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ANALYSIS OF PUBLIC PROCUREMENT PROCEDURES: EVIDENCE FROM WESTERN BALKAN COUNTRIES

ABSTRACT

Public procurement plays a key role in the process of growth stimulation of each national economy. Public procurement contracts are significant contributors of GDP in the national economy and also a great expenditure in national budgets. The system of public procurement should guarantee transparency in all phases of the procedure, equal treatment of all participants, openness to competition, non-discrimination and proportionality. The mainstream of the procedures is to achieve better quality and best value for spent public money. Having in mind the fact that governments in Western Balkan countries spend a large sum of money through public procurement to carry out their daily functions and needs, we decided to conduct an analysis of public procurement in Western Balkan countries. Hence, the main objective of this article is a quantitative analysis of some of the key indicators of public procurement procedures. The data are related with: contracting authorities; concluded contracts; values of different types of procurement contracts awarded (supplies, works, services); types of procurement procedures used; active economic operators especially small and medium enterprises such as contracting parties in public procurement contracts and the size of public procurements in terms of GDP. For this purpose, we carried out a time series analysis of secondary data obtained from official state reports issued by relevant institutions in each of these countries for the last 5 years. The examination conducted in this paper is to create a quantitative framework for different aspects of public procurement, that should allow the state bodies and institutions easier assessment and monitoring of the process. Obtained results of the research are presented within this paper in detail. At the end, based on the results we recommend measures in order to stimulate public policies in a way to ensure the applying of the main principles of public procurement in a more respectable manner.

Key words: system of public procurement, contracts, indicators, public finance

JEL: M21, K12, E60, H57

1. INTRODUCTION

Public procurement refers to the process by which public authorities, such as central government or local authorities use the public funds to obtain the required resources to realize their institutional

goals. The essence of public procurement is to achieve best value for money, which manifests in enhanced human welfare and improved economic growth. The world spent \$11 trillion on public procurement in 2019, amounting to 12 percent of global GDP (Erica Bosio et al, 2022, p.1091). This percentage is even higher in richer countries. Therefore, public procurement plays an important economic role since it accounts for a significant share of the EU economy (Baldi et al. 2016, p.2). Namely, public procurement accounts for about 14% of the EU's GDP (European Commission, 2021 p.111). In 2019 over 2000 billion euros of EU citizens' money was spent on public procurement procedures to provide goods and services to cities, regions, nations, and EU institutions (R. Martinez et al., 2022, p.1). Consequently, public procurement is recognized as a significant determinant of the economic development of each country and is used as a lever to drive sustainable growth, which attracts the attention of many researchers. Notable among them is the study conducted by Nkinga (2003, p.2), who stated that strong procurement management in the public sector is a tool for achieving political, economic and social goals. In a similar study Nijaki and Worrel (2012, p.133) found that procurement can be used as a viable tool in fostering both economic and environmental goals, and as a key policy and planning tool for sub-national governments in the pursuit of a green economy. Similar results are confirmed in the study conducted by Moerenhout and Roy (2012, p.31) who revealed that public procurement can influence markets, drive innovation and facilitate efficient, green industrial growth. So, they also recommend to governments to build successful procurement programs, which include, among others, the use and progressive upgrading of sustainability standards, life-cycle costing, the development of coherent and transparent procurement methods, product listing strategies and the inclusion of sustainable investment principles when private capital is involved.

Since, public procurement accounts for a substantial portion of the taxpayers' money, governments are expected to carry it out efficiently and with high standards of conduct in order to ensure high quality of service delivery and safeguard the public interest. Regarding this, public procurement is governed by rules and regulations to maximize value for money for the public sector and ensure compliance with three key principles: equal treatment, non-discrimination and transparency.

Accordingly, EU rules have been reformed in order to guarantee higher efficiency and transparency to the procurement process and to ensure a greater inclusion of social goals like environmental protection, social responsibility, innovation, wider inclusion of small and medium companies, employment, public health and other social and environmental considerations. Therefore, the public procurement regulation is a subject of constant upgrading, modifying and amending, in order to more consistently implement and respect the basic principles while using public funds, i.e., providing effective public procurement with effective utilization of state budget funds when delivering quality public services to citizens, with a high level of transparency and accountability (Spaseska et al., 2019, p.23).

The governments in Western Balkan countries spend a large sum of money through public procurement to carry out their daily functions and needs. So, the public procurement system in the Western Balkans is one of the critical corruption zones – as the government mechanism for buying everything “from a needle to a locomotive” it has been for a long time considered as such by the European Commission, and with a good reason. Recent analysis has shown that most of the western Balkan countries have made important progress in improving their public procurement policies and some progress in their implementation, monitoring and evaluation (OECD, 2022). They also have significantly improved their public procurement legislation and also application of electronic procurement solutions has been significantly enhanced due to the establishment or improvement of central public procurement portals. So, we decided to conduct an analysis of public procurement in Western Balkan countries. Hence, the main goal of this research is a quantitative analysis of some key indicators of public procurement procedures.

The rest of the paper is organized as follows. Section 2 reviews and analyzes public procurement legislation in Western Balkan countries. Section 3 provides insights into the objectives of the study, data, and methodology. The results obtained from the time series analysis with their interpretation are presented in Section 4. The last section concludes and recommendations.

2. PUBLIC PROCUREMENT LEGISLATIVE IN WESTERN BALKAN COUNTRIES

The Western Balkan Countries are regulating the public procurement procedures with their national laws. As a candidate for membership of the European Union all of them should follow and fulfill the European Union minimum standards and policies. European Union law sets out minimum harmonized public procurement rules which are transposed into national legislation of EU members and they apply to tenders whose monetary value exceeds a certain amount. The member countries for tenders of lower value have wider freedom because they are regulated with national rules.

Public procurement in the Republic of North Macedonia is regulated by the Law on public procurement which was adopted in 2019. This Law regulates the manner and the procedure for awarding public contracts, sets the competences of the Public Procurement Bureau, establishes and sets the competences of the State Appeals Commission and review procedures, and the procedure of awarding concessions and public-private partnership. This Law is expected to provide higher transparency and the best value for the spent public funds, an efficient supervision system based on recognizable experiences of some European countries, but also is expected to simplify the procedures, which will normally result in decreasing the administrative burden of the contracting bodies in the implementation of the Law (Spaseska et al., 2019, p.25). The Public Procurement Bureau has a variety of duties among which are included the tasks to collect, process and analyze public procurement data and draft statistical reports.

In the Republic of Serbia, public procurements are regulated with the Law on public procurement, also adopted in 2019. This Law regulates the rules of the procedures of public procurement conducted by contracting authorities/entities or other entities in cases provided for under this Law, for the purpose of concluding supply, service or works contracts, framework agreements, and for conducting design contests. Also, this Law regulates the scope of work and form of organization of the Public Procurement Office. The Public Procurement Office collects statistical and other data on the conducted procedures, concludes public procurement contracts and prepares a special annual report on public procurement.

As a part of the process for harmonization of domestic law with EU law, the Parliament of Bosnia and Herzegovina adopted the new law on public procurement in 2014. Except bigger harmonization with EU directives, the basic characteristics of the new law, according to the Agency for public procurement in Bosnia and Herzegovina are: increasing for double the number of articles which more precise regulate the public procurement, improvement of the application of basic principles of equality, transparency, economy, competition and increasing social control, as well as greater use of Information technology (Voloder, 2015, p.15). Public procurement law is based on 2004 directives and so does not take solutions available under the EU Public Sector Directive 2014/24 and EU Utilities Sector Directive 2014/25 into account. Amendment provisions were prepared in 2017-18 but have not yet been adopted. (SIGMA, 2020, p. 117). These directives were implemented in 2022 when the Law amending the Law on public procurement was adopted.

Starting from 15th of March 2021, the new Law on public procurement (Law 162/2020 "On public procurement") in Albania entered into force with the aim of further aligning the regulatory framework of public procurement with the EU Directives, as well as with the aim of addressing the inconsistency or problems arising from the implementation of the previous law. This law regulates the procurement procedures conducted by contracting authorities and entities for public contracts and design contests. Also, the law regulates the working scope of the Public Procurement Agency which oversees the public procurement system, in order to ensure efficiency and transparency in the public procurement process.

The law on public procurement in Kosovo has been changed several times. These days the basis on public procurement in Kosovo is leaning on the Law on Public Procurement No. 04/L-042. In order to avoid abuses and misuses of public funds, the Parliament of the Republic of Kosovo has approved the Public Procurement Law Nr. 04/L-237, Law no. 05/L-068 and Law. 05/L-092. (Gjonbalaj et al, 2021, p.37). According to the law, Public Procurement Regulatory Commission, as

an independent regulatory agency, has a responsibility for each calendar year, to prepare and to submit to the Government and the Assembly an annual report analyzing public procurement activities in Kosovo and setting forth any recommendations for the improvement of the public procurement system and/or the present law.

Although the Law on public procurement adopted in 2011 in Montenegro and its amendments were in large extent or at least to a large extent harmonized with EU Directives, the next phase of the harmonization process was adoption of new Law on public procurement in 2021. The Ministry of finance, Directorate for Public Procurement Policy of Montenegro have to perform some administrative and professional tasks such as preparing and submitting an annual report to the government.

It is common for all Western Balkan countries that the public procurement procedures due to the process of harmonization with EU standards, more or less in the last few years have been modernized, the procedures have become more transparent and the usage of internet technologies have increased.

3. DATA AND METHODOLOGY

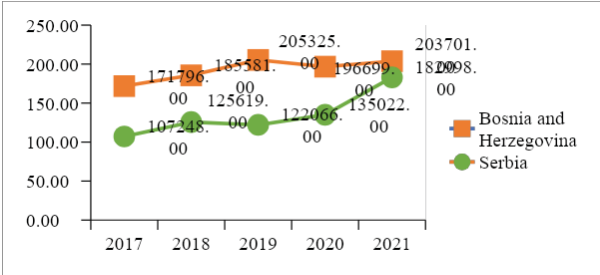
For the purpose of the paper, we carried out a descriptive and comparative analysis of secondary data obtained from official state reports issued by relevant institutions in the following countries: Albania, Bosnia and Herzegovina, North Macedonia, Montenegro, Kosovo and Serbia. Also, we use European Commission staff working documents for the countries of the Western Balkans in separate years. During the research we came across some limitations, as in some national reports are missing out some data for analyzed indicators. For example, the national report for public procurement of Bosnia and Herzegovina for 2018 is not published on the official web page of the Agency for Public Procurement, thus for this year in the following analysis some data is missing or is filled with data from other official sources (if exist).

The research is conducted on some public procurement indicators which are common and available for all WB countries in the time period from 2017-2021. The data for 2022 have not been analyzed because the reports for 2022 have not been published in all of the mentioned countries. It is important to stress out, as it is well known, that in this period there was Covid-19 pandemic and the post Covid-19 crisis. The main purpose of research is to make comparative analysis and to perceive the real conditions, certain omissions, existence of inconsistency of the data published in public procurement reports of national agencies, bureau, offices and European commission reports for the same purpose for the WBC.

4. RESULTS AND DISCUSSIONS

4.1. Indicator – Number of signed contracts

In the figures below are presented the data about number of signed contracts in the last 5 years, according to the published data in national public procurement reports:



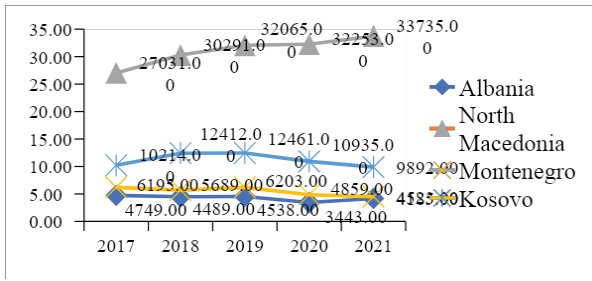


Figure 1. Number of signed contracts in Albania, North Macedonia, Montenegro and Kosovo

Figure 2. Number of signed contracts in Serbia and BIH

It is obvious that the most signed contracts were in Bosnia and Herzegovina in 2019 (205.325), and in 2020 the number of signed contracts in Albania is on the lowest level. In general, in all 5 years of the analyzed period Bosnia and Herzegovina is the leading country in terms of the number of signed contracts while Albania has the fewest number of signed contracts.

The number of signed contracts in 2021 in Albania compared to 2017 decreases by 11.88%. Also, this trend is evident in Montenegro and Kosovo in 2021 where this percentage is lower for 26.99% and 3.15% respectively, compared with 2017. Opposite, in Bosnia and Herzegovina, North Macedonia and Serbia there is evident trend of increasing number of signed contracts, where this number has increased for 18.57%, 24.80% and 70.63% respectively.

4.2. Indicator - Value of concluded contracts

Considering that the value of concluded contracts is expressed in national currency (denars, dinars, Albanian lek, convertible marks), for the purposes of the analysis, to gain a more comparatively information about summary value of all concluded public procurement contracts on yearly base in each WB country, we convert the currencies into euros.⁸

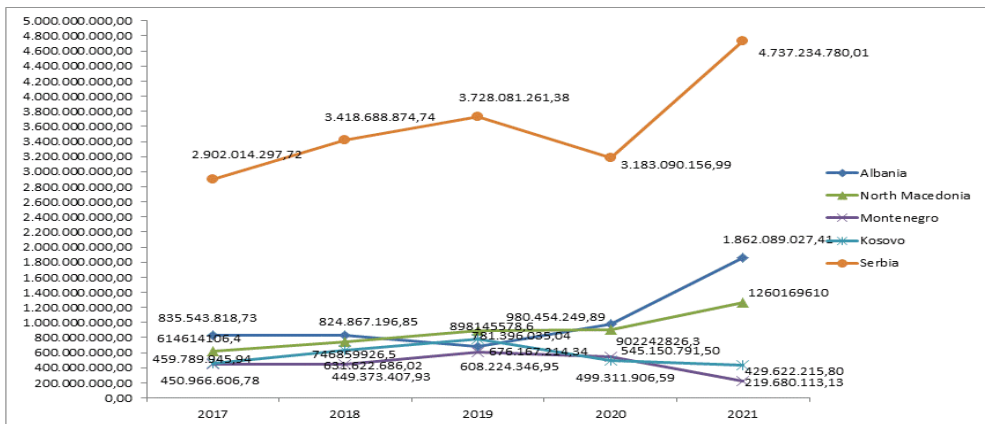


Fig 3. Value of concluded contract in Albania, North Macedonia, Montenegro, Kosovo and Serbia.

⁸ The converter was up to date with exchange rates from 23 August 2023.

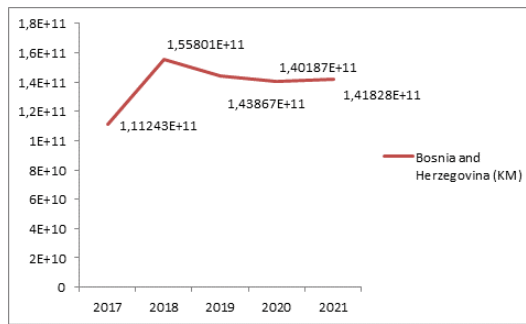


Fig 4. Value of concluded contract in Bosnia and Herzegovina.

It is obvious that the value of concluded contracts on a yearly basis is on the highest level in Bosnia and Herzegovina. We should state that the value of concluded contracts in Albania and in North Macedonia in 2021 is doubled than in 2017. In Serbia the value of concluded contracts in 2021 is enlarged for 1.6 times. Also, in Bosnia and Herzegovina there is a slight increasing trend. An opposite, in Montenegro the value of concluded contracts in 2021 is decreased for almost half of the value of concluded contracts in 2017.

4.3. Indicator - Share of Public Procurement to GDP

The absolute value of realized public procurement contracts in a year, may be insufficient data for the analysis due to the fact that WB countries have diverse geopolitical and demographic characteristics. For that purpose, we analyzed the share of public procurement to GDP. The ratio of the value of public procurement to gross domestic product shows more about the level of influence of the country in economic transactions in general. The results for each country in the last 5 years are presented in the Figure 5:

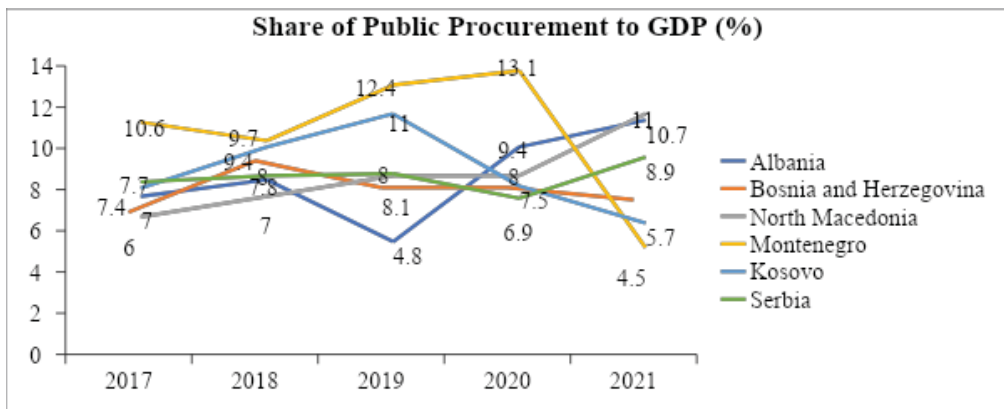


Figure 5. Share of Public Procurement to GDP

Based on the results of the conducted analysis it can be concluded that Montenegro has the highest participation of the public procurement in GDP compared to Albania, Bosnia and Herzegovina, North Macedonia, Kosovo and Serbia. Exemption is 2021 when public procurement in Montenegro has the lowest share to GDP compared to the analyzed countries. North Macedonia starts with the lowest share to GDP in 2017, but the results confirmed the growing trend of the public procurements to GDP in the next 4 years, while the rest of the analyzed countries have a downward trend.

Therefore, it should be stressed that for some of the countries, the data for this indicator that are part of the reports issued by national authorities are different compared to the data issued by the European Commission. For example, according to the Public Procurement Office Report in Serbia

(Public Procurement Office Reports, Serbia, 2018, p.3) the share of public procurement to GDP is 7.68% for 2017, but according to the Serbia 2020 Report (European Commission, 2021, p.57) for the same year is 7.2%. Similar is the situation for the data in North Macedonia, according to the reports of Public Procurement Bureau for 2017, 2018 and 2019 the value of this indicator is 6%, 7% and 8% respectively, but according to European Commission staff working documents for The former Yugoslav Republic of Macedonia/North Macedonia in separate years are: 10%, 9% and 11% for 2017, 2018 and 2019 respectively.

According to the European Commission (2017), the value of public procurement, from over 250.000 public authorities in the EU, is 14% of Union GDP, or 2 trillion euros per year. But, the results of our research have shown that this indicator is under the EU level in all WB countries. Given the importance of public procurement contracts in the economy, procurement standards have a significant influence on the practices of private contracting parties and their subcontractors, and thus a significant indirect influence on the private sector as a whole (European Parliament, 2020, p.2). Consequently, public procurement is a significant trigger to each national economy.

4.4. Indicator– Number of signed contracts by subject of procurement

According to the EU legislation and WB countries legislative, public contracts may be: public supply contracts, public service contracts or public works contracts, depending on the subject of the procurement. This data is important because it can show whether public expenditure on public procurement refers to capital investment given the fact that execution of works constitute the largest part of capital investment.

During the analyses of this indicator, we met some obstacles, for example all of the national reports published by the Public Procurement Regulatory Commission do not consist of data for the number of signed contracts by subject of procurement. Also, there is not available data for this indicator for Bosnia and Herzegovina for 2018 and for Serbia in 2017. The national reports from Bosnia and Herzegovina beside the standard classification of contracts by the subject (goods, services and works), they also contain contracts for social and other special services classified in Annex 2 of the Law on public procurement. The remaining WB countries do not have singled out data for special services.

In the figure below are presented the number of concluded contracts divided by the subject of the procurement (work, supplies, services, and services classified as social or special services if they are singled out in the national reports) for the last 5 years in Western Balkan countries.

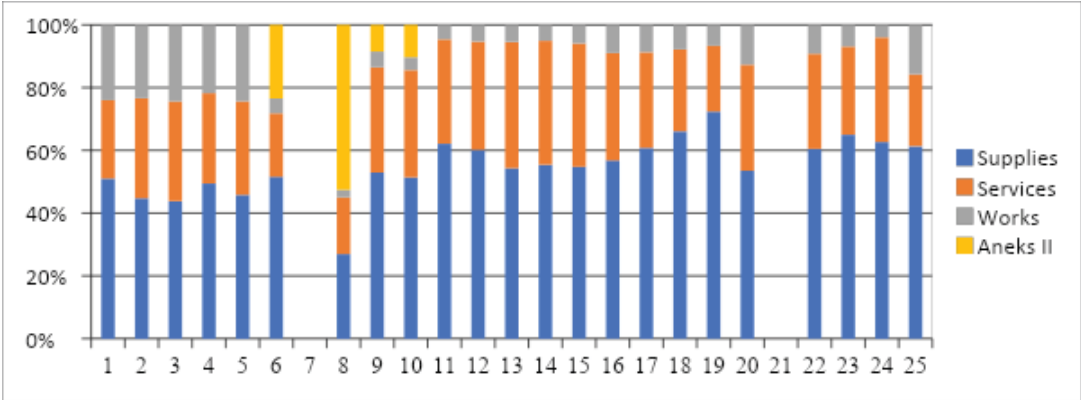


Figure 6. Number of signed contracts by subject of procurement

Generally, most of the WB countries conduct public procurement for supply of products, second one is the contracts for provision of services and the least of purchasing contracts have a subject execution of works. The figure above shows that the most balanced division of contracts by the subject are public procurement contracts concluded in Albania.

4.5. Indicator - SMEs participation in public procurement contracts

Small and medium-sized enterprises (SMEs) are regarded as the backbone of the economy, as they have a huge potential for job creation, growth and innovation. Easy access to public procurement markets can help SMEs in unlocking this potential, while having a positive impact on the economy. Moreover, the strong involvement of SMEs in public procurement allows contracting authorities to considerably broaden their potential supplier base and to thereby secure the positive effects of higher competition for public contracts as a counterbalance to dominant market players (SIGMA, 2016, p.2). SMEs participation in public procurement contracts should show how much the procedures ensure equal treatment and non-discrimination of economic operators and what is the level of competition among economic operators.

Although all assessed economies collect and process various statistical data on public procurement, only North Macedonia and Serbia apparently dispose of specific information on the participation of SMEs, such as their participation or success rates (OECD, 2022, p.202). The lack of this information does not allow the public procurement market to be properly assessed, in particular how it affects SMEs participation.

The Republic of North Macedonia have published this kind of data only in the Report for 2021, and Republic Serbia have published in the reports for 2021 and 2020. The data for 2020 contains information about participation of SMEs in the procedures conducted according to the law form 2015 and procedures conducted according to the law adopted in 2019. Pursuant to the Law on public procurement adopted in 2019, the Public Procurement Office of Republic Serbia has a task to submit a statistical report that should contain data about SMEs participation in public procurement procedures. Due to the fact that the Reports from Serbia also include in this number the activities of micro enterprises, in the table below with purpose to make a proper comparison we add the data for micro, small and medium enterprises from North Macedonia presented in the Report from 2021.

Table 1. SMEs participation in public procurement contracts

Micro, small and medium enterprises	2020				2021			
	Numb. of signed contracts	% part. in total signed contracts	Value of concluded contracts	% part. in total value	Numb. of signed contracts	% part. in total signed contracts	Value of concluded contracts	% part. in total value
N.Macedonia	/	/	/	/	28 028	83%	43.1 mil denars	55%
Serbia according to LPP 2015	8 156	89.46%	18 489 277 833 din	49.78 %				
Serbia according to LPP 2019	49 299	69.3%	216 331 441 000 din	79.2%	153 796	84.04 %	395.333.5 75.171 din	70.62 %

The available data for this indicator has shown that the total participation of SMEs in public procurement contracts according to their number and value is greater in Serbia than in North Macedonia.

5. CONCLUSION

The main objective of this study was to examine some of the key indicators of public procurement procedures. Considering the fact that not all of the WB countries have published data in the national reports for the same indicators and the fact that there are some diversities in public procurement regulative, we analyzed the indicators which data is public published and which is common for all of them such as: number and value of concluded contracts, share of Public Procurement to GDP and

number of signed contracts by subject of procurement. The exception is the data for participation of SMEs in public procurement contracts because only Serbia and North Macedonia have available data for this indicator in the last two or in the last year. But having in mind the role of SMEs as the backbone of the economy, and their huge economic potential especially in WB countries, it is important to stress out that this data is very important to be published in official statistical reports and also to be subject of further analysis.

The results of our research confirmed that all of the Western Balkan countries mainly have had harmonized their public procurement legislation with European Union directives. Therefore, all of WB national bodies publish annual reports but the legislator does not specify what these reports should contain, except the Serbian legislator. The legislator's effort for prescribing what the annual reports should include is positive and may contribute to better comparison between WB countries public procurement aspects. For more consistent respect of the provision of transparency is necessary all of the reports to be published, to be precise and in any cases, it is unforgivable and unprofessional to have a distinction in the data from the same countries, the same year and the same indicators in different reports such as the case of national reports and European Commission reports.

Regarding the first indicator-Number of signed contracts, the analysis has shown that there is a positive trend in Bosnia and Herzegovina, Serbia and North Macedonia, while there is a downward trend of slightly decreasing of the number of signed contracts in Montenegro, Kosovo and Albania. The value of concluded contracts is enlarged during the last 5 years in Albania, North Macedonia, Serbia and Bosnia and Herzegovina, while in Montenegro the value of the contracts in 2021 is halved compared to 2017 and in Kosovo is evident oscillating trend. Generally, it is hard to make a simple conclusion or equation about some trends in indicators that show the share of Public Procurement to GDP. Except North Macedonia and Albania, in all other WB countries there is evident oscillating trend for this indicator. Maybe, the reason for such a situation is the unstable economy during Covid-19 pandemic and post Covid-19 crisis. In North Macedonia and Albania (exemption is 2019) there is evident an increasing trend of the share of Public Procurement to GDP. It is obvious that this indicator in all WB countries to a significant extent is under the EU level. By respecting all of the basic principles of public procurement procedures in all WB countries, public procurement procedures can be of great importance for economic growth. The absence of data for participation of SMEs in public procurement procedures lead to inadequate conclusions about the abilities and possibilities of SMEs to join many public procurement calls. Only through clear and precise data on the participation of SMEs in public procurement can a conclusion be drawn about the possibility for participation of these companies in public procurement procedures. This data is of great importance bearing in mind the fact that SMEs are the main employers in WB countries. According to the division of contracts by subject of procurement most of the WB countries conduct public procurement for supply of products, second one is the contracts for provision of services and the least of purchasing contracts have a subject execution of works.

Simultaneously, it should be carried out a more aggressive campaign for promoting transparency of the public procurement procedures and strong commitment to fighting corruption, i.e., measures for increasing strict adherence to the legal framework regulating procurement practices, continuous audit and monitoring of the public procurement procedures, capacity building through training and guidance to help all of those involved in procurement to understand sustainable procurement etc. Considering that WB countries provide sufficient advice, support and training to help SMEs access to public contracts, first of all they need to collect and analyze this information, and further but also a very important pillar is to adopt adequate policies for better access of SMEs in the public procurement market.

This study will contribute to the existing research in this field and can be a basis for further research on some indicators that were not analyzed in this paper. Since our study was restricted to analyzing five public procurement indicators, a challenge for our next research will be to extend the analysis with the inclusion of the number of concluded contracts according to award criteria, the number of concluded contracts according to the type of public procurement procedures, the equal treatment

and non-discrimination of the economic operators besides their size, number of employees, company's capital, also the access of SMEs in the public procurement market etc.

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DEVELOPMENT CHALLENGES IN LOCAL COMMUNITIES IN BOSNIA AND HERZEGOVINA: FACTOR ANALYSIS AND CLUSTER ANALYSIS

ABSTRACT

Economic development in local government units (LGUs) encompasses various aspects and yields diverse outcomes contingent on economic, demographic, and labor market conditions. In nations with a decentralized governance structure like Bosnia and Herzegovina (BiH), this implies that policymakers are confronted with a plethora of potentially influential variables that must be considered when formulating economic policies. As a result, it becomes paramount to concentrate on those variables that encapsulate the maximum amount of development-related information. This study delves into numerous developmental facets of LGUs within three cantons in the Federation of BiH.

This paper employs factor analysis, encompassing 36 local government units as observations and 11 distinct developmental aspects as components of the factor analysis. LGUs are categorized into clusters based on outcomes derived from cluster analysis. These twin analyses are further employed to identify regional disparities among LGUs. The outcomes of these analyses serve as a foundational framework for development interventions by the Federation of BiH into LGUs that encounter akin and comparable developmental challenges. The most pivotal developmental challenges at the local level that warrant the attention of decision-makers in the Federation of BiH are identified in the paper as follows: unemployment, an aging population, and a low vitality index.

Keywords: regional economic development, factor analysis, cluster analysis, Bosnia and Herzegovina

JEL: C38, R12

INTRODUCTION

A policy of regional development requires well-defined socio-economic characteristics as the foundation for formulating effective policy measures. These socio-economic aspects are observed at the local levels of municipalities and cities, collectively referred to as local government units (LGUs). Among the numerous aspects of socio-economic development at the LGU level, a selection has been made for analysis in this paper. The paper's objective is to categorize and group LGUs that are more suitable for the implementation of specific measures of regional development policy. This grouping is achieved through factor and cluster analysis. The outcomes of this paper offer clear policy implications for decision-makers. Development resources, encompassing both human and financial aspects, are scarce in countries like Bosnia and Herzegovina and other transition countries. Setting the right priorities becomes an essential exercise for decision-makers when formulating development policies. This holds true both at the national and sub-national levels. Regional economic development in BiH has been analyzed on entity levels more than on country level. Statistical agencies and development authorities publish rankings of LGUs that reveal high inequality among them. For instance, there is a significant gap in terms of average wages or