBITION ON REVERSE SUBCONTRACTING

Contracts won through preferential measures such as the set-asides program or price deduction at evaluation may not be subcontracted from a small or micro-sized enterprise to a large or medium-sized enterprise, or from a medium-sized enterprise to a large-sized enterprise.

Scaling-up through Sub-contracting Clauses in public procurement: A Tale of 2 BCtA Members⁷

Two BCtA members shared their preference for sub-contracting as a procurement strategy that will enable them to potentially scale-up to becoming a prime contractor/supplier. These are:

Company A

Company A, a US-based company with subsidiary in India, provides AI-enabled family health care platforms to various organisations, including local government agencies. It has bid and successfully won contracts from various public entities and quasi-public entities. Its most recent contract was awarded by a government agency in India through an online procurement portal on the week of the interview (March 2022), after being shortlisted within a month after the submission of bids.

Company B

Company B, established in 2010, is a US-based software technology company in the health care sector, which, according to its CEO/Founder, is a relatively a new player in the public procurement market. It is operating in 25 countries and does not depend on public procurement as the core source of revenues. Its most recent participation in public procurement was submitting a co-bid with a larger US contractor in a public procurement process of a US aid agency last January (2022). As co-bidder, Company B will provide the required expertise to fill the technological gap of its co-bidder, a prime contractor. As of the date of the consultation, they were still waiting for the result of the procurement process, which according to its experiences, usually takes 6 to 9 months.



Pain-points & critical issues in public procurement

Company A identified two main pain-points in public procurement - the long payment cycle of more than 30 days and the lack of collateral free line of credits to support small enterprises participating in public procurement to be able address negative impacts of the potential delays in government payment. Company B reported on a number of “due diligences requirements” such as past revenues or financial audits for a number of previous years that are challenging for new entrants like them. “Companies (including public procurers) want innovation, innovation comes from smaller companies that have not made money, yet the requirements are for them to have generated money.... and this requirement is not conducive to innovation.”



Potential Solutions: Subcontracting Clauses in Public Procurement

Both companies agreed that subcontracting clauses in public procurement may help address their pain points for one important reason - Prime contractors take away more of the financial risks and sub-contractors can be paid earlier by the prime contractors even before the payment to them by the public agencies.

⁷ While sub-contracting supports the strategy on assisting SMEs competitiveness and liquidity (See Strategy 6), this playbook highlights sub-contracting as an IPP strategy in itself, i.e., a stand-alone strategy and not merely a strategy to support SMEs liquidity as most public procurement regulations provide for specific provisions regulating the use of sub-contracting requirement. i.e., prior approval by procuring entities of any subcontracting arrangements, including regulations on the obligation of prime contractors submitting subcontractor's statements of receipt of due remuneration.



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STRATEGY 6

SUPPORTING SMEs
COMPETITIVENESS AND
LIQUIDITY

STRATEGY 6

SUPPORTING SMEs COMPETITIVENESS AND LIQUIDITY

While the first five strategies focus on providing “incentives-based” measures to encourage more SME participation in public procurement, this strategy encourages the public sector to leverage its purchasing power to strengthen the competitiveness of SMEs and support liquidity not only as a government supplier, but also as an important sector in economic development.



KEY FACTORS

Several measures may be adopted to promote SME competitiveness and liquidity:

Improving transparency and availability of information about government contract opportunities by:

Setting up a government web portal for advertising lower value contracts

Requiring specific agencies such as finance departments at all levels to positively make government procurement information readily available to SMEs

Requiring every department to report to the finance department at the same level on the results of their procurement from SMEs and publish through the designated procurement media the results of set-asides and other procurement from SMEs

Improvements in the information available, for example through the standardisation of tender notices, to enable SMEs to grasp procurement requirements more clearly and thus determine whether it would be appropriate for them to bid for a particular contract.

Ensuring easy access to all the relevant information on business opportunities in public procurement is of key importance for SMEs. This may be achieved by a number of means, including (1) improvements offered by e-procurement (2) the use of information centres and (3) by offering feedback to tenderers.

Providing access to support SMEs, for example through a dedicated point of contact and helpline service

Simplifying and accelerating payment procedures through:



ADVANCE OR INSTANT PAYMENT

Korea (Republic of)

Advance payment of 70% and upfront payment upon presentation of accepted invoice, the Public Procurement Service (PPS), the central purchasing body of Korea, provides an upfront payment of up to 70% of the value of a government contract. For some lump-sum contracts for goods valued up to USD 423 800, including orders on unit-price contracts, suppliers are entitled to instant payment. Businesses may also be entitled to instant payment for other goods contracts at the request of the end user. In these cases, payment is made from a special PPS account and then reimbursed by the end user. Though central government entities are entitled to a payment period of up to five days, instant payment allows SMEs to receive payment within as little as four working hours.

Mexico

Advance payment is from 10% to 50% when the supplier is a SME national enterprise (in cases of goods with a manufacturing process of longer than 60 days).

2 PROMPT PAYMENT OR THE USE OF 30-DAY TERMS, REQUIRING GOVERNMENT DEPARTMENTS TO REPORT THEIR SMES SPENDING AND ENCOURAGING THEM TO IMPROVE PERFORMANCE.

Spain	Guaranteed 30-day payment after the issuance of an invoice and timely payment to prime contractors.
Australia	Maximum payment term of 30 days and payment through payment cards (e.g. credit cards) are the preferred method for paying supplier invoices below AUD 10 000.
UK	In 2015, UK central government departments had 80% of all invoices paid within 5 days and most of the remainder within 30 days.
Poland	Direct payment to subcontractors
Korea (Republic of)	Monitoring of payment of main contractors to subcontractors through subcontractor management system, i.e. use of electronic platform.
Scotland	Faster payment through increased level of digital transactions and deployment of digital invoicing techniques.

Reducing the cost and administrative burden in public procurement through:

- ▶ Introduction of a professional security service into government contracts to help SMEs with contract finance, bid security and performance bonds.
- ▶ Provisions for small businesses to negotiate with financial institutions' credits to which they are entitled against the public sector 30 days after the credits have been liquidated. This allows small businesses to increase their (usually insufficient) operating capital, as any payment delays might lead them to bankruptcy.

- ▶ Waiver of certain obligations for candidates to submit documentary evidence if it has already been submitted as part of a previous procurement exercise or the use of short and simple standardised forms and certificates in the case of SMEs.
- ▶ Allowing sufficient time to draw up tenders by allowing SMEs to find partners to participate in joint bidding in the case of large and complex contracts.
- ▶ Placing emphasis on value for money rather than price by creating more scope for qualitative solutions through the award of contracts on the basis of the most economically advantageous offer"
- ▶ Providing more scope for innovative solutions by defining technical specifications in terms of performance or functional requirements, whilst opening opportunities for SMEs to submit tenders that reflect the available e technical solutions in the marketplace. This helps innovative SMEs that could not meet the required technical specifications to offer their available technical solutions that will meet the performance or functional requirements of the procuring entities.

Extension of training programmes in public procurement to potential suppliers.

Providing frameworks to establish co-operation between businesses as a basis for access to cross-frontier contracts or contracts which are outside the capacity of an individual SME.

Providing guidance for contracting authorities on assisting SMEs in drawing up their tenders.

CRITICAL POINTS

- In case of subcontracting (Strategy 5), contracting authority should integrate responsible business conduct (as a qualification criterion, for example, in evaluating prime contractors) in the public procurement process (See Figure 6) and encourage them to adopt "inclusive business models" in their corporate portfolio.
- Any sustainability standards of prime contractors (e.g., ISO certifications) should likewise benefit SMEs within their supply chain.



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RECOMMENDATIONS

MONITORING AND
REPORTING IPP RESULTS
AS STRATEGIC INITIATIVES
(STRATEGY 7)

RECOMMENDATIONS

MONITORING AND REPORTING IPP RESULTS AS STRATEGIC INITIATIVES (STRATEGY 7)

To ensure effective SME support measures through public procurement, it is essential to conduct regular monitoring and evaluation of SMEs assistance initiatives that are adopted in the procurement cycle through a qualified SME data system. Accordingly, suppliers who wish to enjoy SME preferences are required to register and be certified with SME status as a part of government SME policies in general. With this, government purchasers can easily verify and grant privileges to SMEs in procurement. The use of a centralised certification system and uniform enforcement standards is advantageous in simplifying the public procurement process.

In some cases, a platform for reporting non-compliance with these initiatives helps to improve the implementation of IPP strategies. One specific example is the “Mystery Shopper” platform in the UK. Although it does not have statutory power to sanction or penalise contracting authorities, compared with an administrative tribunal, it highlights any need for improvement in the procurement practices by monitoring repeated complaints that eventually affect the suppliers’ reputation.

In addition, one of the best strategies in monitoring and reporting IPP results is by understanding how IPP may be integrated into the whole procurement cycle (see Figure 2). In fact, it is even advisable to evaluate before the actual conduct of any procurement process (pre-procurement cycle) if IPP is supported by existing pre-inclusive policies (Strategy 1 on the adoption of pre-inclusive policy measures). In the absence of any pre-existing policies, procuring entities may opt to promote IPP through available IPP strategies (Strategy 2 – 6). It is worth noting, however, that without a specific pre-inclusive policy measure, procuring entities run the risk of potential legal issues on limiting competition (among others) in public procurement.

With an IPP policy, procuring entities may at their discretion, adopt preferential treatment or procurement by lot (when applicable – see previous sections on Strategy 2 and 3 for details) or ensure that mandatory IPP policies are adopted in their procurement plan, and identify specific IPP outcomes for the purpose of contract monitoring and evaluation (Strategy 7).

Procuring entities may also, when authorised by IPP policies, incorporate other procurement practices that support IPP strategies such as bid preferences (Strategy 4) and subcontracting measures (Strategy 5) in the requirement definition, tendering or sourcing methodologies, evaluation and selection criteria and contract awards.

Irrespective of the stage in the procurement cycle, procuring authorities should monitor the implementation of available IPP policies that support SMEs’ competitiveness and liquidity (Strategy 6).

In the absence of any IPP policies, procuring entities are still encouraged to monitor any policies that support SMEs’ competitiveness and liquidity, and adopt them (as far as practicable) without running the risk of potential litigation or at the very least be the champion that will lobby for the adoption of IPP policies in their procurement regulations.

Successful IPP implementation requires a “holistic approach” where all stakeholders have their respective share both in promoting an enabling environment towards a more inclusive public procurement market and monitoring any IPP steps or initiatives until those initiatives become the new norms. (See Figure 7). Even incremental steps—such as inclusion of voluntary IPP requirements in the solicitations/tenders/bids or contract clauses promoting inclusive business practices—should be monitored.

While it is important to “add (IPP) regulations into (our) procurement rules and regulations[...] to reach more people (procurement colleagues)” (Public Procurement expert, International organization) it may not be enough. For instance, it is not enough to indicate in the regulations “to buy from local suppliers or SMEs” (creating the public demand). There has to also be “support for them to respond to this demand (support to the supply side, i.e., capacity building and financial assistance)” (Founder & CEO, SME).

“I think to make things work you need to have a holistic approach that both supports the supply side – work with SMEs capacity - to organise themselves, to sell or to access more easily in the market and the institution procurement practices, including capacity building, awareness raising, and also the policy and regulatory framework. You need to have this holistic approach and see the need to intervene in all of these levels.” id.

In doing so, it is “important for the people working in the government to understand that public procurement is a good thing and not just a box ticking exercise, and that there is a moral and social imperative behind IPP?” (Public procurement expert, International NGO)

Public procurement (ideally) is designed to give “everyone a fair chance to participate and to be open to everybody and preferring certain groups like small businesses and entrepreneurs feel contradictory[...] but that should not be the case since the playing field is already uneven and to level a playing field needs active support to underrepresented groups in order to participate” (Public procurement and sustainability expert, Public sector).

These include not only “prompt payment and access to finance” (Public procurement expert, International NGO) but also “inclusion of clauses such as subcontract clauses to increase participation of small businesses” and “introducing more innovation in the process and in the implementation[...]because oftentimes start-ups are builders/innovators for large companies” (Founder & CEO, SME).

“A lot of times the government proposals (referring to bids or tenders) request for solutions[...] and their natural tendency to go to a big contractor, let’s just say IBM or Microsoft[...]Instead of going to a universe of potentially interesting solutions. That’s a natural tendency[...]that’s how our world works[...]if I have a magic wand[...]the solutions (should) appear almost like an e-commerce process for government solutions[...]that would be amazing[...]and that they remove barriers in the way of government contracting - that’s the magic part[...]” Founder & CEO, SME

Successful IPP monitoring and reporting requires (among others) “a clear guidelines for suppliers of goods and services on the requirements that must be met for businesses to be recognized as inclusive, and defined criteria for inclusive purchasing, supported by legal norms promoting inclusive businesses through measurable indicators that assess (in a real way) the impact of incorporating incentives for promoting inclusive practices in public procurement” (Public procurement and sustainability expert, Public sector).

In the end, IPP strategies (Strategies 1-7) must be adopted within a context of a holistic IPP monitoring and reporting framework that promotes multi-stakeholder participation and support.

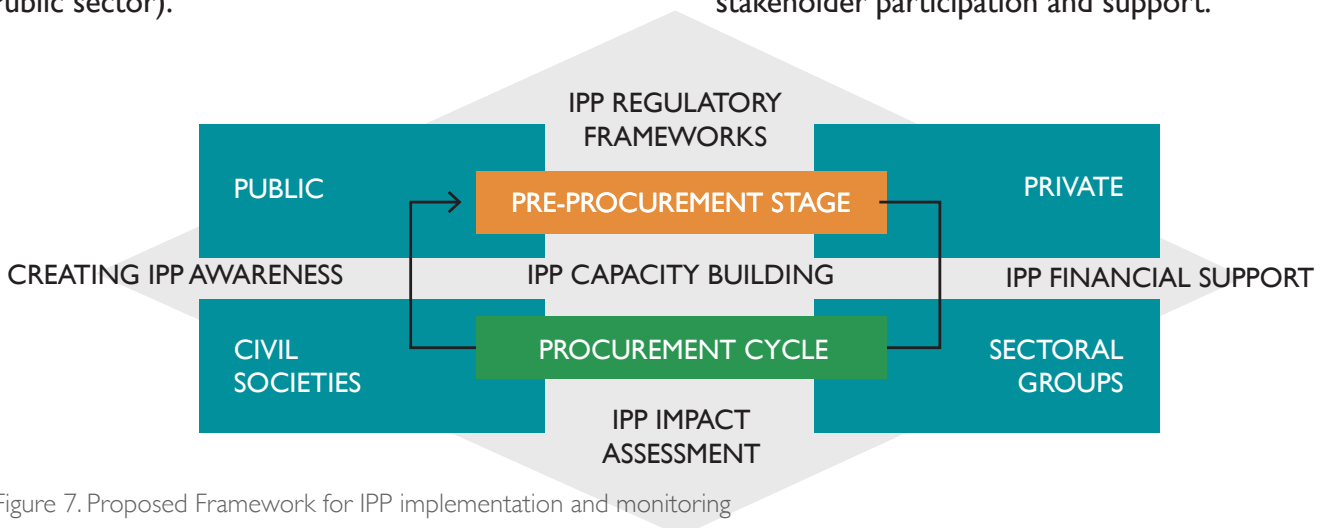


Figure 7. Proposed Framework for IPP implementation and monitoring

IPP IN ACTION

The first part of this IPP playbook highlights the six IPP strategies that contracting authorities may adopt in promoting the principle of “inclusive business” in public procurement, including a recommendation to consider IPP monitoring and evaluation as a strategic initiative (Strategy 7).

Since, these strategies are not mutually exclusive, i.e., contracting authorities may opt to adopt one or all of these strategies in any public procurement project, this part of the IPP playbook provides a listing of existing IPP practices across the globe. They are categorized not only on the basis of the important role of SMEs in promoting innovation (i.e., through innovative public procurement), but more importantly on removing barriers to entry of SMEs in public procurement, e.g., removing barriers of small farmers to public procurement market through, for example, inclusive public procurement practices, whilst addressing other social issues such as gender equality and diversity, i.e., gender-responsive public procurement.

Irrespective of the category, it is worth noting that contracting authorities have adopted IPP strategies such as procurement by lots (e.g., Austria), supporting SMEs competitiveness and liquidity (e.g., Canada, Germany, Ireland, United Kingdom, United States, Paraguay, preferential treatment (e.g., Brazil, Uruguay, Paraguay, Thailand, Rwanda), promotion of pro-inclusive policy measures (e.g., Sweden and Germany) and IPP monitoring and evaluation (e.g., Thailand).



INNOVATION PUBLIC PROCUREMENT



INCLUSIVE FOOD PUBLIC PROCUREMENT



GENDER-RESPONSIVE PUBLIC PROCUREMENT



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INNOVATION PUBLIC PROCUREMENT

SMEs are drivers of innovation. Purchasing bodies from public administrations need to overcome barriers to SMEs' and start-ups' participation in public procurement (OECD, 2018). Several best practices have been recorded highlighting the important role of public procurement in encouraging innovation through SME participation:

3 TYPES OF PUBLIC PROCUREMENT RELEVANT FOR PROMOTING INNOVATION



Direct procurement, refers to government or representative agency purchases of innovative products or solutions used by the government or by the public. It may be carried out by national defence agencies, such as in the procurement of military vehicles and hardware.



Cooperative procurement happens when a public entity makes purchases of innovations that are also sought by segments of the private sector, e.g. the purchase of vehicles using alternative fuels or drive systems, where it is foreseeable that there could also be a private market for these goods. Public procurement of a product that may be innovative, environmentally friendly, or both, could also spur demand and adoption in the private market, leading to a greater diffusion of this technology.



Catalytic procurement refers to situations in which the ultimate users of the technology will be the private industry or consumers, and the state merely promotes the development of this innovation financially, such as might be the case for innovative kitchen appliances. The government may have identified an un-serviced niche in the market and sought to bring about the development of superior technologies to pursue certain policies, like greater home energy efficiency (UNIDO, 2017).

Canada

Innovative Solutions Canada (formerly known as “Build in Canada Innovation Programme”) provides procurement opportunities for SMEs with innovations ready for testing or commercialization, by making the Government of Canada their first client. For details, see [Home – Innovative Solutions Canada \(ic.gc.ca\)](https://www.ic.gc.ca).

Germany

The Central Innovation Programme for SMEs (ZIM – Zentrales Innovationsprogramm Mittelstand) is a funding programme for SMEs with business operations in Germany that want to develop new or significantly improve existing products, processes or technical services. For details, see [ZIM Overview – ZIM \(zim-bmwi.de\)](https://www.zim-bmwi.de). The Competence Centre for Innovative Procurement (KOINNO) was created to help contracting authorities on the federal level as well as on the local and regional levels to put into practice the policy goal of furthering innovation by way of public procurement and of supporting innovative goods and services. KOINNO gives guidance in different ways, e.g. on its homepage (de.koinno-bmwi.de), at workshops, by providing best practice examples and by giving advice on concrete, practical questions. See [The Competence Centre for Innovative Procurement: KOINNO \(koinno-bmwi.de\)](https://www.koinno-bmwi.de)

Ireland

The Small Business Innovation Research (SBIR) enables public sector bodies to connect with small businesses by providing innovative solutions to societal problems. SBIR falls under pre-commercial procurement that enables public bodies to purchase research to stimulate innovation when goods or services are currently not available. For details, see [Small Business Innovation Research \(SBIR\) - Enterprise Ireland \(enterprise-ireland.com\)](https://www.enterprise-ireland.com).

UK

The Small Business Research Initiative (SBRI) enables the public sector to tap new ideas and technologies and speed up their adoption by helping government departments connect with innovative businesses to solve tough challenges facing the public sectors. Through SBRI, SMEs can obtain commissions up to £100K to explore an idea and up to £1M to develop a prototype. For details, see [SBRI - the Small Business Research Initiative | Department for the Economy \(economy-ni.gov.uk\)](https://www.economy-ni.gov.uk).

United States

The Small Business Innovation Research (SBIR) and the Small Business Technology Transfer (STTR) are highly competitive programs that encourage domestic small businesses to engage in Federal Research/Research and Development (R/R&D) with the potential for commercialization. Through competitive award-based programs, SBIR and STTR enable small businesses to explore their technological potential and provide the incentive to profit from their commercialization. For details, see [About | SBIR.gov](https://www.sbir.gov)

Austria

The Austrian Action Plan on Public Procurement Promoting Innovation (PPPI) deals with the issue of supporting SMEs in public procurement, e.g. public authorities should tender/procure in lots and define qualification and award criteria in a way that gives SMEs a chance to participate in competitions, etc. For details, see [ERA Portal Austria – Austrian Action Plan Public Procurement Promoting Innovation](https://www.era-portal.at).



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INCLUSIVE FOOD PUBLIC PROCUREMENT

Inclusive food public procurement refers to initiatives that aim to provide a market channel to smallholder farmers by removing key barriers to entry into public food procurement markets (FAO, 2018). This is done by establishing for example, formal producer organisations of small-holder farmers that could lead to economies of scale and greater certainty of supply, or through direct contracting through cooperation unions which supply primary foods produced by their members or act as intermediaries to supply the required raw ingredients (i.e. procurement of food meals in 238 schools in two regions in Ethiopia).

“

“For FAO, for instance, it is a useful entry point to support small holder farmers by assisting countries (mainly developing) in adopting comprehensive approach to sustainable public procurement by addressing both issues that are linked to supplies (i.e., building capacity of producers to produce better products and have access to market) and support to governments in the development and in the alignment of public policies and regulatory frameworks on the area public procurement... It requires a holistic approach that both supports the supply side (i.e., work with SMEs capacity to have access to market) and the institution’s procurement practices, capacity, awareness raising and regulatory framework... it is not enough, for instance, that a school feeding program indicates the need to buy from local farmers for without direct support for famers to respond to this demand, this policy can be even prejudicial to them....”

Public procurement expert, International NGO

It is worth noting however, that promoting inclusive food public procurement requires a **stand-alone national** strategy (e.g., National Strategic Grain Reserve, Rwanda), or a **specific programme** (e.g., School Milk Programme, Thailand) or **legislative action or decree** (e.g., Brazil, Uruguay, and Paraguay).

Brazil

The Zero hunger (Food Purchase Programmed - PPA), established in 2009, aims to procure food from smallholder farmers for food assistance strategies through the National School Feeding Legislation (Law No. 11947/2009). This states that at least 30% of the central budget for school meals should be spent on food purchases sourced directly from local small holders family farmers through their cooperatives or not-for-profit associations with compensation that is aligned with regional market prices.

Thailand

In 1992, Thailand instituted the School Milk Programme (SMP) as a strategy to improve the nutritional status of schoolchildren and to provide dairy producers with a remunerative market. Dairy processors supplying milk to the SMP are required to buy a certain quantity of raw milk from dairy farmers and cooperatives. The quota is established through memoranda of understanding between individual processors and the Ministry of Agriculture and Cooperatives. The SMP covers all pre-primary and primary schools in the country, reaching a total of 7 million pupils.

Uruguay

Through Law no. 19.299, the Government of Uruguay has established a quota of 30% for centralised food purchases and 100% for decentralised ones which target family farmer organisations involved in agriculture, livestock and fisheries as well as small-scale food processing.

Rwanda

In 2011, the National Strategic Grain Reserve (NSGR) allocated a 40% quota for farmer cooperatives with simplified requirements for farmer organisations, i.e. registration with decentralised offices of the Ministry of Agriculture.

Paraguay

The Government of Paraguay has created a special procurement modality specifically designed for food purchases from family farmers and farmer organisations by adopting a law which reserves the government food purchases to family farmers (Decree 1056/13). Aside from simplifying the requirements in public food procurement by tailoring it to the capacities of smallholder and farmer organisations, the decree likewise waives bid and performance guarantees, tax registration and legal personal requirements. Suppliers are required to comply only with basic requirements: 1) registration with the Ministry of Agriculture and Livestock or the National Institute for Cooperatives and 2) participation in technical assistance programmes implemented by government, NGOs or international cooperation agencies.



▲ UNDP Indonesia



GENDER-RESPONSIVE PUBLIC PROCUREMENT

Gender-responsive public procurement (GRPP), also known as gender-based public procurement, is a gender mainstreaming tool that promotes gender equality through public procurement (EIGE, 2021).

Through GRPP, public procurers are leveraging their purchasing power to implement a sustainable selection of goods, services or works in a way that considers their impact on gender equality and women's empowerment. Accordingly, public authorities commit to not just promoting gender equality, but also to incorporating women-owned businesses in public purchasing.

Like most sustainability considerations, gender considerations can be integrated into public procurement processes through different mechanisms and tools at different stages of the procurement cycle:



At the **preparatory stage** during needs assessment with a user-centred approach (e.g. gender-based assessment through a manual/checklist on gender sensitive procurement, Belgium) and market engagement (i.e. market dialogue on sustainability or gender equality objectives) within impact assessments (e.g. checklist in assessing the gender impacts of the planned purchase in Sweden).



At the **tender stage** when applying for the tender requirements, such as technical specifications like the use of gender-neutral specifications in works projects, Berlin. Also within the grounds for exclusion and/or selection criteria, e.g. the exclusion of suppliers who do not comply with equal pay for women and men, award criteria, and in some jurisdictions, set-asides and bid preferences.



At the **contract execution** or **post-procurement stage** with the contract performance clauses and ex-post evaluation of the contract. For example, given the gender-based composition of a project team and its beneficiaries, preference is given to women when hiring staff in male-dominated sectors (OECD, 2021).

WHY GENDER-RESPONSIVE PUBLIC PROCUREMENT



GRPP can contribute to boosting the long term competitiveness



GRPP is good and fair public procurement



GRPP can contribute to facilitating and strengthening the institutionalization of gender mainstreaming



GRPP can contribute to closing the gender gap and creating inclusive jobs.



GRPP can contribute to sustainable and inclusive growth.

Source: EAGR, Gender-responsive public procurement, 2021.

Figure 7. Benefits of Gender-responsive public procurement

Country-specific gender responsive procurement

Germany

In 2009, social and ecological criteria may already be considered in public procurement throughout the country. While some federal states in Germany have regulations which only include one or two social criteria (the most common being minimum wages and the compliance with ILO core labor standards), other states have laws including up to 13 different social criteria covering a wide range of issues. In general, social criteria can include “criteria that aim at structural economic features (e.g. the participation of SMEs or apprenticeships), criteria that aim to integrate disadvantaged groups into the labor market (e.g. the employment of long-term unemployed) and those meant to foster societal goals such as gender equality”.

Indonesia

Indonesia implemented an open contracting pilot project in the City of Bandung, with the support of the World Bank and the National Procurement Agency. The citizen engagement component of the project was implemented by the World Wide Web Foundations’ Open Data Lab Jakarta, the aim of which is to cultivate use of published contracting data by the city government of Bandung Indonesia. While the inclusive approach was not targeted at marginalized communities, it resulted to their participation, i.e., women’s group such as IWAPI Bandung (Ikatan Wanita Pengusaha Indonesia / Indonesian Businesswomen Association). Non-participation may be caused by several factors: historical bias (e.g. some communities or organizations do not necessarily see any use of engaging with the government because of past negative experiences), lack of incentives (e.g. direct engagement with government may not be the best option for certain communities), and negative attitudes towards change (e.g. maintaining the status quo works better for certain communities or organization, for example, businesses who benefit from the lack of transparency), among others. The pilot project indicated an important point that “inclusion is not an end-goal but a process; a reiterative process of nurturing the sustainability of intermediaries and their efforts to create value out of data”.

Japan

According to the Japanese Act on the Promotion of Female Participation and Career Advancement in the Workplace, additional points can be added during tender evaluations to those bidders in the public procurement procedure who hold certain certifications on gender-related issues. In particular, the Act aims to promote work-life balance. In tender evaluations, when ministries and incorporated administrative agencies conduct procurements based on an evaluation of factors other than price (the Comprehensive Evaluation Bidding System and the Competitive Proposal Bidding System), companies with certain certifications related to work-life balance receive additional points. The certifications are for promoting the advancement of women (“Eruboshi” and “Platinum Eruboshi” certification), supporting childcare (“Kurumin” and “Platinum Kurumin” certifications) and youth employment (“Youth Yell” certification) (OECD, 2020[8]).

Kenya

Kenya has introduced affirmative action in government procurement through the Access to Government Procurement (AGPO), an initiative launched by the Kenyan government in 2013 that sought to empower women, youth and persons with disabilities by including them in public procurement opportunities. The mechanism for doing so is along the same lines as in South Africa, that is, by awarding these targeted groups 30% of all public procurement expenditure, albeit, no specific threshold for subcontracting (unlike in the case of South Africa). In fact, all government procuring entities in Kenya are required to allocate at least 30% of their procurement spend for the purposes of procuring goods, works and services from micro- and small- enterprises owned by youth, women and persons with disabilities. The AGPO program is founded on several pieces of Kenyan legislation: (1) the Constitution of Kenya, 2010 Article 227 which prescribes the fair equitable, transparent and cost-effective public procurement of goods and services; (2) the Constitution of Kenya, 2010 Article 55 on affirmative action; and (3) the Public Procurement and Asset Disposal Act, 2015, which is the specific piece of legislation which requires all procuring government entities to allocate 30% of their procurement spend for the purposes of procuring goods, works and services from SMEs owned by youth, women and persons with disabilities.

Nigeria

Though the Nigerian Public Procurement Act 2007 does not expressly provide for preferential treatment for women, it has, however, authorized procuring entities to grant a preference margin to domestic contractors and suppliers of goods manufactured in Nigeria, which impliedly allowed the contract awards to women-owned local businesses. In fact, Nigeria is keen to pursue gender responsive inclusive procurement, through preferential policy, with the support of the SheTrade Initiatives. Some of the initiatives include training of women-owned businesses in tender procedures and on-going policy dialogues for the formalization of the obligation of government procuring entities to purchase in a women-owned business friendly manner through issuance of a presidential executive order that will not only define “women-owned businesses” but also set a specific target, e.g., 30% of all government purchasing spend will be on women-owned businesses/women-led cooperatives by 2026.

Spain

Spain incorporates social criteria in public procurement procedures favoring access to the labor market and making possible for social economy enterprises to access public procurement process. Through cooperation with private companies, hiring people in difficulties has become a part of the social responsibility practices within companies. One successful collaboration is the Aviles Avanza Program which resulted to the implementation of 147 tendering specifications including social clauses, which require among others the hiring of women. The comprehensive, flexible and innovative system for the introduction of social criteria in public procurement procedures in the said program can be adjusted and replicated in different situations and administrative levels in Spain.

Switzerland

Switzerland’s public procurement law requires equal pay for men and women (in compliance with the Equality Act) as a prerequisite for participation in public procurement. Government agencies are empowered to carry out random controls to ensure compliance. Infractions may lead to sanctions, such as a contractual penalty or the exclusion from the procurement market. The aim of these regulations is to safeguard social achievements that guarantee industrial peace and prevent undesired socio-political effects and competitive bias. Persons complying with the legal provisions shall not be disadvantaged in favour of those who do not. Competitive bias against employers who respect equal pay shall be avoided

United Kingdom

The United Kingdom adopted a digital government transformation program that enhances the use of an internet-era approach to public procurement, thereby maximizing its inclusive, equitable, resilient and sustainable economic reform. One of the key features of this program is the promotion of gender equality in public procurement by transforming the distribution of opportunities, choices and resources available to women. Some of the good gender responsive practices in its public procurement include examining a contractor’s supply chain and ownership structure, review existing processes to encourage tenders from a diverse range of companies, gather and report diversity data, ensure diversity within procurement teams on the buyers’ side, use quotas to enable women and minority-owned businesses to more easily win tenders, require bidders to demonstrate a commitment to GESI principles within their own organizations and supply chains, reduce internal inequalities through greater partnerships with service teams.

United States

In the United States, the Small Business Act calls for the participation of small business to be maximised with a goal of awarding them no less than 23% of federal contracts annually. The Act further calls for no less than 5% of these contracts to be given to small businesses that are owned by women.

APPENDICES



APPENDIX 1

Formulation of Guidelines in Inclusive
Public Procurement: A Desk Review



APPENDIX 2

Stakeholder Analysis: Identifying the Critical
Stakeholders in Inclusive Public Procurement



APPENDIX 3

UNDP BCtA Stakeholder
Survey 2021



APPENDIX 4

Stakeholder Consultations

APPENDIX I

Formulation of Guidelines in Inclusive Public Procurement: A Desk Review

EXECUTIVE SUMMARY

Public procurement is not only a fundamental component of sustainable development, but is also an important policy instrument that governments can use to stimulate the private sector in a manner which promotes more opportunities for business enterprises that are still at the base of the economic pyramid, such as small business enterprises, women-owned businesses, etc.

However, despite growing attention on the strategic use of public procurement (i.e. in the light of the new tools introduced for example in Europe through socially responsible procurement) to promote inclusive growth, smaller companies are still “often shut out of the supply chains where they could provide value”. For example, the UK continues to have one of the lowest percentages of SMEs’ participation in public procurement—only 22% compared to the EU average of 32%.⁸

Using the supply-demand model, the desk review identified that 80% of the barriers to SMEs’ participation in public procurement were challenges on the implementation of inclusive public procurement on the side of public procurers. These include: 1) very restrictive procurement designs, resulting in exclusion of SMEs, 2) excessive requirements, such as high technical specifications or complexity in the contracting process, 3) incoherent policies, such as encouraging participation from SMEs but not allowing the submission of joint bids to address the technical deficiency, and 4) a risk aversion culture among public procurers caused by the nature of public procurement as a highly regulated function of the government.

While approaches were available to address these barriers, Business Call to Action (BCtA) member companies indicated in a recently concluded survey that **innovation and advertising subcontracting opportunities** are the best procurement considerations which can contribute to inclusive businesses participation in public procurement. These were followed by **payment terms within the supply chain, environmental impacts, and community benefits in procurement**.

The desk review likewise confirmed the available best practices to promote the principle of inclusive business in all the stages of the procurement cycle from the formation to the implementation of the government contract. This should cover the definition of the contract subject matter, drafting of the technical specifications, rules on qualification, award procedures and criteria, applicable contract clauses, and mechanisms for monitoring and evaluation.

The challenge, however, is available guidelines that would best integrate all these practices to address the barriers while providing capacity building among key stakeholders in inclusive public procurement.

Public perceptions of public procurement as “primarily a government’s task” have already evolved to recognize the importance of collective action “from all stakeholders, including the private sector” (UNDP, 2021). Therefore the guidelines should ensure the adoption of innovative approaches coupled with policies on integrating responsible business conduct. Other than giving SMEs preferential treatment, the modernization of public procurement based on the principles of transparency and efficiency in fiscal management can help facilitate more participation of small enterprises in public procurement. For example, transparency may include advertisement of sub-contracting opportunities, and efficient fiscal management may be realized as payment in advance or on time.

⁸ Procurement needs more competition and transparency – Construction Law

INTRODUCTION / BACKGROUND

Public procurement is not only a fundamental component of sustainable development, but is also an important policy instrument that governments can use to stimulate the private sector in a manner that promotes more opportunities for business enterprises that are still at the base of the economic pyramid, such as small business enterprises, women-owned businesses, etc.

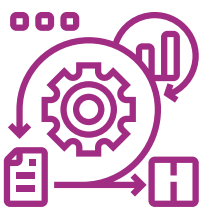
However, despite the growing attention on the strategic use of public procurement (i.e. in the light of the new tools introduced for example in Europe through socially responsible procurement) to promote inclusive growth, smaller companies are still “often shut out of the supply chains where they could provide value.”⁹ For example, the UK continues to have one of the lowest percentages of SMEs’ participation in public procurement (only 22%) compared to the EU average of 32%.¹⁰

To address this problem, governments have policies and initiatives, including measures for SMEs’ access to public procurement markets.¹¹ But they lack specific guidelines establishing business relationships with governments, which can increase the volume and stability of demand for SMEs and thus provide a favourable environment for them to invest and scale up.

This report reviews the available documents covering public procurement and inclusive business in intergovernmental organisations, particularly the United Nations. Specifically, this review answers the following questions:

- 1** What are the internal and external materials related to UNDP’s operational procedures, including UNDP procurement guidelines and existing materials on sustainable procurement?
- 2** Are there available best practices on public procurement that are related to the engagement of SMEs and inclusive business models in public procurement?
- 3** What are the strengths, weaknesses, opportunities, and threats (SWOT) to existing models that are reflected in the available practices on inclusive public procurement?
- 4** Which of BCtA’s mission and present scope of operations, key stakeholders and partners within the Business Call to Action’s Inclusive Innovation-through Replication Journeys with Governments support inclusive innovation facilitated by governments?

METHODOLOGY



The content of this desk review is based on information collected through a systematic review of available documents related to inclusive business and sustainable public procurement, as well as from web research.

⁹ Hughes, R., SMEs struggle to gain a fair slice of public sector technology contracts, October 30, 2018, available at [https://www.itproportal.com/features/smes-struggle-to-gain-a-fair-slice-of-public-sector-technology-contracts/..](https://www.itproportal.com/features/smes-struggle-to-gain-a-fair-slice-of-public-sector-technology-contracts/)

¹⁰ European Commission, 2018 Small Business Act for Europe (SBA) Fact Sheet: United Kingdom, European Commission, available at <https://ec.europa.eu > attachments > translations > renditions > native>.

¹¹ OECD, SMEs in Public Procurement: Practices and Strategies for Shared Benefits, 2018, OECD Public Governance Reviews, OECD Publishing, Paris. <https://doi.org/10.1787/9789264307476-en>.

Qualitative research and its techniques have been used for the desk review:

An **assessment of the materials and reports on sustainable public procurement** that were published at the United Nations Business Management (UNGM) was likewise conducted to collect information on internal materials related to UNDP's operational procedures. The review included UNDP procurement guidelines and existing materials on sustainable procurement. A brief review of the materials on sustainable public procurement available at the platform of One Planet Network¹² was conducted in order to obtain a snapshot of the external materials on sustainable procurement.

A strategic **literature review** was conducted with the objective of documenting the trends and interests in the research area of inclusive business and inclusive public procurement from the years 2015 to 2021 through providing rigorous and critical analysis of the growing body of literature on these topics. Using key phrases such as 'inclusive business' and 'inclusive procurement,' researchers searched Scopus, one of the largest databases of peer-reviewed literature, from 2 to 5 November 2021. The initial research generated a total of 87 journal articles, which were distributed to 86 on inclusive business and only 1 on inclusive procurement.

To capture best practices, a google search for "inclusive public procurement" was also conducted. The results showed 86 published materials—including reports, guidelines, guidance, handbooks, tools and policies discussing topics on inclusive procurement—which reflected a focus on gender responsive procurement, disability inclusive procurement, SMEs in public procurement and supplier diversity, among others. A secondary screening was conducted afterwards to answer the following research questions (RQ): *RQ1: What were the barrier if any that were discussed to promote the use of inclusive public procurement? RQ2: Were any innovative approaches identified to promote inclusive public procurement for a more inclusive business approach? RQ3: Were there any case studies or interesting examples on inclusive public procurement?*

An **online stakeholder feedback survey** of 19 members of BCtA was also conducted from 26 November to 6 December 2021. The survey targeted the members of BCtA in order to get an initial assessment of their experience, if any, on public procurement and to identify potential policies that could address existing barriers to maximising the public purchasing power in promoting inclusive business models.

LIMITATIONS

Information collected through the techniques listed above might be missing details, components or underreporting the specific issues. It is also important to acknowledge that the completeness of data may vary according to actual procurement experience of both the SMEs and public procurers. Therefore the conclusions and recommendations will be subject to further validation in the upcoming stakeholders' consultations.

FINDINGS / DISCUSSION

Traditionally, public procurement has been perceived as an administrative or back-office function. Like any other back-office function, its focus has been on supporting the need to optimise functional areas of the government by buying goods and services for public use.

With the advance of global trade agreements, the focus of public procurement has included the importance of an enabling environment and framework for private sector participation – from regulating transactions (in delivering public goods and services) to ensuring fair competition (open competition and non-discrimination in government contracting).

¹² One Planet Network is a global community of practitioners, policymakers and experts, including governments, businesses, civil society, academic and international organisations that implements the 10-Year Framework of Programmes on Sustainable Consumption and Production and works towards achieving SDG 12: ensuring sustainable patterns of consumption and production. The One Planet Network | One Planet network

Today, however, there is an increasing recognition that public procurement has the potential to be a strategic tool for:

- ▶ **Achieving policy objectives, such as the protection of the environment (green public procurement).**
- ▶ **Tackling global challenges, such as climate change (low carbon public procurement).**
- ▶ **Achieving social outcomes like job opportunities and decent work (socially responsible public procurement).**
- ▶ **Promoting socially responsible suppliers into the global value chain (inclusive public procurement).**

All of these are now included under the umbrella of sustainable public procurement, which is defined as “a process whereby organisations meet their needs for goods, services, works and utilities in a way that achieves value for money on a whole life basis in terms of generating benefits not only to the organisation, but also to society and the economy, whilst minimising damage to the environment” (DEFRA 2006). See Figure 1

Sustainable Public Procurement

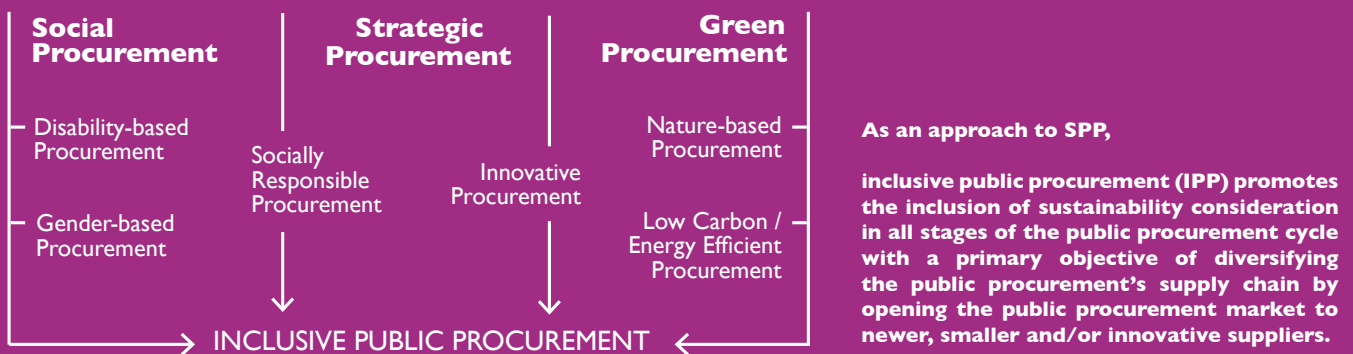


Figure No. 1. Inclusive Public Procurement: a strategic public procurement

Most scholars prefer to categorise innovative public procurement as more of a strategic procurement primarily because of its goals of promoting innovative practices to support circular economic growth and of transforming supply chain business models to support the role of public entities to deliver the most resource-intensive public services.¹³

As an approach to public procurement, inclusive public procurement is designed to maximise equitable economic, social, and environmental benefits with the primary aim of promoting supplier diversity through economic inclusion in the supply chain of small businesses¹⁴ and other socially disadvantaged groups, such as women-owned enterprises and minority-owned businesses.¹⁵

Current policies and practices show that inclusive public procurement calls not only for efficiency, growth and value for money, but also the accomplishment of strategic goals linked to sustainability, cutting across both environmental and social objectives.¹⁶ Therefore, the idea behind inclusive public procurement is to encourage private suppliers who are interested in participating in public procurement to commit to focusing as much on social and environmental concerns as they are on profits, or what is popularly known as the “triple bottom line.”¹⁷

¹³ Cravero, C. (2018). Promoting Supplier Diversity in Public Procurement: A Further Step in Responsible Supply Chain. *European Journal of Sustainable Development Research*, 2(1), 08. See also, Adam, 2021

¹⁴ JMA, Handout on the power of inclusive procurement, 12 February 2020, available at [The Power of Inclusive Procurement – Jobs to Move America](#)

¹⁵ Lohrentz, T., Contracting for equity: best local government practices that advance racial equity in government contracting and procurement, available at <https://www.racial-equity-alliance.org/resources/contracting-equity-best-local-Contracting%20for%20equity:%20best%20local%20government%20practices%20that%20advance%20racial%20equity%20in%20government%20contracting%20and%20procurement,-practices-advance-racial-equity-government-contracting-procurement/>

¹⁶ Brooks, J., et.al., Inclusive procurement and transparency: connecting smallholder farmers to school feeding, *Procurement Governance for Home Grown School Feeding Project*, Learning Series No. 3., Oct. 2014.

¹⁷ Uehara, T., Public Procurement for sustainable development: a framework for the public sector. *The Royal Institute of International Affairs*, 2020

SUSTAINABLE PUBLIC PROCUREMENT AT UNITED NATIONS

The “increasing prominence” of sustainable public procurement within UN organisations has paved the way for the adoption, or planned adoption, of sustainable procurement policies, as well as the development of procurement strategies among UN organisations.¹⁸ Thirteen of 39 UN organisations have already made their procurement manuals with sustainability considerations. These are publicly available at the website of the official procurement portal of the United Nations System – the United Nations Global Marketplace (UNGM).¹⁹

See Figure 2

Since 2008, the Annual Statistical Report of the UN procurement started to publish the achievements of reporting organisations in the area of SPP, through a report which was focused on providing an overview of the debates on sustainable procurement and the policies that were being developed in this field.²⁰ The assessment started to focus on the progress of UN agencies towards the creation of policy framework and practical implementation of sustainable public procurement in 2014. From only 29 reporting UN organisations in 2014,²¹ it has achieved 100% coverage of all 39 UN organisations voluntarily submitting their procurement transaction data on their sustainable public procurement practices in 2018.²² Accordingly, the largest growth is in the integration of sustainable procurement into the procurement process (30 out of 39), followed by the use of total cost of ownership in financial evaluation (33).²³

¹⁸ Id.

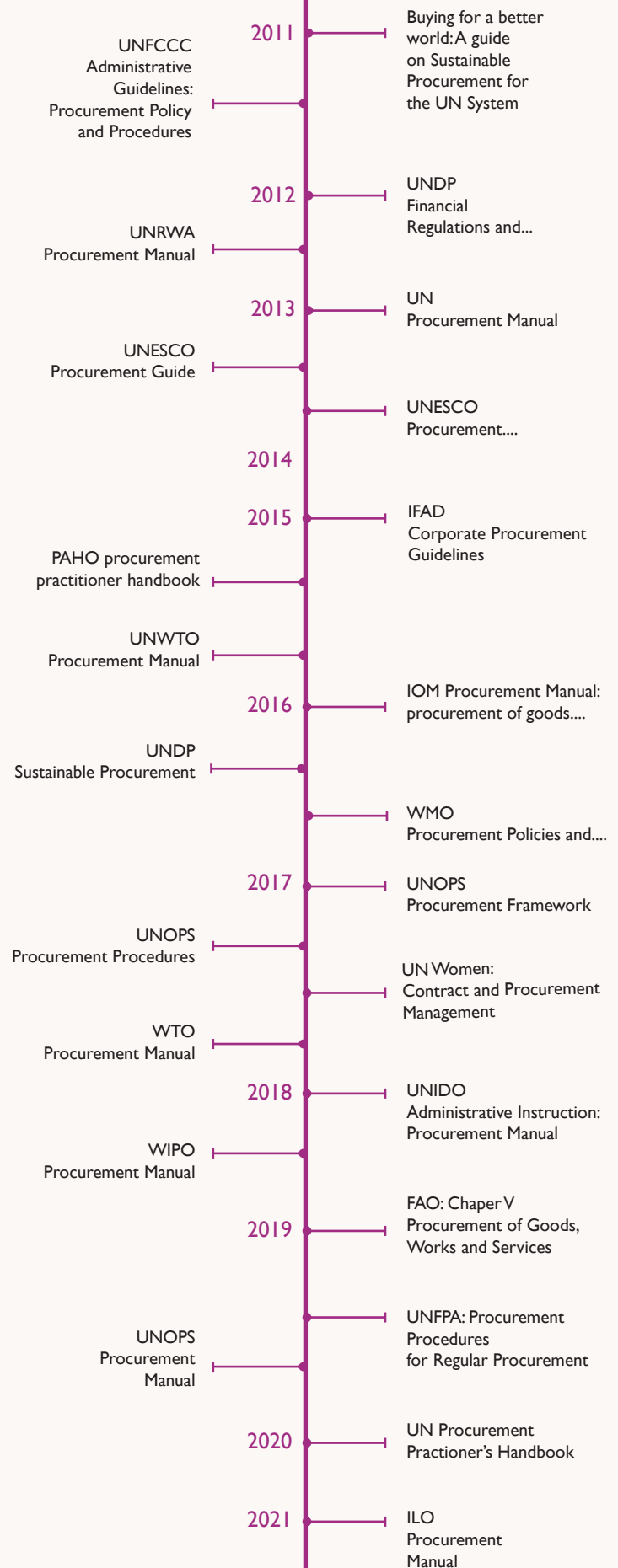
¹⁹ Welcome to the United Nations Global Marketplace (UNGM)

²⁰ 2008 Annual Statistical Report on the United Nations Procurement, Sustainable procurement supplement, available at [ASR_2008_supplement.pdf](#) (undp.org)

²¹ 2014 Annual Statistical Report on the United Nations Procurement, available at [Sustainable_procurement_in_the_UN_system.pdf](#) (ungm.org)

²² 2020 Annual Statistical Report of the United Nations Procurement, available at [Annual Statistical Report](#) (ungm.org)

²³ Id.



[Figure No. 2. UN Agencies' Public Procurement Manuals with SPP Provisions, 2011-2021]

Source: UNGM portal as of 9 December 2021

To enable the UN system to track, measure and report on SPP implementation, a framework for identifying a tender as ‘sustainable’ was endorsed in March 2019, which set 12 SPP indicators; these encompass environmental, social and economic criteria referring to the solicitation state of the procurement process (see Figure No. 3). A tender is considered sustainable if at least 3 criteria/indicators are integrated into the tender and the integrated sustainability considerations correspond to at least one criterion in each of the three pillars of sustainability – social, environmental, and economic.

Environmental Indicators	1	The tender incorporates considerations for the prevention of polluting emissions to air, solid waste to land and discharges to water (e.g. EMS, waste and waste management etc.)	Prevention of pollution
	2	The tender incorporates considerations promoting the sustainable use of resources (e.g. energy saving, recycling etc.)	Sustainable resource use
	3	The tender incorporates considerations for preventing or minimising damage associated with climate change (e.g. energy efficiency, greenhouse gas reporting and offsetting, etc.)	Climate change mitigation and adaptation
	4	The tender incorporates considerations related to the protection of the environment, biodiversity and restoration of natural habitats (e.g. sustainable/organic agriculture, fishing or forestry, etc.)	Protection of the environment, biodiversity and restoration of natural habitats
Social Indicators	5	The tender incorporates considerations related to human rights and the fundamental principles and rights at work (e.g. freedom of association/collective bargaining, elimination of child/forced labour and discrimination at work, health and safety, fairly traded goods, etc.)	Human rights and labour issues
	6	The tender incorporates considerations addressing gender equality and women’s empowerment (e.g. gender mainstreaming, women-owned businesses, etc.)?	Gender issues
	7	The tender incorporates considerations promoting health and general well-being of consumers/ recipients of the good/ service (e.g. hazardous chemicals, labelling of chemicals, etc.)?	Social health and well-being
Economic Indicators	8	The tender incorporates considerations of the whole life cycle cost of the service or product you are purchasing,?	Whole life cycle cost
	9	The tender incorporates considerations for local SMEs, local communities or/and disadvantaged groups (e.g. reserved labour, local materials)?	Local communities and SMEs
	10	The tender incorporates considerations promoting sustainability through the entire supply chain (e.g. sustainability of tier 2 suppliers)?	Promoting sustainability throughout the supply chain
General Indicators	11	The tender incorporates considerations promoting sustainability through the entire supply chain (e.g. sustainability of tier 2 suppliers)?	Global compact
	12	The tender incorporates contract conditions/KPIs that stipulate verification of suppliers’ environmental and social claims through “spot checks” and audit provisions	Suppliers’ monitoring and auditing

Figure No. 3. 12 SPP Indicators for Sustainable Tender/Notice, UN System

Source: UNGM portal as of 9 December 2021

To evaluate the usage frequency of sustainable tender, a simple search for published sustainable notices was conducted using the search engine for procurement opportunities on the platform of UNGM indicating an approximately 2-and-a-half-year period from 1 April 2019 to 6 December 2021, (a month after the adoption of the UN SPP indicators in March 2019). A total of 118 sustainable notices were generated, which was only about 2.8 of 4239 published procurement notices using invitation to bid, without SPP indicators. From these, the 50 most recent sustainable notices from 4 December 2021 were downloaded to evaluate the types of sustainability indicators that were commonly used by UN agencies implementing sustainable procurement. See Figure 4

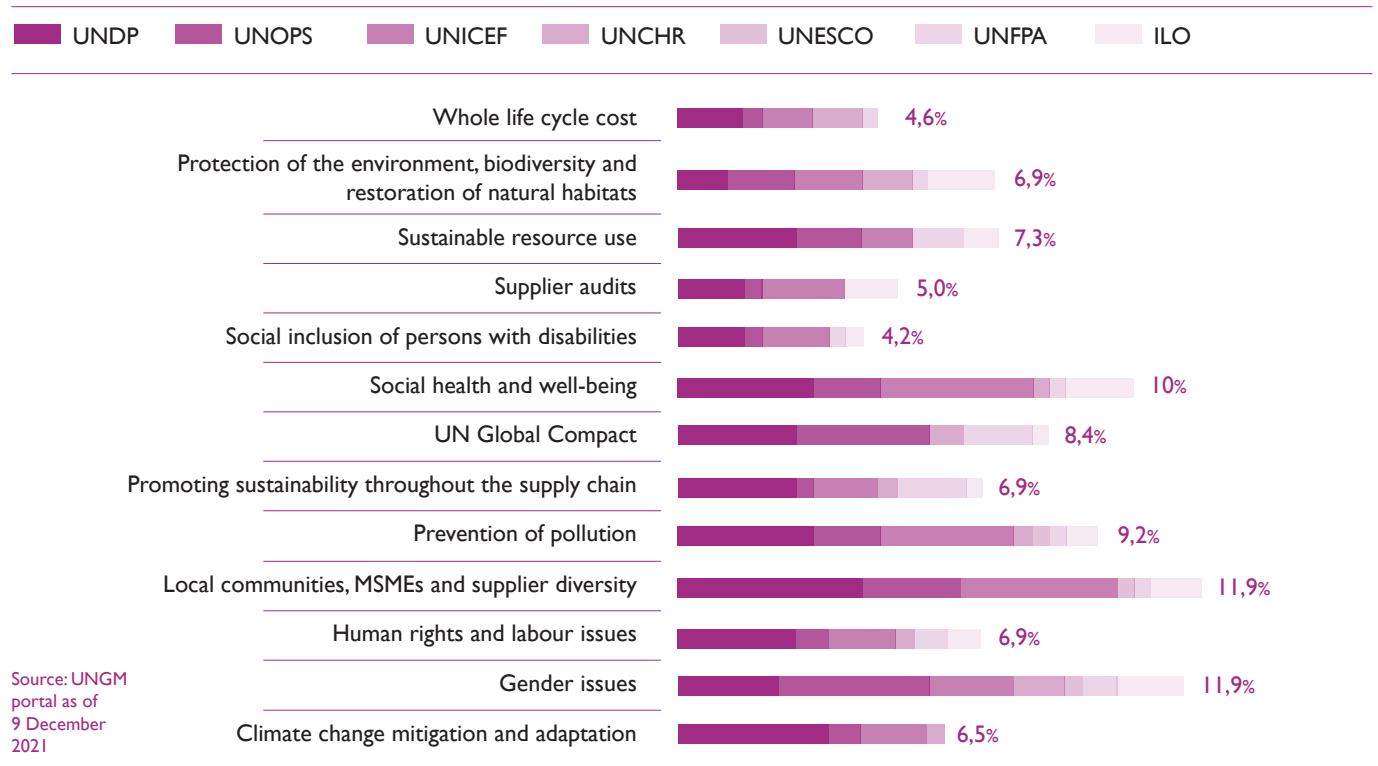


Figure No. 4. Sustainability Indicators in Selected Sustainable Notices published at UNGM, 25 August – 4 December 2021

Results showed that 7 out of the 39 UN agencies published sustainable notices. The top 3 sustainability indicators incorporated by these agencies were:

- 1 Local communities, MSMEs and supplier diversity,
- 2 Gender issues (both with 12% of the published sustainable notices), and
- 3 Social health and well-being (10%).

It is worth noting, however, that the mechanisms by which these indicators were adopted in the procurement notices subject to this review were not clearly specified in any published notices, hence requiring the need for more detailed guidelines on how to apply these indicators in the procurement project.

From this alone, we can see that the promotion of local communities, SMEs and supplier diversity is the most common sustainability indicator for sustainable procurement notices. It is also worth noting that there are already 13 sustainability indicators introduced by the “social inclusion of persons with disabilities” as an additional indicator, which was not reflected in the 12 SPP indicators published by UNGM as of 9 December 2021 refer to Figure 3.

SUSTAINABLE PUBLIC PROCUREMENT AT UNDP

UNDP is committed to sustainable procurement and will maximize environmental, social, and economic considerations in the procurement process wherever and whenever possible.²⁴ Consistent with the United Nations and the UNDP's general procurement principles, i.e., best value for money; fairness, integrity and transparency; effective international competition; and the best interest of UNDP, UNDP considers the identification of adverse social and environmental impacts of products and services as an important task, and early inclusion of sustainable procurement at the project level procurement planning phase is crucial to ensure fairness, transparency and efficiency in various stages of the procurement cycle. To assist its procurement team in enhancing the sustainability outcome, UNDP has issued the "Practitioner's Guide to Sustainable Procurement", which provides information on how to include sustainable factors into the evaluation process of a Request for Proposal (RFP) and provides incentives for vendors to offer more sustainable products and services to UNDP.²⁵

In fact, UNDP had already published 55 sustainable notices (46.6% of the reported 118 published ITB, see Figure 3 above) focusing on the following SP indicators: local communities, MSMEs and supplier diversity (13%); climate change mitigation and adaptation (11%), and prevention of pollution and social health and well-being (both with 11%). For this year (2022), UNDP has added 10 sustainable ITB notices for the procurement of goods (2), procurement of services (1), and procurement of works (7).



▲ Adobestock

²⁴ UNDP's policy statement for sustainable procurement, see Policy Document on Sustainable Procurement effective 26/07/2016

²⁵ See [PSU_Procurement_Overview_Practitioner_Guide Sustainable Procurement.pdf \(undp.org\)](#)

PUBLIC PROCUREMENT AND SMEs

SMEs are important agents of development throughout the world.²⁶ They have an important role in achieving the Sustainable Development Goals by promoting inclusive and sustainable economic growth. SMEs providing employment and decent work for all play an important role in promoting sustainable industrialization, fostering innovation, and reducing income inequalities.²⁷

Recognizing their potential contribution to employment, productivity and innovation, many governments endeavour to provide an environment conducive for their growth in order to fully leverage their potential in promoting economic prosperity and social well-being.²⁸ Nonetheless, some research suggested that their contribution is often taken for granted and their potential hindered by major regulatory and administrative hurdles, difficult access to finance and problems finding a skilled workforce.²⁹

In fact, even in highly developed countries like the UK, SME retailers are facing operational problems³⁰, making them highly vulnerable to the changing nature of work, i.e., SMEs could not keep up with (or adopt) emerging digital transformation.³¹ Severe operational disruption arising from the use of technologies such as artificial intelligence hinders the strategic development of SMEs as agents of social change.³² The current digital transformation represents a huge challenge for many small operators, who face increased competitive pressure and need to develop entirely new business models to succeed in a market where economies of scale count heavily.³³

To support SMEs development, governments have developed policies and initiatives, including measures for SMEs' access to public procurement markets.³⁴ Establishing business relationships with governments could increase the volume and stability of demand for SMEs and thus provide a favourable environment for them to invest and scale up. Governments can for example provide funding for technology-related investments (e.g. small business innovation research) or purchase technology-related products from local SMEs at subsidised prices (e.g. public procurement for innovation).³⁵ In fact, in many countries, SMEs are a major player in public procurement.³⁶

ADB (2012) listed some of the benefits of SME participation in public procurement including: 1) greater employment as SMEs are more labour-intensive compared to larger firms, 2) incremental multiplier effects through decentralised procurement with a disproportionately positive impact on local economies through repeated cycles of localised expenditure, 3) more varied competition through use of targeted assistance, including “set asides” and/or bid price preference, and 4) decreased influence of established networks of larger firms that may exclude SMEs through collusive or corrupt bidding practices.³⁷

²⁶ UNCTAD, Improving the Competitiveness of SMEs through Enhancing Productivity Capacity, Proceedings of the Four Expert Meetings, UNCTAD/ITE/TEB/2005/1, available at https://unctad.org/en/docs/iteteb20051_en.pdf.

²⁷ OECD, Enhancing the Contributions of SMEs in a Global and Digitalized Economy, 2017, available at <https://www.oecd.org/mcm/documents/C-MIN-2017-8-EN.pdf>.

²⁸ OECD, *supra* at note 3.

²⁹ EuroCommerce, Retail and Wholesale SMEs Working for Growth, November 2017, available at <https://www.eurocommerce.eu/media/152775/EuroCommerce%20SME%20Brochure%20low.pdf>.

³⁰ Omar, O. E. Omar and Fraser, P., The Role of Small and Medium Enterprises in Retailing in Britain, 2010, available at <https://uhra.herts.ac.uk/bitstream/handle/2299/4997/S120.pdf?sequence=1>. (Some of the operational problems that SME retailers in the UK are facing include: increased market competition from larger chains across the country, changing consumer shopping habits led by technological change; insufficient levels of financial investment; low business and management skills; poor knowledge of current legislation; lack of sector-specific support systems; and poor staff training in retail marketing aimed at enhancing the customer experience.)

³¹ The World Bank, World Development Report 2019: The Changing Nature of Work, available at <http://documents.worldbank.org/curated/en/816281518818814423/pdf/2019-WDR-Report.pdf>. According to the World Bank, the changing nature of work is characterised by a growing global economy, albeit, lowest poverty rate in recorded history, technological advancement, informality, etc.

³² Hughes, *supra* at note, i. Some of these challenges include natural hazards, accidents, sabotage, equipment failures, product reflects, information system failure and loss of critical infrastructure

³³ EuroCommerce, *supra* at note 19.

³⁴ OECD, 2018, *supra* at note 3.

³⁵ *Id.*

³⁶ Aguilar, S., Final Report on Promoting the Participation of Small and Medium Size Enterprises (SMEs) in Green Public Procurement, December 2016, Working Group 3C of the 10 YFP Sustainable Public Procurement Programme, available at https://www.oneplanetnetwork.org/sites/default/files/final_report_wg_3c_.pdf, last visited 27 September 2019. According to this report, 57% of the suppliers to public procurement in Brazil are SMEs, up to 98% in Ecuador (in 2014, 51% was awarded to SMEs in Ecuador, in Brazil, also in 2014, 27% was awarded to micro and small enterprises), through set-asides policies (OAS, 2015); in China, up to 76.2% of government procurement contracts are granted to SMEs (Mingming, 2016).

³⁷ ADB, 2012

BARRIERS TO SMES PARTICIPATION IN PUBLIC PROCUREMENT: DEMAND-SIDE VS SUPPLY SIDE

Several barriers to SME’s participation have been reported in the literature. There were 35 listed barriers from those 14 materials which discussed barriers to participation for small enterprises and minorities in public procurement. Using the supply-demand model, these barriers were categorised according to their impact not only in promoting the accessibility of public procurement to SMEs but also in encouraging more participation with public procurement. Accordingly, these categories are seen to impact the ability and willingness of SMEs to participate in public procurement. See Figure 5

Based on our desk review, we have identified 35 barriers to promoting the principle of inclusive business in public procurement. Using the supply-demand model, we categorised these barriers according to their impact not only in promoting the accessibility of public procurement to small enterprises and disadvantaged groups which reflects their ability to participate, but also in encouraging more participation with public procurement, reflecting their willingness to participate.

As you can see from the figure, 80% of the barriers consist of challenges in implementing inclusive public procurement on the side of public procurers. These barriers represent the demand side of public procurement processes, which in turn affect accessibility to public procurement. The barriers include:

- Very restrictive procurement designs, resulting in exclusion of SMEs.**
- Excessive requirements, such as high technical specifications or complexity in the contracting process.**
- Incoherent policies, such as encouraging participation from SMEs but not allowing the submission of joint bids to address the technical deficiency**
- Risk aversion culture among public procurers caused by the nature of public procurement as one of highly regulated functions of government.**

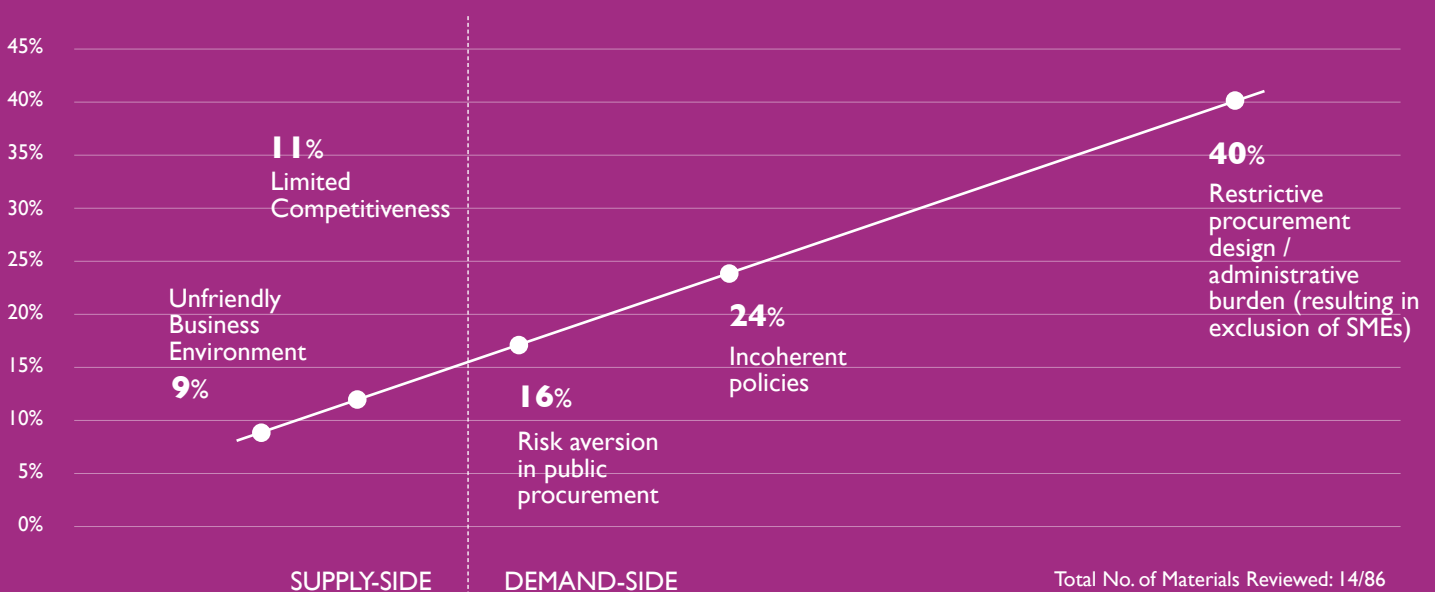


Figure 5. Barriers to SMEs participation in public procurement

INNOVATIVE APPROACHES AND BEST PRACTICES TO ADDRESS THE BARRIERS

The desk review identified 7 best practices to address the 4 key barriers to inclusive public procurement:

-
- 1 To address an unfriendly business environment caused by possible “cut-throat competition against small enterprises,” one possible approach is **1** channelling sales value to social businesses. Through public procurement, prime contractors may be required or encouraged as part of the contract requirements that at least 25% of the total procurement work be allotted to SMEs or disadvantaged groups (e.g. procurement requirements for infrastructure works in the PARIS 2024 Olympics).

 - 2 Another approach is by **2** removing thresholds for enterprises owned by women, youth, and people with disabilities and setting aside a percentage of government contracts for enterprises owned by women, youth, and people with disabilities. This can help address the barriers of having incoherent policies. This means promoting SMEs yet having restrictive procurement practices that result in the automatic exemption of SMEs from certain requirements as in the case of Kenya through the amendments of its public procurement law.

 - 3 **3** Using direct contracting through cooperation unions in a pilot project funded by international organisations partially addressed the problem of risk aversion. Pilot projects are often exempted from the application of the default procurement mechanisms in a given jurisdiction, thereby lessening the barrier of potential issues regarding the use of flexible procurement mechanisms such as direct contracting (e.g. inclusive food procurement projects of FAO in Africa).

 - 4 To address lack of competitiveness on the part of participating SMEs, the desk review revealed best practices of **4** SME preferential treatment, **5** advanced payments to SMEs, **6** waiver of fees for bidding procedures for SMEs, and **7** award programs to help mitigate these barriers (e.g. preferential treatment of SMEs in procurement policies, South Korea).
-

In any of these approaches, it is important to strengthen the e-procurement mechanism whilst promoting online registration and easy access to procurement opportunities for targeted groups such as women-owned enterprises.

EXISTING MODELS ON INCLUSIVE PUBLIC PROCUREMENT

Several approaches have already been identified to address the barriers for strengthening supplier diversity in public procurement and to make public procurement more accessible to SMEs. This part of the review listed some of the existing procurement policies for inclusive public procurement. More particularly, this focuses on the possible application of the principle of “inclusive business” to all stages of the procurement cycle. In fact, the desk review showed that inclusive business can be applied from the formation of a government contract, starting from the definition of the subject matter of the contract and the drafting of the technical specifications, including the qualification requirements and award criteria, to its performance, incorporating contract clauses and mechanisms for monitoring and evaluation of procurement outcomes (impact on supplier diversity and inclusion).

► Sustainable Public Procurement Policy

Like most of the sustainability considerations, the inclusion of social considerations such as the promotion of local communities and SMEs in public procurement requires a specific policy supporting sustainable public procurement (SPP) in general.

The desk review shows that there are at least three ways by which SPP may be implemented:

through a national overarching or thematic areas on sustainable development, particularly on sustainable consumption and production,

a procurement regulation inclusive of sustainability considerations³⁸, and/or

a specific sustainable public procurement roadmap or sectoral program talking SPP³⁹.

► Supplier Diversity Policy

The desk review indicated that preferential treatment to either SMEs or socially disadvantaged enterprises such as women-owned businesses (also known as “small business set-aside”⁴⁰) helps promote supplier diversity in public procurement. Alternatively, procuring entities may opt to diversify their supply chain by eliminating or lowering barriers to public procurement for SMEs (rather than offering direct preferential treatment, e.g. Canada)⁴¹. This can improve the ease of inclusive businesses’ participation in the procurement process⁴² or incentivise large companies (i.e. prime contractors) that implement inclusive business models.⁴³

³⁸ Canares, M. and Schalkwyk, F., Open contracting and inclusion, a research report by Step-up consulting commission by Hivos’ Open up Contracting Program, March 2020. “The passing of legislation to make public procurement more inclusive, particularly in terms of the inclusion of marginalised groups such as women, small businesses and the youth, is becoming increasingly common.”

³⁹ Uehara, T., Public Procurement for sustainable development, November 2020.

⁴⁰ Small business set aside are contracts that are specifically reserved for small business, e.g., 23% of all spending by the US federal agencies are reserved to small businesses, see Federal Set-Aside Goals - Government Contracting Tips.

⁴¹ Orser, B., et.al., Gender-responsive public procurement: strategies to support women-owned enterprises, Journal of Public Procurement, 2020, 1535-0118.

⁴² World Bank, supra at 28.

⁴³ ASEAN, Guidelines for the Promotion of Inclusive Business in ASEAN Jakarta, ASEAN Secretariat, September 2020.

► Examples of pro-inclusive measures in public procurement

Irrespective of the policy strategy, either through an SPP policy or supplier diversity policy, it is essential to set a procurement goal or target for local, environmentally preferred enterprises, which will serve as the starting point for introducing inclusiveness criteria at every stage of the procurement cycle. These may include:

Specific volume of procurement spends in favour of disadvantaged groups, e.g. 30% of the procurement contracts should be for the procurement of goods, works and services from SMEs owned by disadvantaged groups such as women and youth (Kenya).

Encouraging the participation of SMEs in the development of specific technologies either through innovation public procurement in favour of business incubators or start-up enterprises such as the US Small Business Innovation Research (SBIR) programme or the use of pre-commercial procurement. In such cases, innovative SMEs as suppliers receive public funds to develop ideas, which after the development will be offered to the public agency funding the project as the first buyer.

► Maximising SMEs accessibility to public procurement opportunities

To ensure maximum reach to targeted suppliers, it is important to exhaust all means in order to circulate procurement opportunities through various channels such as local business support organisations. This can open more opportunities for SMEs in public procurement and to advertise in a wider range of media likely to be read by smaller businesses or voluntary sector organisations, including the e-procurement portal of the government. In some cases, events like the 'meet the buyer' initiative, a platform where public buyers and SMEs suppliers discuss procurement opportunities and 'innovation' events help to attract more innovative SMEs suppliers or providers.

► Qualification criteria

The desk review highlighted at least two approaches in promoting SMEs' qualification for public contracts – the use of supplier diversity certifications and the adoption of prequalification requirements for SMEs' participation.

The promotion of responsible business conduct supports supply chain diversity qualification. Specifically, acceptance of supplier diversity certifications or any locally-based certifications (e.g. Women's Business Enterprise National Council certification in the US) or the promotion of vendors' participation in the UN Global Compact are two of the most commonly used means to promote responsible business conduct in public procurement.

Prequalification of local business through vendor registration helps in promoting more opportunities for SMEs in public procurement. In some instances, small suppliers are encouraged to join or form consortia in order to bid for larger contracts, meet the prequalification requirement, and become more competitive.

► Bid preference schemes

Public procurement can enhance SME participation by addressing their limited capacity in the tender specifications through a bid preference scheme. It can either be through bid price or preference schemes for SMEs in the form of discounted bids. Bids from eligible SMEs are discounted by a given margin such as 5% or margin of preference such as 10% against the lowest bid of a competing non-SME bidder. This results in the award of a contract to the competing SME bidder with the lowest evaluated bid after application of the bid preference schemes,⁴⁴ or through SME set-aside which is reserved procurement by limiting the competition only to SMEs. In some instances, bid preference is applied to prime contractors with subcontracting requirements with local and diverse suppliers by assigning a higher score/value to said firms.⁴⁵

► Contract Clauses

There are several provisions in most national legislations that already support socially responsible procurement such as compliance with environmental, social and labour laws, or mandatory exclusion on grounds of violation of said laws, which are considered “default” contract clauses. Going further, some additional initiatives have been made to ensure social and environmental commitments by winning bidders during the contract implementation. These include clauses defining the key performance indicators (KPIs) during contract performance. Such mentorship programs in favour of local and diverse suppliers, employment of long-term unemployed people through the use of targeted recruitment and training clauses are also known as inclusion of community benefit clauses or voluntary community benefit agreements.

► Subcontracting requirements

Subcontracting requirements in favour of SMEs are likewise allowed. These include SME consortia formations which promote SME engagement even when the size of the contract is not sustainable for a single SME to pursue, for example in Italy or India. They also use a voluntary agreement after awarding a contract which encourages prime contractors to create subcontracting opportunities, for example a plan to purchase from women-owned businesses or SMEs. Larger companies may also be encouraged to pay their suppliers, more particularly SMEs, promptly upon receipt of goods and services, to help them with their cash flow.⁴⁶ A provision for verification of these clauses is necessary through a conduct of “spot checks” or audit provisions.

► Monitoring and evaluation

To ensure effective SME support measures through public procurement, it is essential to conduct regular monitoring and evaluation of the SMEs assistance initiatives which are adopted in the procurement cycle. The best recorded practices showed the importance of digital transformation through e-procurement platforms that provide SME-enabled programmes such as a specific window for targeted groups, for example SMEs, women-owned enterprises or inclusive business prime contractors.

⁴⁴ ADB, SME Development: Government procurement and inclusive growth, Nov. 2012

⁴⁵ WEP's Guidance Note: Gender Responsive procurement

⁴⁶ WEP's Guidance Note: Gender Responsive procurement

INCLUSIVE PUBLIC PROCUREMENT: A SWOT ANALYSIS

The result of the desk review shows the potential of inclusive public procurement as a market tool to scale up SMEs' participation in public procurement. Though there are barriers in doing so, a government can maximise its support in opening more opportunities for SMEs growth through easy access to government contracts, and thereby strengthen their contributions to accomplishment of the sustainable development goals. This part of the review assesses the strengths, weaknesses, opportunities and threats of the existing models of inclusive public procurement and identifies key issues and potential strategies that the proposed playbook for inclusive public procurement should address (see Figure 8).

<p>GOAL</p> <p>Formulation of a playbook highlighting the strategies for the guidelines on Inclusive Public Procurement to scale up SME participation in public procurement</p>	<p>STRENGTHS</p> <p>Procurement Manuals with inclusive public procurement provisions Application of inclusive public procurement initiatives in all stages of the public procurement cycle</p> <p>Recorded best practices in inclusive public procurement (regardless of country procurement systems, i.e. from high income economy to low-income countries).</p>	<p>WEAKNESSES</p> <p>Barriers to IPP have existed since 2006 (OECD, 2018) The best practices are more on preferential treatment of SMEs</p> <p>Fragmented approach in addressing these barriers</p>
<p>OPPORTUNITIES</p> <p>Across countries at all levels of development, SMEs have an important role to play in achieving the Sustainable Development Goals</p> <p>Business Call to Action (BCtA) initiatives to promote public procurement</p> <p>International organisations such as UNDP have started to consider sustainability considerations such as local communities, SMEs and supplier diversity in their own procurement procedures.</p>	<p>S-O</p> <p>IPP guideline to promote specific SDGs such as SDG 1, SDG 8, SDG 9 and SDG 12,</p> <p>The playbook should, if possible, adopt and enhance the available best practices on IPP in all stages of the public procurement cycle in at least three scenarios highlighting the role of the following key stakeholders in IPP:</p> <ol style="list-style-type: none"> 1) Public procurers 2) BCtA Members 3) International organisations 	<p>O-W</p> <p>The playbook should focus more on other approaches on IPP besides preferential treatment to SMEs.</p> <p>The playbook should encourage more international organisations to assist in mainstreaming IPP through potential "meet and match" initiatives, i.e., providing more venues for public procurers and BCtA members to discuss potential collaborations.</p>
<p>THREATS</p> <p>SPP is an infant state in most countries, with fear of procurers due to legal barriers.</p> <p>Lack of capacity for IPP from both the procuring entities and potential SMEs suppliers</p> <p>Potential conflicts with global trade agreements.</p>	<p>S-T</p> <p>The playbook scenarios should be applicable not only in countries with high levels of SPP maturity but likewise those countries that are yet to adopt their first SPP initiatives, which can be through the use of IPP.</p> <p>The playbook should primarily be designed as a tool for capacity building of key stakeholders in IPP.</p> <p>The playbook should likewise discuss the complementary application of IPP to existing trade agreements with procurement provisions such as the WTO-GP, i.e., through the application of extraterritorial sustainability in the case of high-income economy countries or the application of special and differential (S&D) treatment in the case of developing countries.</p>	<p>Focus on existing best practices as a default for IPP initiatives, i.e., preferential treatment of SMEs</p>

Figure 8.A Playbook Strategy for Inclusive Public Procurement (IPP): A SWOT ANALYSIS



CONCLUSION AND RECOMMENDATIONS

As an approach to sustainable public procurement, inclusive public procurement (IPP) promotes the inclusion of sustainability considerations in all stages of the public procurement cycle. Its primary objective is to diversify the public procurement's supply chain by opening the public procurement market to SMEs. In doing so, it is essential to formulate specific guidelines that will address the existing barriers to SMEs' participation in public procurement, while also encouraging prime contractors to adopt best practices on inclusive business.

Specifically, the IPP guidelines should include and adopt the following requirements:

- ▶ Promote the importance of IPP in the accomplishment of specific Sustainable Development Goals such as SDG 1, SDG 8, SDG 9 and SDG 12.
- ▶ Enhance the available best practices on IPP at all stages of the public procurement cycle, while highlighting the important roles of key stakeholders, such as public procurers, BCtA members, international organisations and other interested parties.
- ▶ Focus more on other approaches in promoting IPP in addition to the usual “preferential treatment to SMEs”.
- ▶ Encourage more international organisations such as UNDP to assist in mainstreaming IPP through various platforms such as “meet and match” initiatives, where they can provide more opportunities for public procurers and BCtA members to discuss potential collaborations for more innovation in public procurement.
- ▶ Ensure the applicability of the proposed guidelines not only in countries with a high level of SPP maturity but also in countries that are yet to adopt their first SPP initiatives. This can be through the adoption of IPP whilst addressing potential conflicts with other procurement principles such as non-discrimination and open competition.
- ▶ Design the guidelines primarily as a tool for capacity building of key stakeholders in IPP.



APPENDIX 2

Stakeholder Analysis: Identifying the Critical Stakeholders in Inclusive Public Procurement

INTRODUCTION

The OECD Recommendation of the Council on Public Procurement recommends that “Adherents foster transparent and effective stakeholder participation” (Principle VI OECD, 2015). More particularly this involves developing and formulating changes to the public procurement system,⁴⁷ such as the development of guidelines for inclusive public procurement. This brief tries to map the stakeholders that may have direct or indirect influence on the formulation of guidelines for inclusive public procurement and thereafter, assess their possible role/s, if any, in successful inclusion of the principles of inclusive business in public procurement process. This therefore ensures the satisfaction of primary stakeholders of public procurement projects - the public.

In doing so, this paper evaluates the materials used in the desk review and identifies the stakeholders for inclusive public procurement. Thereafter, it analyses their respective interests or needs, including their potential influence or contributions with the objective of narrowing them into specific stakeholders. This is for the purpose of identifying the key stakeholders who will be included in the upcoming stakeholder engagement as one of the prescribed methodologies in developing the draft of the inclusive public procurement guidelines. Lastly, this paper will be used to finalise the stakeholder guide notes that will be used in the conduct of the stakeholder consultation.

⁴⁷ OECD, Recommendation of the Council on Public Procurement, 2015, available at [OECD-Recommendation-on-Public-Procurement.pdf](https://www.oecd.org/public-procurement/)

WHO ARE THE STAKEHOLDERS?

While many scholars have been using the word “stakeholder” in articles about different aspects of public procurement, stakeholder analysis in public procurement remains underdeveloped. As Schooner (2008) found, there is still a dearth of sources that identify and define these stakeholders and their interests.⁴⁸ In fact, identifying and understanding the interest and priorities of the various stakeholders in public procurement is a critical yet underexplored piece of the public procurement policy puzzle (Yukins & Schooner, 2007).

This paper will try to map the “many different stakeholders” who “can affect or are affected by the achievement” of the objectives (Freeman, 1984⁴⁹) of inclusive public procurement, including their respective outcome interests (Cleland, 1985⁵⁰). Also, the paper will discuss the dynamics for the successful inclusion of small and medium enterprises in the public procurement market.

Inclusive public procurement is an approach to sustainable public procurement that promotes the inclusion of sustainability considerations at all stages of the public procurement cycle, with the primary objective to diversify public procurement’s supply chain by opening the public procurement market to newer, smaller or innovative suppliers (Desk review, 2021).

It has four main constituents, each acting in multifaceted capacities:

- 1** The first are the public entities as economic operators (i.e. buyers⁵¹), which also serving as regulators in the public procurement market and (to some extent) even act as suppliers in cases of government to government procurement.
- 2** The second constituent is the private sector, which serve as suppliers to the government and/or buyers from small enterprises within the public procurement supply chain.
- 3&4** The last two constituents are the non-governmental organisations, and the non-profit organisations (i.e., international organisations and civil societies) that are acting as issuers of standards (i.e. environmental standards for large projects) whilst serving (in some cases) as implementing agencies of procurement projects, and in case of collaborative procurement, they are themselves either as buyers or suppliers of the transactions covered in the said collaborative procurement.

Using Freeman’s (1984) broad definition of stakeholders, this part of the paper attempts to map the multiple stakeholders in inclusive public procurement, whilst categorising the key stakeholders in public procurement (i.e. procuring entities, contracting authorities, end-users, prime contractors, SMEs suppliers) as the primary stakeholders. Primary stakeholders are individuals or groups who can significantly influence or are important to the success of an activity, and who are directly affected by an activity either positively or negatively⁵². They include indirectly as secondary stakeholders, “all other individuals or institutions with a stake, interest, or intermediary role in the activity”⁵³.

Stakeholders can be further grouped into four groups:

Private Sector | Public Sector | Civil Society | Sectoral Groups

Please refer to Table I on the summary of the Inclusive Public Procurement Stakeholders.

⁴⁸ Schooner, Steven L.; Gordon, Daniel I.; and Clark, Jessica L., “Public Procurement Systems: Unpacking Stakeholder Aspirations and Expectations” (2008). GW Law Faculty Publications & Other Works. 111. https://scholarship.law.gwu.edu/faculty_publications/111

⁴⁹ Freeman defines a stakeholder as any group of individuals who can affect or is affected by the achievement of the organisation’s objectives, as cited in Amerasinghe, N., Design, Appraisal and Management of Sustainable Development Projects, 2015, Asian Institute of Management, p. 112.

⁵⁰ Cleland defines stakeholders as those who have a vested interest in the outcome of the project, id.

⁵¹ OECD, 2019 – Governments are expected to lead by example by implementing the same expectations in areas where they are economic operators such as public procurement. As large buyers, governments have the purchasing power to set standards that can shift markets towards more responsible business behaviour and levelling the playing field for suppliers who stiver to respect human rights, labour rights, environmental requirements and other responsible business standards.

⁵² Amerasinghe, supra at note 4, p. 112

⁵³ Amerasinghe, supra at note 4, p. 112

WHAT ARE THEIR RESPECTIVE INTERESTS REGARDING THE SUCCESS OF IPP?

Public procurement stakeholders have a broad scope of interests as well as a varied level of participation in actual procurement transactions. Schooner argued that “when the procurement system is used to put government funds in the hands of small businesses, women-owned businesses or businesses owned by a particular ethnic group, the system serves a goal completely divorced from goals of efficiency, best value in the object being purchased, or recipient satisfaction.”⁵⁴

Since inclusive public procurement (IPP) is particularly focused on increasing the opportunities for small businesses to participate in public procurement, it is interesting to evaluate the interest and potential influence of stakeholders, at least on the available best IPP practices in promoting IPP that were identified in the recently conducted desk review. The assessment however, is limited to the evaluation of the researcher based on available data and will be subject to further assessment in the upcoming stakeholders’ consultations.



Public Stakeholders

Table 2 listed the identified stakeholders in public procurement and categorised them based on their interest and influence in the promotion of IPP. Of the five sub-groups of public stakeholders, those considered the “**critical stakeholders**” for promoting inclusive public procurement are **policy makers (mostly from state or local government units), procuring or contracting authorities who represent central purchasing bodies, and government employees working in procurement units.** Best practices have already identified policies that support IPP. The missing link is the public procurement units and personnel that will, so to speak, “champion” the promotion of small business enterprises in public procurement.



Private Stakeholders

Public procurement accounts for approximately one-fifth of global gross domestic product (GDP), which is estimated at around USD 84.3 trillion in 2018 (Oxford Insights, 2020). This makes it a lucrative source of income from multinational enterprises or large national companies, which could, in a way, benefit the public sector on cost savings due to suppliers’ economies of scale. Nonetheless, the call for the strategic use of public procurement to promote social goals has been increasing, particularly in the access of small businesses to the public procurement market. In Table 3, three primary private stakeholders have been identified as critical players in advancing the use of public procurement towards this goal. **They are major suppliers (those that have been identified prime contractors or those companies that receive direct contracts from the government), non-major suppliers or potential subcontractors, small businesses, and businesses that invest in new or innovative products such as start-up companies.**

⁵⁴ Schooner, S.L., et.al., “Public Procurement Systems: Unpacking Stakeholder Aspirations and Expectations” (2008). GW Law Faculty Publication & Other Works. 111, https://scholarship.law.gwu.edu/faculty_publications/111.



Civil Societies

While the “usual stakeholders” in public procurement refer to those who are acting as “oversight” for purpose of monitoring “integrity” in public procurement, such as the Transparency International monitoring corruption index in public procurement or the media reporting on public procurement scandals, the same is not the case for promoting IPP. Civil societies such as international organisations play an important role as funding institutions for pilot IPP procurement projects. Some of these include encouraging supplier diversity through the award of projects either to direct procurement to small enterprises or requiring prime suppliers to subcontract a part of the project to small enterprises. They may also promote IPP when acting as procuring entities for their own requirements (i.e., as buyers). Also, it is for this purpose that only in the case of IPP civil societies stakeholders where a second stakeholder is considered as a critical player, either an international organisation advancing IPP through project finance, e.g., FAO or in its own internal procurement, e.g., UNDP or an international organisation working on government procurement agreements such as the International Trade Centre or the World Trade Organization. In the case of the latter, trade issues in competition have been identified as critical issues in promoting IPP, hence it is important to include them among the key stakeholders. See Table 4.



Sectoral Groups

As taxpayers and the primary source of government funding for public procurement, the public has the highest interest in all forms of public procurement. However, for the purpose of developing guidelines for inclusive public procurement, sectoral groups that are already working on these areas such as research-based institutions, are considered to be the critical players. The study will benefit from the results of their existing studies or research and establish a network that will help these institutions to advance more opportunities for promoting supplier diversity and social inclusion in government contracting. See Table 5



GUIDE TO STAKEHOLDERS' ENGAGEMENT FOR THE DRAFTING OF THE GUIDELINES (PLAYBOOK) IN INCLUSIVE PUBLIC PROCUREMENT

This guide is intended to assist the UNDB BCtA team in developing the Stakeholder Engagement strategies when considering IPP. As an approach to SPP, IPP promotes the inclusion of sustainability considerations at all stages of the public procurement cycle. Its primary objective is to diversify the public procurement's supply chain by opening the market to newer, smaller or innovative suppliers. This may also be a strategy to promote inclusive business models. A guideline for inclusive public procurement is an incremental step towards a long-term goal and the engagement strategy should therefore be considered not as a single event but rather as an ongoing activity.

There are many recorded best practices on inclusive public procurement, some of which can be found in the recently completed desk review (Refer to Appendix 1). However, the focus of this guide is not on the technical aspects of inclusive public procurement development. Rather, it is a tool to help steer the process of engagement between and among the critical stakeholders (refer to Table 6) in mainstreaming inclusive business models through the strategic use of public procurement.

This Guide, with Worksheets, is based on fundamental principles for community engagement, and has been developed as a starting point for UNDP BCtA to utilise in the formulation of the IPP guidelines in the form of a playbook.

OVERALL GOALS

To help the UNDB BCtA project team in the formulation of the guidelines for IPP, which adhere to the BCtA's value proposition (i.e., driving inclusive business globally by engaging the private sector, governments and the development community in joint efforts towards inclusive economic growth and social impact), it is important to provide a platform for key stakeholders to share their experiences and interests and communicate their perceptions of critical issues in promoting IB in government contracting or public procurement. Through stakeholder consultations, the UNDP BCtA team hopes to increase consensus on the importance of promoting IB as one of the important goals of strategic public procurement.

- 1 — How can stakeholders better engage with inclusive businesses and SMEs in public procurement?
- 2 — What are the key demands of stakeholders, especially governments and SMEs, in this context?
- 3 — How can BCtA advocate for and support the promotion of inclusive procurement and which benchmarks can be taken into account in this regard?

FORMAT & DURATION

Stakeholder consultations will take the following two different formats in order of implementation: The first is through a rapid online stakeholder survey using a structured questionnaire that will be distributed to targeted stakeholders. This survey will preliminarily assess their interest and engagement, evaluate their needs, and determine the potential drivers and barriers for promoting inclusive business through public procurement (See Appendix 3 for the results of the online stakeholder survey)

The second format is through stakeholder engagement online interviews. The results of the desk review assessment and the rapid online survey will be presented for feedback, questions, and comments. There will be one forum discussion for each group category. Each workshop will run for 60 minutes.

(See Appendix 4 for the results of the stakeholder engagement online interviews)

GROUP	PRIVATE	PUBLIC	CIVIL SOCIETIES (NON-GOVERNMENTAL Organisations)	SECTORAL GROUPS
Primary Stakeholders	<p>Corporations and businesses</p> <p>Business associations</p> <p>Professional bodies</p> <p>Financial institutions</p> <p>Business leaders</p> <p>Corporate foundations</p>	<p>Government (national, sub-national and state-owned enterprises)</p> <p>Government leaders (executive and legislative)</p> <p>Agencies responsible for the development of product/service specific criteria, which can be single or multiple agencies</p> <p>Government bodies established for purpose of providing expertise in specific areas of strategic procurement</p> <p>Government employees work within the acquisition workforce</p> <p>Government end users or government customers.</p> <p>Government oversight/ Agency responsible for prior review of the procurement decision of a procuring entity</p>	<p>Oversight and interest groups/non-government oversight</p> <p>NGOs/Non-for-profit organisations (NFPs)</p> <p>Media (all sources and formats)</p> <p>Social partners</p> <p>Small organisations</p> <p>Disadvantaged groups (e.g. women, youth, migrants)</p> <p>People who belong to indigenous and traditional groups</p> <p>International lending institutions or national development funding agencies</p> <p>International organisations</p>	<p>Citizens/public in general</p> <p>Community and society at large</p> <p>Local community</p> <p>Pressured groups</p> <p>Interest groups</p> <p>Women</p> <p>Farmers</p> <p>Youth</p>
Secondary Stakeholders	<p>Shareholders</p> <p>End-consumers</p> <p>Intermediary customers</p> <p>Financial institutions and lenders</p> <p>Industry organisations</p> <p>Investors or rating agencies</p>	<p>Public procurement knowledge centres/ expertise centres</p> <p>Regional centres of expertise and agencies</p>	<p>International networks</p> <p>Academic educational institutions</p> <p>Think Tank/ Policy/Research Organisation</p>	<p>Consumers</p>

Public	Internal	External	Interests/Needs	Influence/ Contribution	Effect of IPP on interests (+/-)	Importance of Stakeholder for IPP success	Degree of influence of stakeholder
PRIMARY STAKEHOLDERS							
Government leaders (executive and legislative)	Policy makers Executive		Learn best practices on policy instruments for IPP (World Bank, 2016)	Adopt the best practices on IPP implementation/ contribute to the benchmarking activities on best practices for IPP (World Bank, 2016)	+	4	4
	Legislative		Interested in maintaining their positions within the government (or not being fired or otherwise removed), avoiding scandal in public procurement, effective legislation to support public procurement system, i.e., procurement reform, and coherent policies on government appropriations and national procurement (Schooner, 2008)	Policy formulation and monitoring, i.e., budget appropriation and procurement, e.g., US Congress monitors federal procurement through the Government Accountability Office. (Schooner, 2008)	+	3	3
	State/local policy makers		Recognize the value of small locally owned and operated businesses (local enterprises)	Take the opportunity to create an inclusive, diverse and dynamic economy where small, local business owners can equally benefit from opportunities in the form of public contracts	+	4	5

Public	Internal	External	Interests/Needs	Influence/Contribution	Effect of IPP on interests (+/-)	Importance of Stakeholder for IPP success	Degree of influence of stakeholder
PRIMARY STAKEHOLDERS							
Government (national, sub-national, local governments)	Regulatory Agencies (i.e., public procurement authority or equivalent)		Budget for targeted procurement, policy implications of a procurement decision, flexible procurement system (Schooner, 2008)	Create business opportunities for SMEs, provide a “no cost form of assistance to favoured groups” (instead of tax incentives), get the product/ service delivered on time, provide choice of contract types (Schooner, 2008).	+	4	4
	Procuring entities/ Contracting authorities/ Central purchasing bodies (CPBs)/ Anchor institutions		Meeting their specific program’s products or service needs within the appropriated/budgeted money.		+	4	5
Government employees work within the acquisition workforce	Contracting officers Public procurement professionals Procurement staff/ procurement specialists		Efficiency in the procurement process, risk avoidance	Provide single point entry for vendors, ensure that information provided to vendors is accurate and complete, maximise competition, transparency, and accountability	+	4	5
Government end users or government customers.	Requesting government personnel or units	State-owned commercial enterprises	High priority to efficiency (receipt of goods and services faster) Best value (not to accept lower-cost solution)	An increased user satisfaction can affect the evaluation of past performance of supplier/ contractor since it can be included as a potential mandatory evaluation criterion, e.g., procurements over \$100K in the US. (Schooner, 2008).	+	4	4

Public	Internal	External	Interests/Needs	Influence/ Contribution	Effect of IPP on interests (+/-)	Importance of Stakeholder for IPP success	Degree of influence of stakeholder
PRIMARY STAKEHOLDERS							
	Internal Auditor/ accountability officers	Court/ Administrative Tribunals	Identify problems in public procurement, investigate potential fraud, corruption and waste, provide recommendations and solutions	Ensure that the workforce and other government employees comply with the law and policy restrictions in procurement system	+	3	3
Government oversight	Public Procurement Complaints, Review and Appeals Board	Special District/ Authority					
SECONDARY STAKEHOLDERS							
Government bodies established for providing expertise in specific areas			Research institutes for strategic procurement (e.g., Competence Centre for Sustainable Procurement or the German Competence Centre for Innovation, Germany)				
Regional centres of expertise and agencies			Public procurement knowledge centre/expertise centre (e.g., Belgian Knowledge Centre (Federal Institute for Sustainable Development), Dutch Expertise Centre (PIANo) ⁵⁵				

⁵⁵ Develop SPP guide, a web-based guide which outlines the technical sustainability criteria to be included in tender specification, a centre that supports contracting authorities with tools, training and fact sheets.

Private	Internal	External	Interests/Needs	Influence/ Contribution	Effect of IPP on interests (+/-)	Importance of Stakeholder for IPP success	Degree of influence of stakeholder
PRIMARY STAKEHOLDERS							
Corporations and businesses		Major Suppliers (prime contractors): Multinational Enterprises/Large national companies	Profits through government contract awards/new businesses trying to win government contracts	Economy of scales	+	5	5
		Suppliers (not major supplier/sub- contractors: SMEs/ socially disadvantaged groups/minority owned business/social enterprises/women- owned businesses)	Special preferences and opportunities to win government contract awards, additional stream of revenue for businesses/scale up to become prime suppliers, gain access to global public procurement markets	Support social goals, i.e., social inclusion, reserved procurements, support larger prime contractor	+	5	5
		Businesses that invest in new or innovative products and services/ start-up companies/ enterprises and innovative and social entrepreneurs	Commercialization of innovative products and services/Access to market	Availability of innovative products (cheaper cost)	+	5	5
Business associations		BCtA member companies	BCtA (intentional engagement of the base of the economic pyramid, pursuing financial viability, scaling the business models measuring and managing impact	Advance inclusive business models	+	4	4

Private	Internal	External	Interests/Needs	Influence/ Contribution	Effect of IPP on interests (+/-)	Importance of Stakeholder for IPP success	Degree of influence of stakeholder
PRIMARY STAKEHOLDERS							
Professional bodies		Supplier organisations/ CIPS	Gender parity, capacity building of procurement supply chain	Promote gender inclusion in procurement profession, i.e., in the US and EU, where procurement organisations are the most mature, 20% of the top listed companies have appointed a woman as chief procurement officer	+	4	4
Financial institutions		Credit organisations	Increase credit lines to SMEs	Additional capital for SMEs	+	4	4
SECONDARY STAKEHOLDERS							
Shareholder		Investors in corporations (suppliers)	Inclusive business as a criterion to evaluate potential investees	Social and economic investment			
Rating agency		Social labelling intuitions					

Civil Societies	Internal	External	Interests/Needs	Influence/Contribution	Effect of IPP on interests (+/-)	Importance of Stakeholder for IPP success	Degree of influence of stakeholder
PRIMARY STAKEHOLDERS							
Oversight and interest groups/ non-government oversight		Transparency International	Transparency, procurement system that functions with integrity and without corruption	Provide information, evaluation and criticism in public procurement, rarely praises, commonly criticises, investigative and reporting bodies that work to make information publicly available, in an effort to encourage reform within the existing public procurement regime.	+	4	4
Media (all sources and formats)			News in public procurement often highlights corruption and other negative aspects of an existing procurement system	Responsible for the choices about what and how to report – dramatically affect the public's perception	+	3	3
Small organisations (i.e. disadvantaged groups (e.g. women, youth, migrants, people who belong to indigenous and traditional groups))			Promote social inclusion in government contracting	Lobbying for policy formulation for IPP	+	4	4
International institutions or national development funding agencies		UN-based organisations	Pilot projects for inclusive procurement, i.e. FAO food inclusive procurement		+	5	5
International organisations		UN-based organisations as procuring entities for their own operations	Compliance with UN-based requirements for internal or corporate procurement, reporting sustainable public procuremen		+	5	5

Civil Societies	Internal	External	Interests/Needs	Influence Contribution	Effect of IPP on interests (+/-)	Importance of Stakeholder for IPP success	Degree of influence of stakeholder
SECONDARY STAKEHOLDERS							
Academics		Third party observers	Public procurement development and reform	Provide information to government leaders, policy makers and the public to encourage certain decisions in public procurement design, development and reform. Serve as critics of existing public procurement systems and may write articles or books that influence how the government does business or at least call attention to the potential errors or inconsistencies in public procurement systems (Schooner, 2008)	+	3	3
International Networks		UN Global Compact	A network-based organisation, (initiative of the United Nations) to encourage businesses to adopt sustainable and socially responsible policies	Encourages open, transparent and non-discriminatory public procurement systems	+	3	3
		G20 Global Platform on Inclusive Business	Support member countries on their requests for knowledge sharing on IPP (World Bank, x)	Develop policy case studies on policy instruments, including design elements, implementation challenges, and lessons learned on IPP	+	3	3
		The ASEAN Coordinating Committee on Micro, Small and Medium Enterprises	Create a globally competitive, resilient and innovative MSME that are seamlessly integrated to the ASEAN Community and inclusive development in the region (ASEAN, 2020)	Promote IB in public procurement through guidelines on monitoring of member countries on their initiatives for specific rules for IB or Social enterprise initiatives	+	3	3
International Trade Organisations		International Trade Centre	Transparency and uniformity in public procurement standards and procedures as a way to increase access and involvement in global markets, and develop global economy in public procurement	In-depth women's public procurement case studies (i.e., Nigeria)	+	4	4
		World Trade Organization	Harmonisation among procurement regimes and increase in international access and international trade in public procurement. Harmonisation of public procurement systems as a way to increase international trade	Encourages harmonisation through model law, including a model law on procurement, ensures that States are living up to their international obligations under the treaty....	+	5	5

Sectoral Groups	Internal	External	Interests/Needs	Influence Contribution	Effect of IPP on interests (+/-)	Importance of Stakeholder for IPP success	Degree of influence of stakeholder
PRIMARY STAKEHOLDERS							
Citizens/ public in general		Citizens/ public in general ⁵⁶	How the government spends public funds, wise government spending, procurement system rooted in fairness (not in corrupt practices designed to benefit individuals and corporations) Flexible procurement system and responsive to national emergencies	Help lobby for the inclusion of SMEs in public procurement	+	5	5
Community and society at large/local community		Public as end-user of goods and services	Keep businesses accountable, ensuring vendors with long-standing contracts are continuing to offer services of high quality to be selected by the government				
Interest groups (women, farmers, youth)		Research institutions working on IPP	Highlighting the best practices, including barriers on IPP	Inputs of their research on IPP	+	5	5
SECONDARY STAKEHOLDERS							
International networks							

U = Unknown I = Little/No 2 = Some 3 = Moderate 4 = High 5 = Critical player

⁵⁶ Members of the society who because of their relationship to the government as taxpayers have interest in how the government spends money

STAKE-HOLDERS	CRITICAL PLAYERS	SUGGESTED COUNTRIES	SUGGESTED INSTITUTIONS	SUGGESTED INVITEES
PUBLIC	Policy makers (State/local policy makers)	Colombia	Ministry of Environment and Sustainable Development	Representative from the Ministry
	Procuring entities/Contracting authorities/ Central purchasing bodies (CPBs)/ Anchor institutions/ Contracting officers/Public procurement professionals/ Procurement staff/procurement specialist	Netherlands	Local Government, i.e., City in Netherlands that are advancing social procurement	Procuring official from the City of Amsterdam, Netherlands
PRIVATE	Suppliers (not major supplier/sub-contractors: SMEs/socially disadvantaged groups/minority owned business/social enterprises/women-owned businesses)	Multiple countries (with principal office in high-income countries such as the United States)	SMEs working directly with government through innovative public procurement, working with prime contractor as sub-contractor, or working as supplier in small project	Founder or CEO of SMEs in the US that are active in public procurement
	Businesses that invest in new or innovative products and services/start-up companies/ enterprises and innovative and social entrepreneurs			
CIVIL SOCIETY	UN-based organisations as procuring entities for their own operations	Multiple countries (preferably working in developing countries)	With pilot project/s supporting IPP such as the UNDP and the FAO	Representative from the UNDP procurement team responsible for the RFQ on “Capacity Building for the Replication and Adaptation of Inclusive Business Models in Technology-Enabled Agriculture.” Representative from FAO working inclusive food public procurement
SECTORAL GROUPS	Research based organisations working on IPP	Multiple countries (preferably working in developing countries)	NGOs working on social and responsible public procurement in different countries	Representatives from research-based organisations that have published works

APPENDIX 3

UNDP BCtA Stakeholder Survey 2021

BACKGROUND

Launched in 2008, the Business Call to Action (BCtA) is a unique multilateral alliance between key donor governments including the Dutch Ministry of Foreign Affairs, the Swedish International Development Cooperation (Sida), the Swiss Agency for Development and Cooperation (SDC) and the United Nations Development Programme – which hosts the Secretariat.

BCtA aims to accelerate progress towards the Sustainable Development Goals (SDGs) by challenging and supporting companies in developing inclusive business (IB) models which offer the potential for both commercial success and development impact. BCtA aims to enhance the visibility, credibility, scale and effectiveness of IBs as market-based solutions which contribute to the achievement of the SDGs and benefit those at the base of the economic pyramid (BoP).

OBJECTIVES OF THIS SURVEY INCLUDE:



Establishing a benchmark on the experience of BCtA members in public procurement

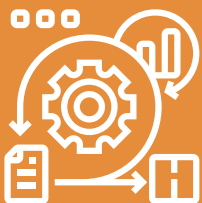


Providing opportunities for BCtA members to share the challenges that they experienced in participating on public procurement



Identifying strategies on how to promote inclusive business in public procurement

METHODOLOGY



Stakeholders who took part in this survey were from the BCtA's database of members and contacts. By sharing the official link of the survey, respondents from BCtA's database were invited to participate and encouraged to share any of their experiences or perceptions (i.e. challenges and opportunities) of public procurement. The survey was conducted online via Survey Monkey and in English. The survey was carried out in the field between 29 November and 5 December 2021.

Survey questions were divided into two parts. The first part focused on their experiences of participating in public procurement or their reasons for not doing so. The second part asked about their specific profile and perspective on the use of public procurement as a policy instrument to promote inclusive business (or what is now known as "inclusive public procurement).

PROFILE OF BCTA MEMBERS (RESPONDENTS)

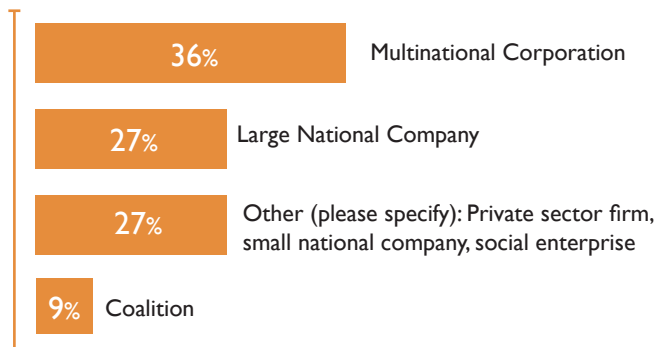
A total of 19 respondents participated in the survey.

12 of these respondents provided their specific company profiles:

- Company type: Multinational corporation (36.36%); large national company (27.27%); other companies, i.e. small national companies, private firms, or social enterprise (27.27%); and coalition (9.09%).
- Sectors: Agriculture (58.33%), Chemicals, Education, Health, ICT and Media & Entertainment (each with 8.33%).

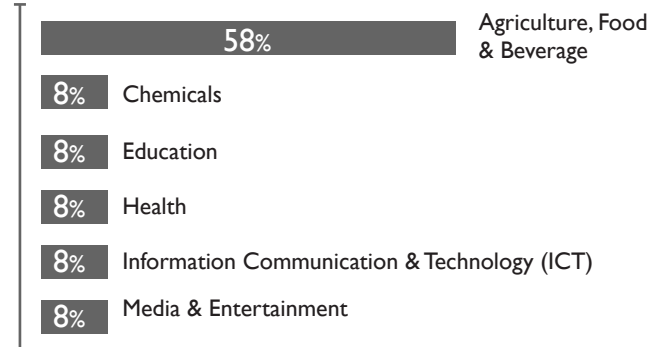
What is your company type?

Total No. of Responses: 11 (of 19)



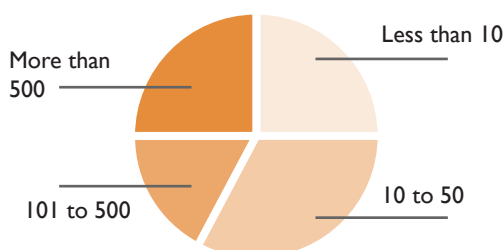
What is the sector of your principal business activity?

Total No. of Responses: 12

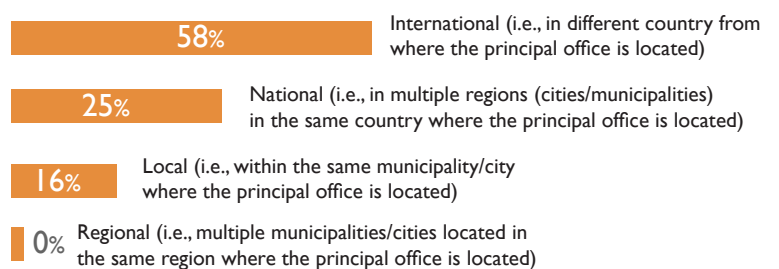


- More than half of the respondents (58.33%) have 50 or fewer employees, i.e. 10 to 50 employees (33.33%) and less than 10 (25%).
- More than eighty percent have been operating between 5 and 10 years (or more).
- Almost 60% of the respondents operate internationally (58.33%). The rest are either operating within the same country (national, 25%) or within the same city/municipality (local, 16.67%) where their principal office is located. While respondents have their principal offices located in Asia Pacific (Japan and India), Latin America (Colombia and Costa Rica), North America (Canada and the US), and West Asia and Africa (Turkey, Malawi and Uganda), none has its principal office located in a European country.

What is the number of employees in your company, including full-time, part-time, shareholders (excluding externally contracted staff)? Total No. of Responses: 12



What is the scale of the business? Total No. of Responses: 12

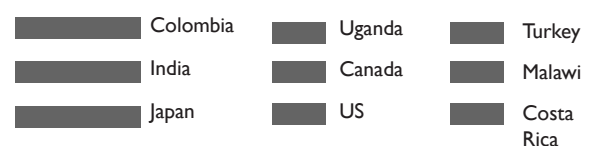


In which year was the company founded?

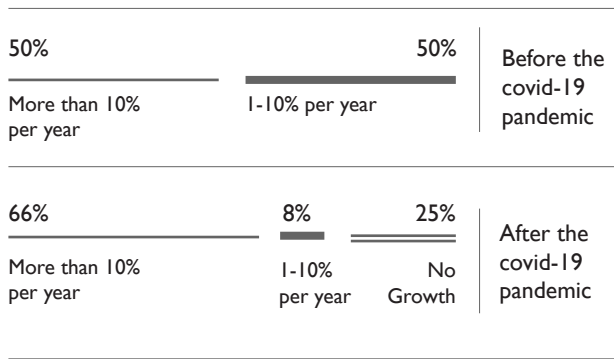
Total No. of Responses: 12



In which country is your company headquarters?



Annual growth expectation



Like most companies, the annual growth expectations of respondents are highly affected by the COVID-19 pandemic.

While there was an increase of respondents with 1 to 10% annual growth expectation before and after the COVID-19 pandemic (from 50% in pre-pandemic scenario to 66.67% in after pandemic scenario), more than 25% had indicated a “no growth expectation” and only 8.33% indicated the same annual growth expectations of more than 10% per year.

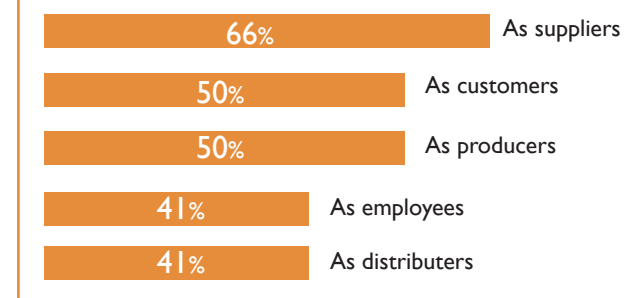
Why does your company operate an inclusive business model? (Multiple Answers Available)

Total No. of Responses: 12

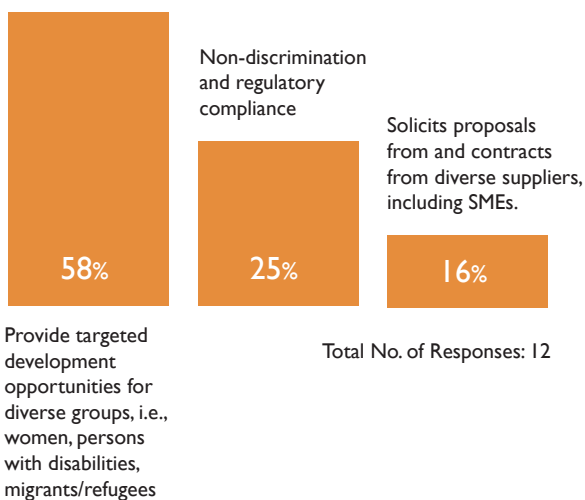


In which way(s) does your company integrate low-income segments in your IB supply chains? (Multiple Answers Available)

Total No. of Responses: 12



Which of the following strategies best supports the integration of low-income segments in IB supply chain?

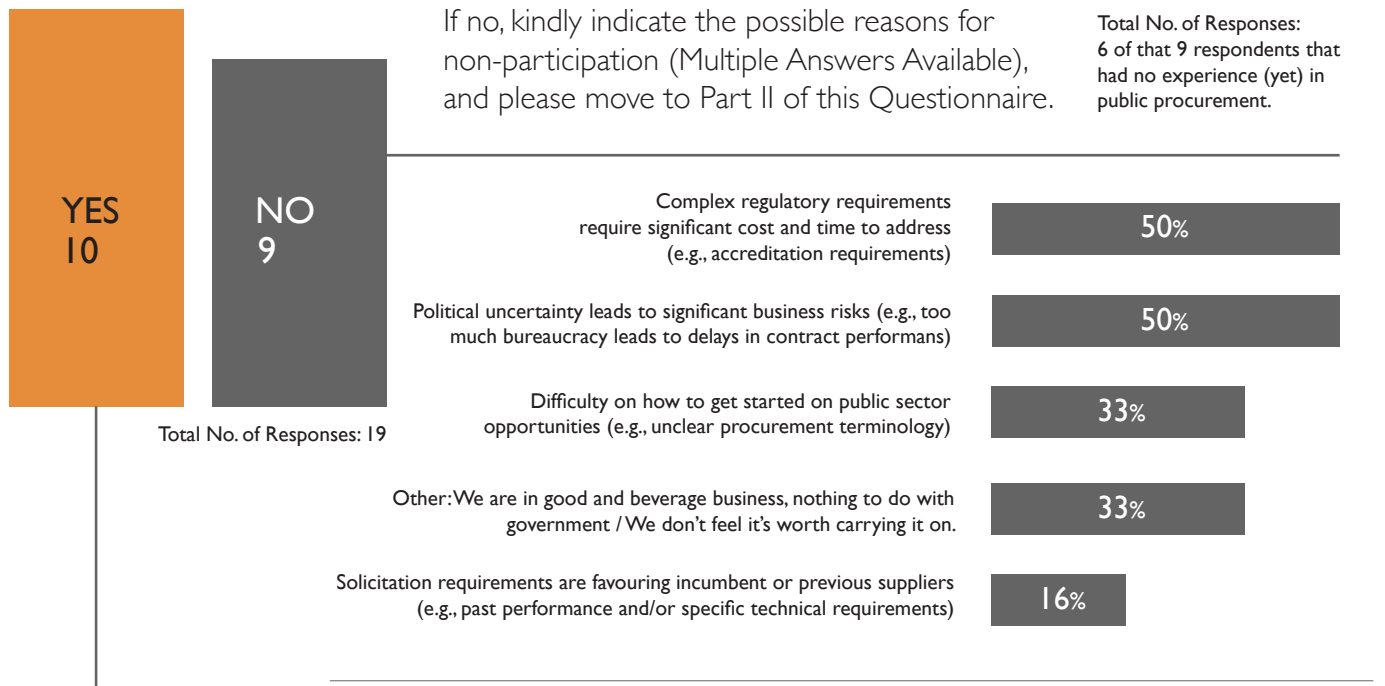


More than 80% of respondents claimed that SDGs have influenced their decisions to operate an inclusive business model, while over 50% are more focused on integrating IB model for possible access to new markets or to capture new revenue streams. In other words, the respondents influenced by SDG have operated an inclusive business model to align corporate activities with SDGs.

Anyhow, the majority of them focused on integrating low-income segments in their IB supply chains as suppliers (66.67%), customers or producers (both with 50%) by providing development opportunities to diverse groups such as women, migrants, etc. (58.33%). Some support said integration through company compliance with non-discriminatory regulations. (25%)

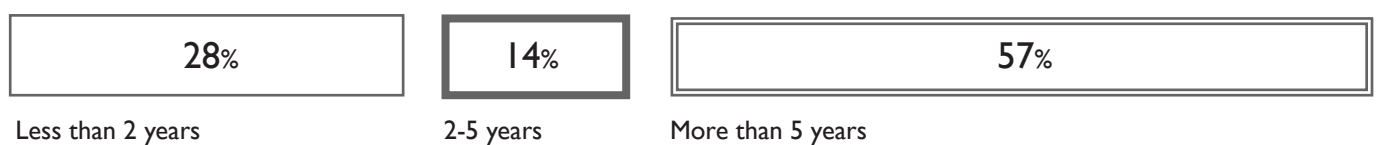
FEEDBACKS ON PUBLIC PROCUREMENT

Of the total 19 respondents in the survey, more than fifty percent had already participated in public procurement (10/19) and 70% of these shared their experience in public procurement (7/10). Four had been participating for more than 5 years and typically applied for procurement contracts with values from 10,000 USD to 500,000 USD.

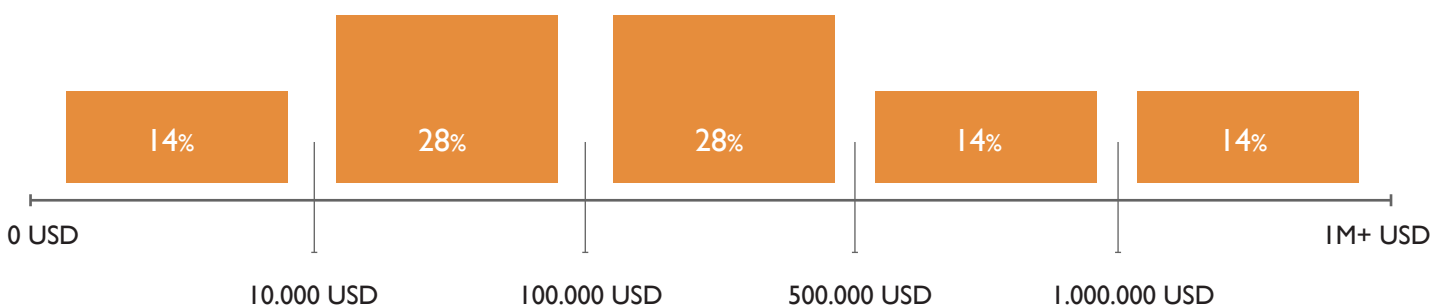


How long has your company been participating in public procurement?

Total No. of Responses: 7/10 that responded "yes" in Q1



What is the size of public procurement contract that your company is typically applying for?

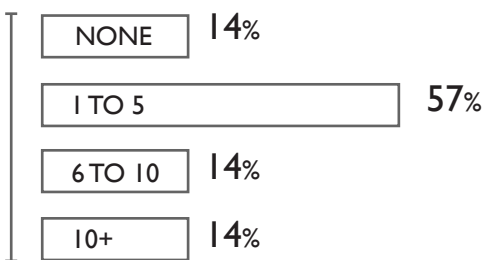




In the last two years (2019-2020), the same number (4) claimed to have participated in 1 to 5 calls for tenders/bids/solicitations published by either the central/national government or the local government (both with 42.86%). Five claimed to have won 1 to 5 government contracts in the last two years. The sole respondent who claimed to have participated in more than 10 calls for tenders/bid/solicitations likewise responded by having won more than 10 contracts in the last two years.

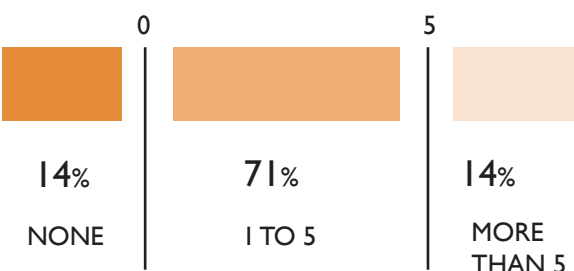
How many public procurement contracts (calls for tenders/bids/solicitations) has your company tendered for in the last 2 years?

Total No. of Responses: 7



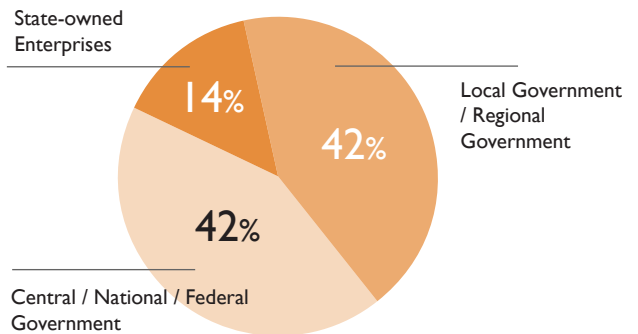
How many public procurement contracts has your company won in the last two years?

Total No. of Responses: 7



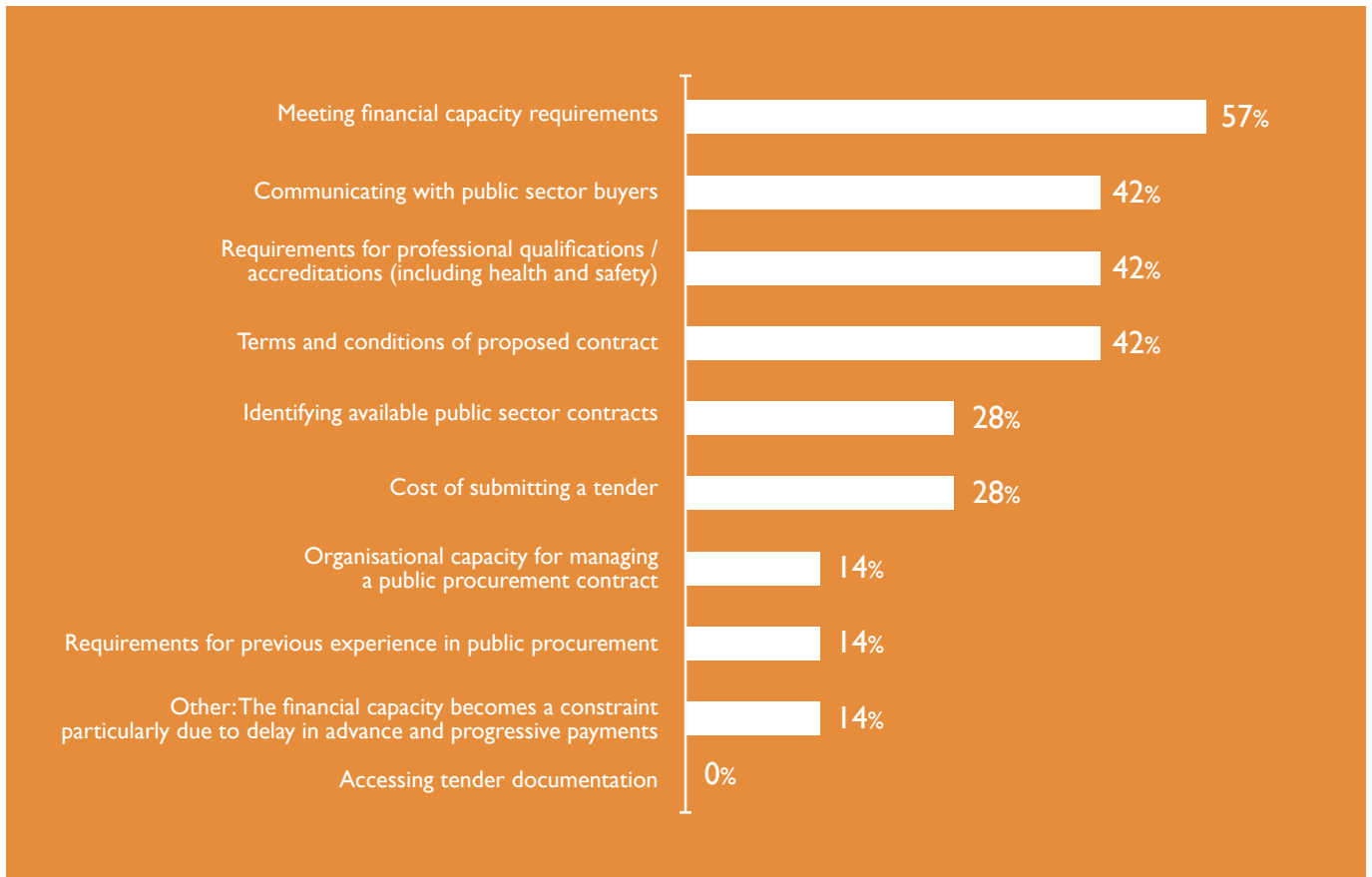
What procuring entity (i.e., public sector) was covered by the public procurement contracts that your company had tendered for in the last two years?

Total No. of Responses: 7



More than 70% (57.14% for meeting financial capacity requirements and 14.29% on others) still considered financial requirements the most challenging aspect of public procurement, followed by other requirements such as professional qualifications and accreditations, terms and conditions of the proposed contract. In other words, financial capacity becomes a constraint due to delays in advance and progressive payments.

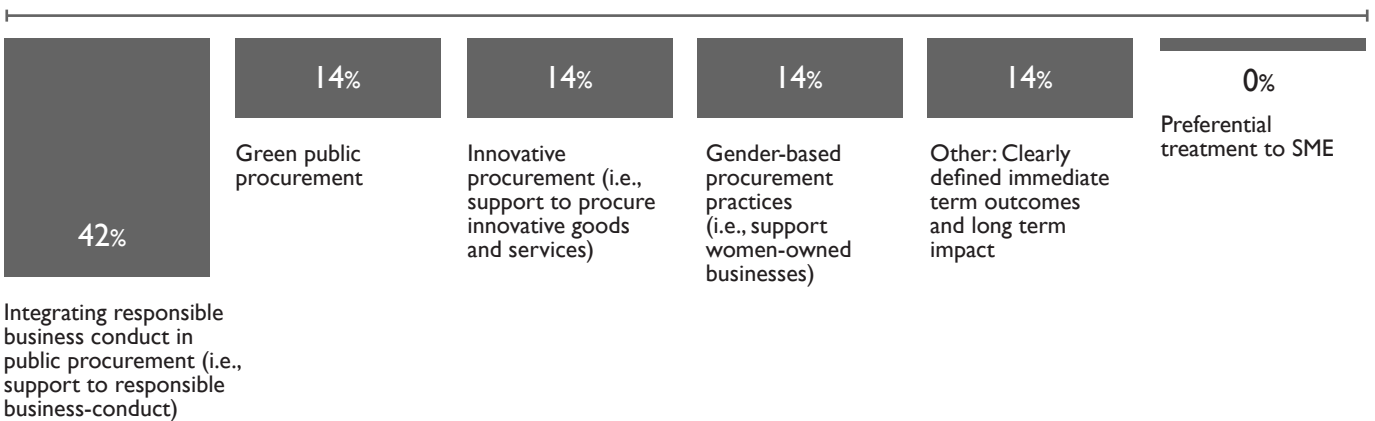
Communicating with public sector buyers was also considered challenging, which could be one of the reasons for non-participation in public procurement by some of the respondents. Non-participation, declared by 50% of the respondents, may also have been due to complex regulatory requirements and political uncertainty.



Public perceptions of public procurement as “primarily a government’s task” have already evolved to recognize the importance of collective action “from all stakeholders, including the private sector” (UNDP, 2021). In fact, more than 40 percent of respondents noted the importance of integrating responsible business conduct in public procurement through direct support to enterprises with recorded responsible business practices.

Which of the following procurement policies could best support the participation of inclusive businesses in public procurement processes?

Total No. of Responses: 7

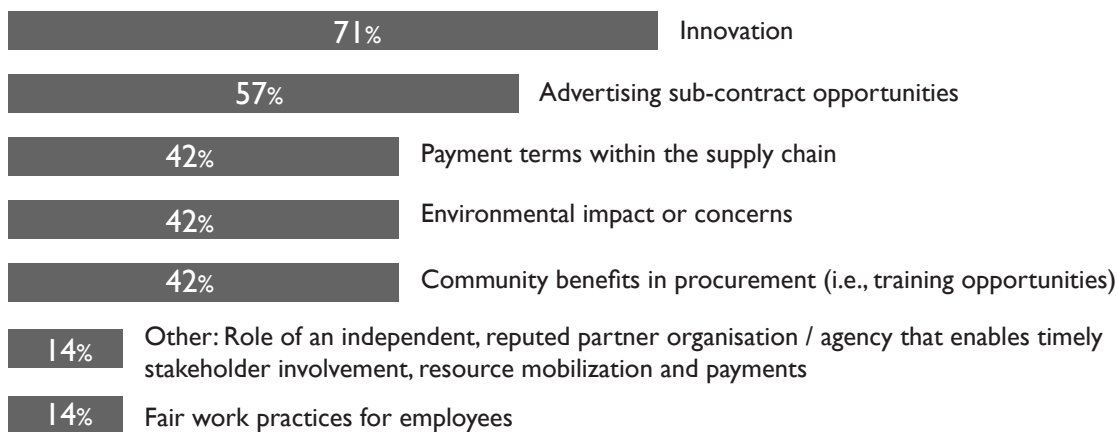


Promoting innovation as a procurement consideration is perceived to promote inclusive business participation in public procurement. Among potential measures to promote inclusive business participation, 71.43% of respondents supported procurement of innovative products, while 85.71% supported adopting innovative practices such as e-procurement. These were followed by measures addressing the challenges for SMEs participation in public procurement, such as embedding SMEs in procurement processes (71.43%).

Transparency in procurement opportunities and promoting efficiency in contract performance help facilitate more participation of SMEs in public procurement. In fact, none of the respondents considered preferential treatment of SMEs as the best policy to promote a responsible business model. Instead, they indicated preference towards adopting pro-inclusive business procurement practices such as encouraging consortia bidding, advancing bidding (advancing efficiency in fiscal management, particularly on payment terms within a supply chain) and promoting more transparency in procurement processes with subcontracting opportunities.

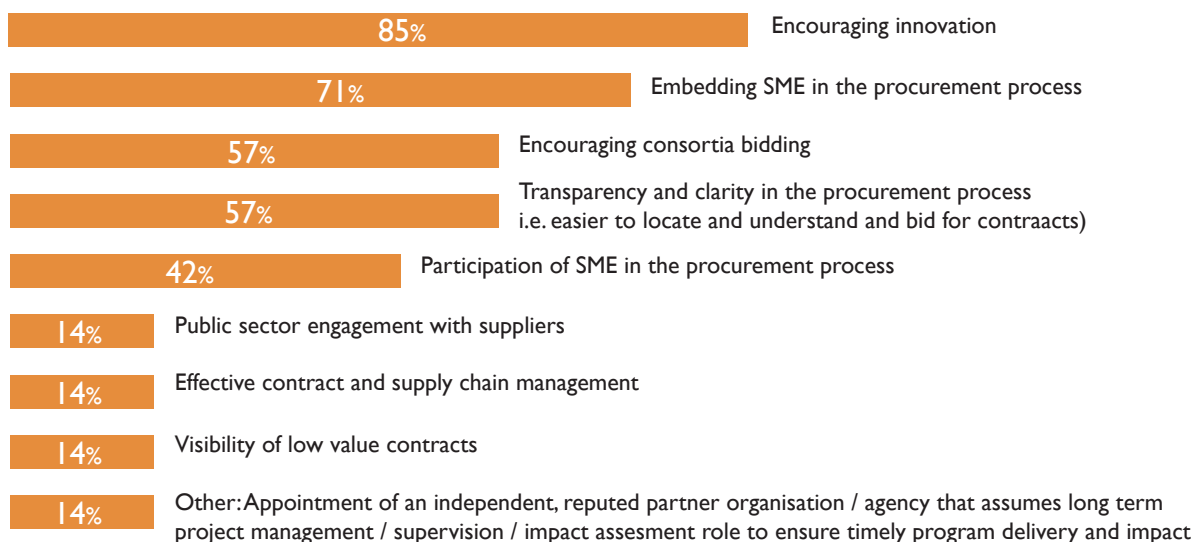
What public procurement considerations could best contribute to inclusive businesses participation in public procurement? (Multiple Answers Available)

Total No. of Responses: 7



Which of the following practices could have an impact in promoting IB through public procurement? (Multiple Answers Available)

Total No. of Responses: 7





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APPENDIX 4

Stakeholder Consultations

As part of the IPP stakeholders' consultations, eight online interviews were conducted from 9th March to 14th April 2022 to learn from the experiences of key stakeholders with relevant experience in public procurement processes on how to further promote inclusive business participation in public procurement. More particularly, the interviews aimed to understand their pain points and expectations, while identifying opportunities on how to improve SMEs' participation and (eventually) success in public procurement.

Structured questionnaires were designed according to the categories of the stakeholder with relevant experience in inclusive public procurement. The categories included public procurer, international organisation supporting inclusive business and/or social inclusion in public procurement, research-based organisations with published works on topics related to IPP such as gender-based procurement and inclusive food public procurement, and small businesses enterprises that have recently received public contracts. Each online interview ran for about 20 to 30 minutes and was split into three parts:

- 1 Introduction of the organisation, including the role of the interviewee and his/her primary responsibilities.**
- 2 Presentation of specific questions to achieve the following objectives:**
 - Understand the end-to-end experience of the public sector in promoting supplier diversity (i.e., inclusive business model) in public procurement processes.
 - Learn about the crucial issues and pain points that the public sector encounters in public procurement processes.
 - Uncover the important role of the government in enhancing inclusive businesses participation in public procurement processes.
- 3 Wrap-up and next steps where interviewees were asked to share their insights on what they would change to incentivize and promote inclusive businesses' successful participation in public procurement processes. Interviewees were also given the opportunity to add other ideas that were not covered in the previous parts.**

Interviewees included CEO and founders of small enterprises and/or inclusive businesses, public officials working on local public procurement and national public procurement, a project management associate responsible for procurement operations of a project team in an international organisation, a policy and legal specialist focusing sustainable public food procurement in an international organisation, a director of international non-government organisation working on improving public procurement practices, and a consultant of research-based organisation focusing, among others, on improving policies and regulations on public procurement.

EXPECTED OUTCOMES

Description of the end-to-end experience of inclusive businesses in public procurement processes.

Identification of pain points that inclusive businesses encountered in public procurement processes and the critical issues causing these pain points.

Assessment of the reasons (or incentives) to encourage more inclusive businesses to consider participating in the public procurement process.

Evaluation of procurement practices that can enhance inclusive business participation in public procurement processes.

Recommended actions/initiatives to promote more participation of inclusive businesses in public procurement processes.

This report is divided into three sections aligning with the three objectives of the stakeholder consultations.

SECTION I: End-to-End Public Procurement Experience

While the experience of our stakeholders in public procurement varies depending on the countries where the process took place, there are at least five entry points from which inclusive businesses, more particularly small and medium enterprises (SMEs), may consider in attempting to participate in public procurement practices.

- 1** Directly participating in standard tendering processes of various public entities and quasi-judicial entities through their known procurement portals.
- 2** Working as sub-contractors for other organisations that have already won government contracts either through prime contractors or non-government organisations.
- 3** Forming consortia and participating directly in standard tendering processes as co-tenderers or co-bidders.
- 4** Participating in public-private partnerships for the purpose of developing innovative solutions.
- 5** Applying for government schemes supporting SMEs such as state aids or grants.

While the processes vary (in some countries the last two approaches may or may not be included in public procurement processes), any of these approaches can result in inclusive businesses such as SMEs receiving government contracts.

SECTION 2: Pain Points and Critical Issues

Notwithstanding the procurement experience, stakeholders identified common pain points resulting in less participation of SMEs in public procurement. These include:

- 1** Longer payment cycle (i.e., longer than 30 days, which is not aligned with the usual private sector payment cycle of 30-days)
- 2** Lack of access to finance, which limits their opportunities to take on large government contracts.
- 3** Complex legal provisions in public procurement and a lack of resources to support navigating such legal requirements.
- 4** Historical biases among decision makers against small business or underrepresented groups. For example, women-led business may be seen as incapable of undertaking work, or small business may be seen as causing more work for the project manager or procurement officer. When the procurement process is limited to a certain “close club” who are often “politically connected,” there may also be a structural bias due to lack of transparency in procurement opportunities.

The critical issues causing these pain points include:

Lack of awareness from local managers regarding payment cycles or excessive internal bureaucratic processes resulting in payment delays.

Inclusive policies, such as those introducing the need to buy from local and small enterprises, are not supported by legal or regulatory frameworks. For example, where local and small enterprises are required to meet requirements not suitable for small enterprises, such as standard certifications from national governments.

Lack of “champions” at the government level to promote inclusive businesses in public procurement.

SECTION 3: Incentives to Enhance IB’s Participation in Public Procurement

Public buyers usually occupy a larger share of the market for specific sectors such as the health care sector, and having a pre-existing share in that market is an incentive for SMEs working in that sector. For SMEs and start-ups working in this sector, it is imperative not to participate in public procurement as a primary way of accomplishing their vision of promoting quality health care for all.

Stakeholders also agreed that public procurement is an important policy tool to promote innovation and development, including various social, economic and environmental goals that benefit multiple beneficiaries. Hence, participating in public procurement can be an important instrument to level the playing field by providing opportunities to historically disadvantaged groups such as women-led businesses.

Preferential treatment through direct contracting can incentivise SMEs to participate in public procurement outside of their preferred procurement strategies. However, SMEs and representatives from civil societies agree that more than preferential treatment, SMEs prefer opportunities to scale up their businesses by removing barriers to entry such as voluminous paper requirements that are not aligned with their regular businesses and building their capacity through financial assistance in the form of prompt payments and collateral-free credits.

“

If you had a magic wand, what would you change in order to incentivize and promote inclusive businesses' successful participation in public procurement processes?

“Prompt payment and access to finance.”
Public procurement expert, International NGO

“Making the payment cycle shorter especially less than 30 days, second providing collateral-free line of credits to small enterprises and then collateral free companies are really important because if it is all collateral-based then it is a viable and scalable option[...]so it has to be a collateral-free line of credits [...] also having consortium classes there, subcontract clause – all of these increase the participation of small businesses[...] and also introduce more innovation in the process and in the implementation because oftentimes start-ups are builder innovators for larger companies and they have more incentives to innovate so by having these clauses there, the government can improve innovation in its overall supply chains.”- Founder & CEO, SME

“A lot of times the government proposals (referring to bids or tenders) request for solutions, there's an innovation that already solves it and what's really baffling [...] (is) their natural tendency to go to a big contractor, let's just say IBM or Microsoft. Like Microsoft will solve our problems. Instead of going to a universe of potentially interesting solutions. That's a natural tendency[...]that's how our world works but I think [...] if I have a magic wand[...] everyone wants to know “I need a solution for this exact problem”[...] and then boom the solutions appear and you could just go get them[...] almost like an e-commerce process for government solutions[...] that would be amazing[.] they remove barriers in the way of government contracting - that's the magic part...”- Founder & CEO, SME

“I think to make things work you need to have a holistic approach that both supports the supply side – work with SMEs capacity - to organise themselves, to sell or to access more easily in the market and the institution procurement practices, including capacity building, awareness raising, and also the policy and regulatory framework. You need to have this holistic approach and see the need to intervene in all of these levels[.] because if you focus only on creating a law that imposes inclusive procurement but you don't work with the institution or also with the supply – we see many cases that the implementation does not happen, we also see that if you create the demand, it's not enough[...] for instance in school feeding program, it is not enough that you indicated the need to buy from local farmers, you have to provide the support for the farmers to respond to this demand (i.e., on the side of the production), otherwise, this can even be prejudicial to them. So, I think this is one thing I would like to highlight – the importance of having this holistic approach.” - Public procurement expert, International organization

“I would add regulations into our procurement rules and regulations because we would reach more people in that sense. Everyone is using a system called POP procurement procedures[...] if we could add that IPP modality in our procurement – it should be voluntary or maybe at the beginning it can't be mandatory[...] we can start from there because it would reach many people[...]if we do it on our own – only in our team, it would not be so effective for the procurement colleague. I think it should be a rule, then we can apply it in many procurement processes, otherwise people will not think about it, maybe I will forget while creating a procurement case. If I could do it, I would add it there.” - Public procurement expert, International organization

“To enable everyone working within the government to understand this is important (referring to the use of public procurement to promote social goals, i.e., gender equality and social inclusion (GESI) in public procurement)[...] helping people understand why it is a good thing[...] that is it is not just a box ticking exercise[...] taking a kind of GDP approach, monetarily this (referring to IPP) will be going to help you[...] I would much prefer that people will kind of understand the moral imperative and the social imperative behind IPP[...] why this is so important.” - Public procurement expert, International NGO

“It’s really difficult because on the one hand is that the idea of public procurement is that everybody has a fair chance to participate and it is open to everyone so everyone has the same chance, but I think what we forget in that process is that opening it up to everybody and making it transparent for everybody is not the same thing as giving everybody an equal chance, so that feels very contradictory because we think that by preferring certain groups like providing help to certain groups we are actually creating an uneven playing field but I don’t think that’s the case. I think the playing field is already uneven and it’s up to us to see where we can support small business or social entrepreneurs in order to take part in the procurement process, but that’s me talking as a sociologist. You cannot say that a level playing field when you are not actively supporting certain groups who are underrepresented in order to participate. Ideological thing to say, what I would change – I think it may even be in the way that we set up public procurement and the ideas that are behind it – that competition by just making it open is a fair competition for everyone because that is not the case and the realisation of that, the awareness of that – that would be really nice.” - Public procurement and sustainability expert, Public sector

“En primer lugar, se considera necesario la generación de directrices claras para las empresas proveedoras de bienes y servicios, sobre los requisitos que deben cumplir para que su negocio se reconozca como inclusivo. En segundo lugar, deben estar claramente definidos los criterios de compra inclusiva que se evaluarán en los procesos de contratación. Adicionalmente, sería conveniente contar con normas legales que reglamenten claramente las ventajas que tienen empresas consideradas negocios inclusivos sobre las empresas que ofrecen los mismos bienes y servicios, pero no son inclusivas Finalmente, es importante tener indicadores que permitan medir de manera real el impacto que tiene la inclusión de incentivos en la contratación para la promover prácticas inclusivas.” (In the first place, it is considered necessary to generate clear guidelines for suppliers of goods and services on the requirements that must be met for their business to be recognized as inclusive. Secondly, the criteria for inclusive purchasing that will be evaluated in contracting processes should be clearly defined. In addition, it would be convenient to have legal norms that clearly regulate the advantages that companies considered inclusive businesses have over companies that offer the same goods and services, but are not inclusive. Finally, it is important to have indicators that make it possible to measure in a real way the impact of the inclusion of incentives in contracting to promote inclusive practices.) - Public procurement and sustainability expert, Public sector

Beyond what we have discussed here, is there anything else you would like to add that we have not covered?

In summary, stakeholders shared their interest in learning more about inclusive public procurement, beyond focusing on social entrepreneurs or local or small business. They also expressed interest in how to support corporations or cooperatives that are not for business to compete for larger contracts in the same manner as entrepreneurs. They discussed the importance of qualitative data for understanding the experience of small businesses on the ground, rather than just focusing on quantitative data for ranking. Stakeholders also expressed a need to discuss corruption as it relates to government contracts and a need for making public procurement as transparent as possible.

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