Estimating the true size of public procurement to improve sustainability

blogs.lse.ac.uk/businessreview/2021/03/26/estimating-the-true-size-of-public-procurement-to-improve-sustainability/

March 26, 2021

Governments have the power to leverage their sizeable purchasing power to encourage widescale production of sustainable products and services, which can help them meet the Paris Climate Accord's carbon reduction goals. ***Fatima Hafsa, Nicole Darnall,*** *and* ***Stuart Bretschneider*** *write that the size of government purchases is underestimated and thus opportunities for greater sustainability impact are missed.*

Since governments are the largest buyers in the global economy, they have the opportunity to leverage their sizeable purchasing power to encourage widescale production of sustainable products and services. Some examples of sustainable public purchasing include low-carbon goods, which can help governments meet their carbon reduction goals in the Paris Climate Accord. Other examples include buying from local, small, and minority-owned businesses, and from suppliers that promote workers' rights. These actions can help governments achieve their social goals, including local economic development, gender equality, racial equity, and liveable wages.

However, governments' ability to redirect their purchasing activities towards sustainability goals is undermined because the size of their purchases is underestimated and thus opportunities for greater sustainability impact are missed. This is important because when governments consider the full range of their purchasing activities, they are better positioned to develop comprehensive policies that can meet their sustainability goals.

Incorrect estimates occur for several reasons. Although all government purchases should be considered when assessing the size of public procurement, many are often left out. Public procurement valuations are often restricted to contract-based transactions, which tend to have higher values. Governments use contracts to monitor large expenses, and to hold vendors accountable for their deliverables. Therefore, smaller, more routine purchases are omitted from these valuations. Additionally, international public procurement estimates do not typically include defence purchases because the intention of these estimates is to compare global trade. In instances where the buying of defence products and services is measured, it is not disclosed due to national security issues. However, small purchases and defence-related ones account for a significant amount of governments' total purchases. Therefore, existing estimates undervalue the overall size of public procurement.

Also missing from public procurement estimates are products and services bought indirectly, where government authorizes a third party to purchase on the government's behalf in the form of grants and cash vouchers. For example, many governments award grants to non-profit organizations to provide meals to citizens. Governments also distribute cash vouchers to individual citizens such as food stamps so they may buy meals for themselves. In 2017 alone, the U.S. government spent $395 billion on grants to Medicaid vendors. However, these purchases are often omitted from public procurement estimates. As a result, the size of public procurement is further underestimated.

In order to understand the true impact of government purchases, we estimate the size of public procurement by assessing all its aspects. We consider any government purchase that uses taxpayer money. This includes products and services bought directly from private businesses via contracts, including smaller routine purchases, and defence as well as indirect ones.

We estimate the true size of public procurement using two approaches:

The first approach sums all direct and indirect purchases across all levels of governments (federal, state, and local). While this seems simple to execute, much of the data are missing, which leads to unreliable estimates. For instance, most countries only monitor their contractual purchases and other direct ones (i.e., small routine spending), and indirect purchases are not tracked. Often, all government levels do not track purchases because of limited infrastructure and training, which further limits data availability.

The second approach relies on the OECD's GDP data to *approximate the* size of public procurement. While the OECD requires countries to report their direct and indirect purchases, many countries such as the U.S. do no*t* collect or report products and services bought indirectly. Hence, even OECD data can underestimate the size of public procurement.

As an example, we apply both estimation approaches to two OECD countries — the U.K. and the U.S. — for two years (2017 and 2018).

Although governments officially define public procurement as the sum of all purchases at all levels of governments, in practice, most governments limit their data to public procurement via contracts. While OECD estimates show that public procurement accounts for 12% of GDP globally, our estimates are:

Table 1. Public procurement as a percentage of GDP

Country	Actual Public Procurement as a % of GDP
U.K.	13 – 19%
U.S.	18 – 24%

As such, governments likely have much greater market power than previously estimated, which can be leveraged to pursue sustainability goals. By considering the full potential of their purchasing power, governments are in a stronger position to develop purchasing policies that achieve their sustainability goals. In so doing, governments should include products and services bought both directly and indirectly to address a suite of sustainability impacts. Some of these impacts are more obvious such as buying low carbon goods and buying from women-owned businesses, while other impacts may take a longer time or more coordinated effort to materialise. For example, when a government issues a contract with a supplier and imposes an equal employment condition, the supplier is compelled to hire more women or minority workers, which creates more inclusive opportunities in the community. Similarly, if citizens are asked to use their food stamps at a local, women-owned business, it can help economic development and empower women-owned businesses.

Table 2. Direct and indirect sustainability impact of government purchases

Purchase Type	Direct Sustainability Impacts	Indirect Sustainability Impacts
Direct Purchases	• Routine purchase of low-carbon goods and services • Contracts with women-owned business to address socioeconomic gender inequality (set-asides)	• Contractors hire more women or racial minorities as a result of government conditions for equal employment
Indirect Purchases	• Cash vouchers for nutritious meals • Grants to assist low-income families with food	• Cash vouchers for nutritious meals purchased from a women-owned business

Future research should explore how much governments spend on *different forms* of indirect purchases. It would be useful to assess how direct purchases compare to indirect ones such as grants, cash reimbursements, vouchers, etc. While much work has been done on monitoring contract purchases, monitoring of indirect purchases remains understudied, but yet an important opportunity to further a governments' sustainable purchasing goals.

In sum, for governments to leverage their true purchasing power towards achieving their sustainability goals, the first step is to recognize the size of their purchases and understand the broad range of ways in which they can be used.

♣♣♣

Notes:

- *This blog post is based on Estimating the True Size of Public Procurement to Assess Sustainability Impact, in Sustainability (2021)*
- *The post gives the views of its authors, not the position of LSE Business Review or the London School of Economics.*
- *Featured image by paul silvan on Unsplash*
- *When you leave a comment, you're agreeing to our Comment Policy*