

IMPACT OF PUBLIC PROCUREMENT ON STIMULATING BUSINESS ACTIVITIES AND ECONOMIC DEVELOPMENT

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Annotation

Public procurement plays an important role in shaping GDP and it acts as a catalyst for the economy and business as a whole. The role of public procurement is especially growing during crises. The current situation around the world does not meet reliable expectations, therefore, in such a case, the business stops the movement of capital within the increased risk, both locally and internationally. At the same time, ensuring the transparency of public procurement and adapting to international standards is of particular importance for Georgia on the path to European integration. The effectiveness of public procurement is assessed by various factors, at the present stage, mainly economically efficient public procurement is distinguished, as well as procurements focused on innovation and care for the environment.

Introduction

Historical experience has recognized that during financial and economic crises, the private sector loses its incentive due to reduced demand and falling prices when making a decision to resume production and / or make an investment decision, therefore, in such periods it is important to increase

the volume of expenditures from the state and to stimulate the economy. According to the theory proposed by J. M. Keynes, one of the methods of the government policy to overcome the economic crisis was the increase of the state expenditures because of the increased capital expenditures. The experience of the Great Depression in the United States testifies to this, and in times of financial or economic crisis, this approach does not lose its relevance today.

A public procurement can have a significant impact on the stimulation and development of the economy, its role and importance are generally recognized. The public procurement represents an important part of the economy of any country, regardless of geographic location, political structure, or level of development of the country. In state procurement, it is important to reach an agreement with individuals and legal entities in the process of delivering goods. In general, the dominance of private companies is recognized in the process of delivery of goods. At the same time, in the context of increased demand for services and goods from the state, competition and specialization among suppliers is increasing more and more (Vargo and Lusch, 2004:1-17).

Literature review

The public procurement is typical for any country and this process is regulated by specific legislation. Procurement is relatively similar, but procurement organization differs from country to country (Ahlström, 2000; Bonnacorsi et al., 1996; 1996:386–405; Coase, 1937: 386–405).

The public procurement influences standards and ensures its dissemination in the economy and society (Blind, 2013: 13/15). The use of public procurement also stimulates innovation in the private sector, driven by the “demand” policy of the state (Uyarra, et al., 2006: 631–645). The impact of state procurement on innovation growth is gaining increasing attention. Empirical research suggests that state procurement may have a greater impact on innovation than traditional tools such as such as setting up subsidiaries for research and development (R&D subsidies) (Rothwell and Zegveld, 1981: 116–147).

In the context of the global Covid-19 pandemic, as a result of restrictions on international and / or domestic transportation by air, sea, and land, restrictions on cultural and sports events, restrictions on socio-economic activities due to the

Great Lockdown, the movement of international investment flows has decreased, and in many cases has even been stopped (Abuselidze & Mamaladze, 2020:453-467; Abuselidze & Slobodanyk, 2021: 718-728).

Basic part

At the present stage, the dynamics of remittances remains a challenge, which has played an important role in the revenue structure of both Georgia and other countries. In such conditions, state procurement acquires a special role and, in our opinion, should play an important role in stimulating economic activity and business activity. Of course, state expenditures cannot be directly equated with state procurement, because we are dealing with different volumes and state expenditures themselves include state procurement.

In the case of Georgia, the share of state expenditures in total expenditures is 15.6% (6400.8/41035.2 * 100%), among them, the share of expenses incurred on individual goods and services in state expenditures is 5.9%, and expenditures incurred on collective services is equal to 9.7%. Also, state expenditures are 12.8% of GDP (6400.8/50002.2 * 100%).

Table 1

Gross Domestic Product and the main categories of its use (including the 2nd quarter of 2018-2020)

	2018	I 19*	II 19*	III 19*	IV 19*	2019*	I 20*	II 20*
Gross Domestic Product								
GDP at basic prices	38,778.5	9,114.1	10,589.6	11,571.2	12,044.6	43,319.6	9,743.8	9,981.8
(+) Taxes on products	6,031.2	1,135.1	1,508.9	1,928.2	2,343.9	6,916.1	1,371.6	1,312.1
(-) Subsidies on products	210.3	49.3	73.6	52.9	57.7	233.4	51.7	84.0
GDP at market prices	44,599.3	10,199.9	12,024.9	13,446.5	14,330.8	50,002.2	11,063.8	11,210.0
The consumption of Gross Domestic Product							-	-
Costs for final consumption	36,801.3	8,834.0	9,573.0	10,191.4	12,436.9	41,035.2	10,185.9	9,694.7
Households	29,728.4	7,143.9	7,768.5	8,351.8	10,267.0	33,531.2	8,387.6	7,888.5
SHMAKO (Non-commercial Organizations Serving Households)	1,182.3	266.7	260.7	238.0	337.7	1,103.2	273.4	291.3
Bodies of the public administration	5,890.6	1,423.4	1,543.7	1,601.6	1,832.2	6,400.8	1,524.9	1,514.9

Individual goods and services	2,212.3	411.6	665.0	664.0	692.8	2,433.3	447.1	723.0
Collective service	3,678.3	1,011.8	878.7	937.6	1,139.4	3,967.5	1,077.8	792.0
(+) Gross capital formation	12,542.6	2,497.7	3,280.6	3,554.9	4,071.3	13,404.4	2,733.0	3,149.7
(+) Export of goods and services	22,548.9	5,244.9	6,620.3	7,979.3	7,155.1	26,999.6	5,163.3	3,788.8
(-) Import of goods and services	27,293.5	6,376.7	7,448.9	8,279.0	9,332.5	31,437.1	7,018.5	5,423.3
(=) Gross Domestic Product at market prices	44,599.3	10,199.9	12,024.9	13,446.5	14,330.8	50,002.2	11,063.8	11,210.0

Source: National Statistics Office of Georgia, 2020

Every year, public institutions in EU member states spend 14% of their GDP on public procurement, which is equal to 1.9 trillion EUR. The impact of the public procurement can be crucial for the challenges that many countries face. These include - economic growth and job creation, fiscal discipline, modernization of public administration, fight against corruption, ensuring the involvement of small and medium-sized enterprises (SMEs), development of innovations, and care for the environment.

Peculiarities of the public procurement in the EU

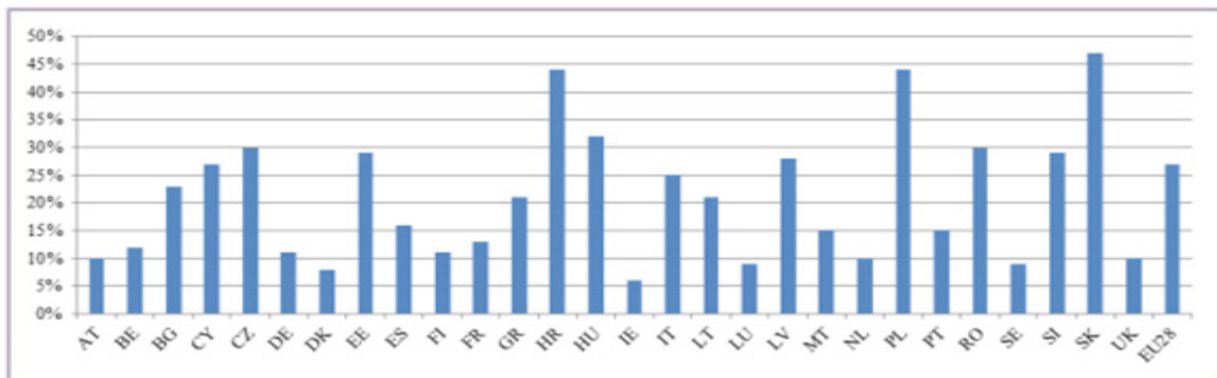
Competition in public procurement

For the member states of the European Union, there is a single platform for publishing information

on public procurement „Tenders Electronic Daily” (TED). The amount of bids recorded during the procurement is also fixed in the mentioned platform. This indicator can measure the competitiveness of the public procurement market. Competitiveness among bidders during the Public Procurement should be one of the goals to be achieved in the implementation of Public procurement policy, which is revealed by the best combination of price and quality. In EU countries, during the period from 2006 to 2016, the number of procurements recorded by only one bid by the person participating in the tender increased from 14% to 29%. This indicates that competition is relatively limited or that there are difficulties in accessing procurement markets (EC Europa).

Diagram 1

Proportion of contracts for which there was a single bid (excl. frameworks) 2006-2016, (European semester thematic fact sheet, public procurement, 2017:2)



Source: European Commission based on OJ/TED data (Croatia 2013-2016, Romania & Bulgaria 2007-2016)

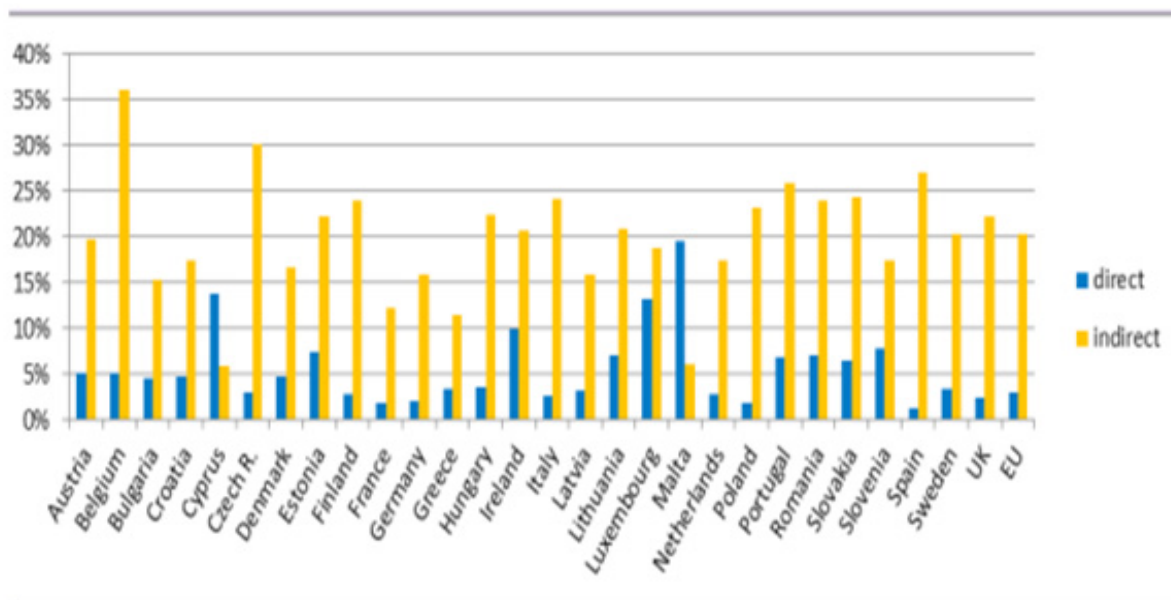
The level of cross-border public procurement

According to the rules developed by the EU, it was expected that participation in cross-border procurement would increase. There are basically two forms of cross-border procurement, direct and indirect. Both direct and indirect participation in

procurement has increased, during 2009-2015, but it should also be noted that growth is not stable. The number of direct participants has increased from 2.5% to 3.5% during the mentioned period, while the number of indirect participants has increased from 19.9% to 22.6% (EC Europa).

Diagram 2

Proportion of contracts awarded to foreign companies by value (directly and indirectly), 2009-2015, (European semester thematic fact sheet, public procurement, 2017:3)



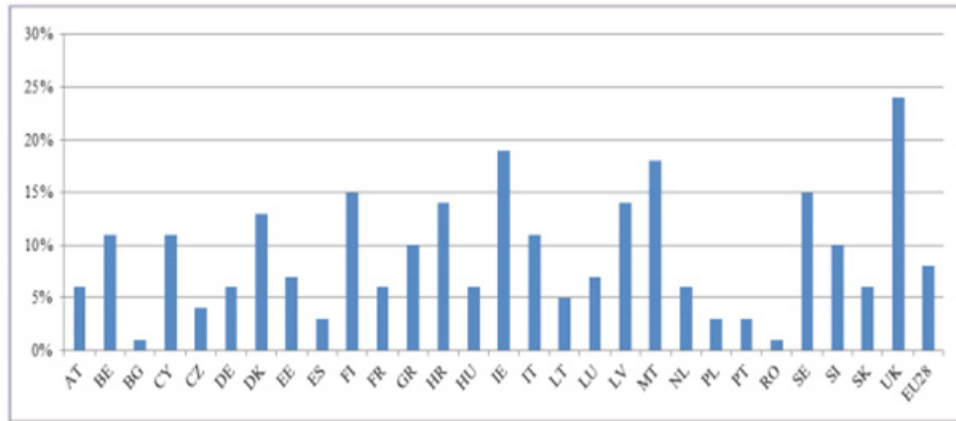
Demand aggregation

The scale of public procurement is characterized by significant fragmentation of service providers. Some EU Member States do not even have complete information on contractors. In addition, it should be noted that the effectiveness of public procurement is mainly determined by the professionalism of the tenderers, so it is important that the procuring

entity receive services, goods or construction work as part of the original contractor's performance. It should also be noted that the participation of subcontractors in an already held tender or competition further complicates the issue of liability and does not determine the best price, which in many cases should be considered alarming. This is quite problematic for the EU countries as well (EC Europa).

Diagram 3

Proportion of contracts award notices where the contracting authority is purchasing on behalf of other contracting authorities (either joint purchasing or central purchasing bodies), 2006-2016 (European semester thematic fact sheet, public procurement, 2017:4)



Source: European Commission base on OJ/TED data (HR 2013-2016, Romania & Bulgaria 2007-2016)

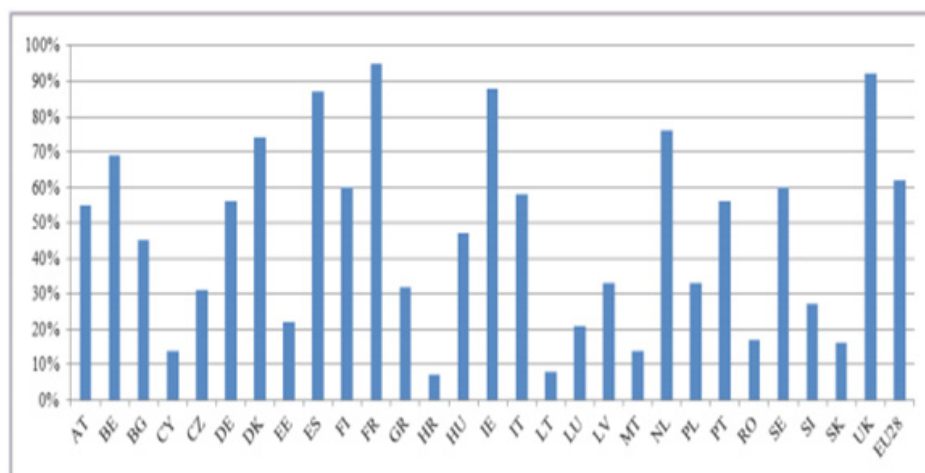
Use of evaluative qualitative indicators

Few EU countries use policy instruments that focus on environmental / social responsibility and innovation. Therefore, buying at a low price does not always mean acceptable quality. The European Commission encourages member states to introduce

a principle known as “cost-effective tender”. The application of this principle varies from country to country. France and Great Britain use MEAT in 90% of tenders, while Croatia and Lietuva (Republic of Lithuania) use only in 10%. The EU average is 62% (EC Europa).

Diagram 4

Use of MEAT criteria for evaluating tenders, 2006-2016, (European semester thematic fact sheet, public procurement, 2017:7)



Source: European Commission base on OJ/TED data (Croatia 2013-2016, Romania & Bulgaria 2007-2016)

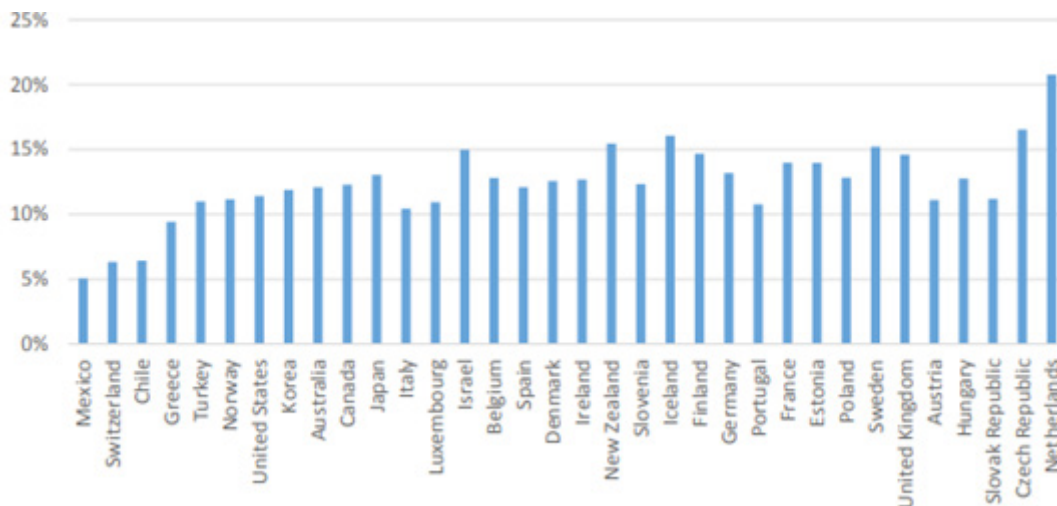
The volume of public procurement in relation to the volume of GDP, as we have already said, measures the ability of a country, how much a particular country has the resources to spend and according to the logical conclusion, the rate of high-income countries should also be relatively high, because we understand that developed countries are trying to spend money as efficiently and rationally as possible, taking into account quality and price,

but it should also be noted that with the growth and development of government revenues, the social and economic goals that must be achieved will also grow, therefore, a significant effect on the part of developed countries and responsible governments is likely to be an increase in public procurement.

Below is a table of the relation of state procurement to GDP (International Institute for Sustainable Development, 2015).

Diagram 5

Government procurement as a percentage of GDP for selected OECD Countries, (Silva, Scott, 2014:3)



Source: Perera, Chowdhury & Goswami (2007).

It should also be noted that since the state becomes the largest buyer, it is important that the degree of participation of economic agents is maximized, including in terms of the scale of competition and the activities of economic agents, in particular, the most important and at the present stage there is a tendency to involve small and medium-sized enterprises in the process of supplying procurement objects, of course, in each specific case, it is necessary to take into account

the volume of the procured object of procurement, therefore, the degree of involvement of small and medium-sized enterprises can be influenced by the policy pursued by a particular state, taking into account the principles and tools (methods) of public procurement; it should also be noted that each government establishes the classification of small and medium-sized enterprises differently, but the difference in classification mainly depends on the socio-economic situation of the country

and therefore, it is still considered an important characterizing state procurement (International indicator and it is actively taken into account when Institute for Sustainable Development, 2015).

Table 2

Share of SME participation in public procurement by country, (Silva, Scott, 2014:5)

Country	Percentage share of SMEs' participation in public procurement
Slovenia	78%
Hungary	68%
Ireland	65%
Italy	50%
Austria	48%
Germany	37%
France	35%
Spain	35%
Chile	50%
Brazil	30%
Mexico	<15%

Source: Belaustegui (2011).

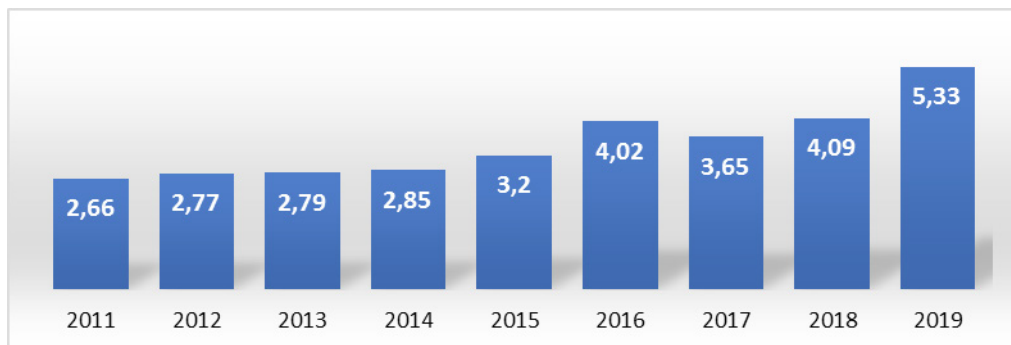
Features of public procurement in Georgia

During 2019, the total volume of state procurement amounted to 5,332,804,815 GEL, which is within 11% of the country's gross domestic product, and makes up 63% of the expenditure part of the state budget. As stated in the 2019 State

Procurement Report, most of the amount - 82.4% was spent through open competitive bidding, and simplified procurement (direct procurement) accounted to 17.6% respectively. A total of 34,216 tenders were announced in 2019, of which 76% were for electronic bidding without auction.

Diagram 6

The cost of the total public procurement contract by years (billion GEL)



Source: State Procurement Agency, 2019

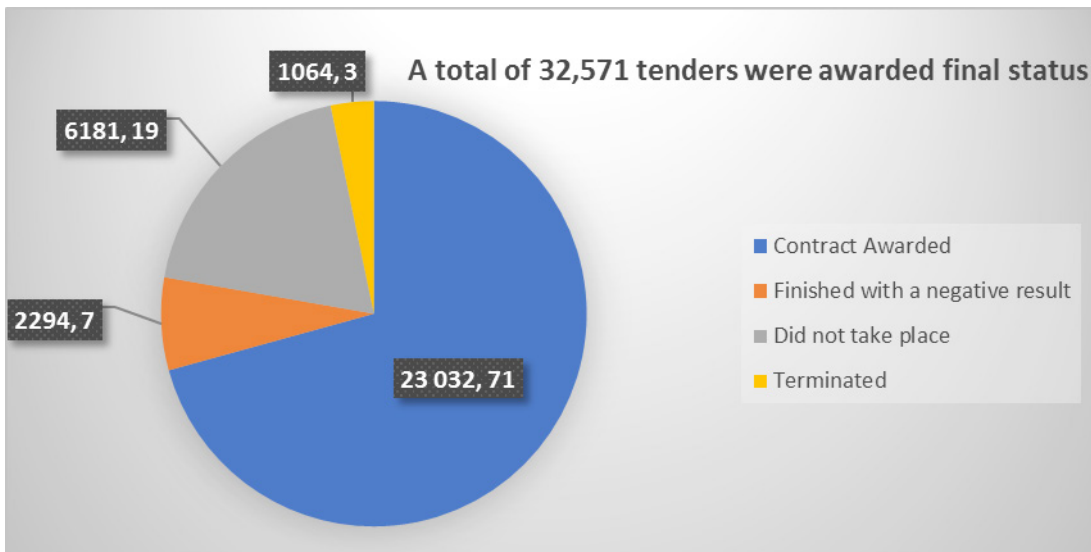
As mentioned above, an important parameter in EU countries is the direct or indirect participation of non-residents in the state procurement and as mentioned, this figure is growing from year to year, is quite voluminous, and amounts to about 20%. This is also logical because there is a common standard for state procurement in the EU, as for Georgia, the volume of contracts concluded with non-residents is 3% of the total amount of the contract (132,330,291 GEL), but it should also be noted that information on indirect participation of non-residents cannot be found in the report.

For the organization of state procurement,

procurement planning (logistics) and execution are critical. For the supply chain of goods and services for the procurement process, the most important role is played by the implementation of the procurement within the framework of a pre-developed plan and obtaining a positive result, which in itself implies control. Georgia's practice in this regard is unfavorable since out of 32,571 tenders that received final status, 7% (2294) ended with a negative result, 19% (6181) did not take place, and 3% (1064) terminated. This, of course, should be considered alarming, since the total share of failed or unfulfilled tenders is 31%.

Diagram 7

Status awarded on tenders in 2019



Source: State Procurement Agency, 2019

It should also be noted that the average number of bidders in Georgia is small and varies depending on the object to be purchased. For example, the number of participants in tenders for the purchase

of goods was 1,93, in the case of construction works – 2,61, and in the case of services – 1,76, the average for all procurement items is 2,05, the theoretically acceptable figure is the number of candidates from 5 to 7 (Kikvadze...,2017:59).

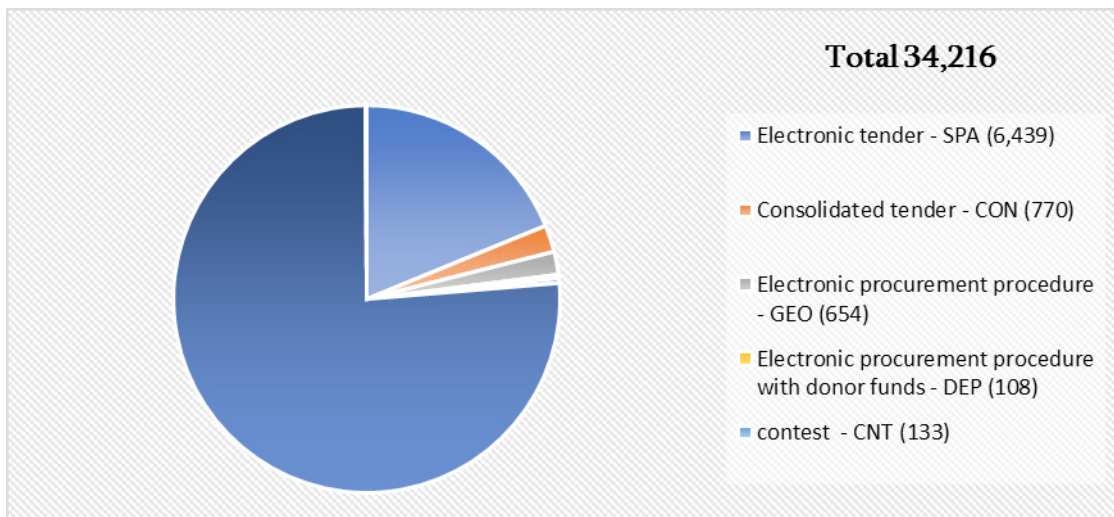
As for the number of bids, we cannot find such

a statistic in the state procurement report, which, as mentioned above, directly measures competition and is an effective indicator of determining price adequacy. Georgia also has various procurement procedures that are related to the characteristics and organization of the purchased object, so it is logical that in Georgia, we will have different procurement procedures, and most of them fall on electronic bidding without an auction - 26,085. In this article, we do not discuss directly the types of procurement procedures, but note that electronic tender without

an auction is a kind of tender that works on the principle of a "sealed envelope". All procedures are the same as in the case of an electronic reverse auction, however, instead of three additional rounds, the application is submitted only once. Except for the Best Bid, all bids remain sealed (unavailable to the procuring entity) until the tender will be given the final status (with the exception of the status – “Bid Canceled”). It should also be noted that this type of tender establishes a high degree of transparency and increases competition as well.

Diagram 8

Quantities of e-procurement procedures announced in 2019



Source: State Procurement Agency, 2019

It should also be noted that, despite the fact that in Georgia legislation and public procurement procedures are often improved, the implementation of international approaches and standards is still quite complicated. The procurement agency regularly publishes and calculates indicators related to the savings obtained through state procurement, but the standard that is used in the EU or in

developed countries, such as MEAT, is not used in Georgia; We also do not have the involvement of innovation promotion programs in how it should be managed or by what criteria should the purchaser measured it.

Conclusions and Recommendations

The public sector is the largest buyer in the

national market of any country, and therefore, at the present stage, e-procurement is becoming increasingly important. State procurement is always subject to the application of best practices as it relates to the spending of public finances. Therefore, openness and control of state procurement should act as a guarantee of achieving efficiency in any country. For the implementation of public procurement, it is important to develop effective procurement strategies that are subject to control that will serve the purpose of the process. In determining the cost of state procurement and defining management tools, it is important to implement “optimal” centralized and decentralized procurement procedures.

We believe that the challenge for Georgia is to create a system that maximizes funding for start-ups and innovative enterprises.

Despite the fact that in the recommendations about the supply to the market, the state procurement agency notes and encourages buyers to involve small and medium-sized entrepreneurs in the process; unfortunately, it remains problematic to this day - their involvement in public procurement is very limited or non-existent. Therefore, it would be good to include this indicator in the agency's annual report - participation of small and medium-sized enterprises in joint tenders.

Small and medium businesses are the most important driving force behind the country's economy (Abuselidze & Katamadze, 2017; 2018). It is desirable that spending agencies at all levels provide incentives for start-up representatives (Abuselidze, 2013). Naturally, persons with such a legal status have less experience and financial capabilities, and procuring organizations attach importance to experienced bidders, Bidding documents are also quite complicated and start-up businesses avoid

incurring extra costs, but they need to start with small projects and events, work as subcontractors and will definitely gain the appropriate experience.

At the same time, start-ups are taking the first steps thoughtfully. They ensure that the terms of Agreements of contractors are met with the lowest possible profit and take into account the needs of the customer. Taking into account these factors is a good condition for budget organizations to implement rational spending.

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