

DOUBLE DUTY:

Leveraging Procurement to Deliver Socioeconomic Benefits

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ABSTRACT

Increasingly, governments around the world are turning to public procurement to achieve secondary objectives. Leveraging procurement refers to the inclusion of socioeconomic benefits in the procurement process. When governments implement initiatives to leverage procurement, socioeconomic benefits such as supplier diversity, increased labour participation, and social well-being are integrated into the purchasing decision at large. Currently, programs that leverage procurement in Canada are administered in a piecemeal manner, lacking central oversight and coordination. However, discussions on developing a government-wide procurement framework for delivering socioeconomic benefits are underway. This paper presents challenges, best practices, and recommendations for Canada based on experiences in Australia, the United Kingdom, and the United States. The analysis identifies three broad areas that require particular consideration during the planning and implementation phase: (a) organizational change; (b) informational issues, and; (c) measurement, monitoring and evaluation. In the context of funding instruments at large, the analysis also examines opportunities for procurement and grants to collaboratively achieve socioeconomic objectives.

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LIST OF ACRONYMS AND ABBREVIATIONS

CLCA – Comprehensive Land Claims Agreement
CPR – Commonwealth Procurement Rules
FAR - Federal Acquisition Regulation
FTA – Free trade agreement
GBS – Government Buying Standards
GGC – Greening Government Commitments
IPP – Indigenous Procurement Policy
OECD – Organization for Economic Co-operation and Development
PCP – Pre-commercial procurement
PCR – Public Contracts Regulations
R&D – Research and development
ROI – Return on investment
SBA – Small Business Administration
SBD – Small Business Development
SBIR – Small Business Innovation Research Program
SBRI – Small Business Research Initiative
SME – Small or medium enterprise
TBS – Treasury Board Secretariat
UN – The United Nations

INTRODUCTION

The Government of Canada (hereafter “Government”) has a variety of policy design options and instruments through which it can achieve its public policy goals. The most explicit method is the direct funding of programs designed to achieve the Government’s strategic priorities, as established through the Budget. In addition to direct program funding, there are a handful of other key indirect funding instruments that Ottawa can use. Of these, procurement¹ and transfer payments² are most commonly used to achieve socioeconomic objectives and broader policy aims. In the 2015 alone, transfer payments accounted for \$150 billion, while \$19 billion was awarded through contracts.³

Historically, the Government has favoured the use of supply-pull funding instruments such as transfer payments in the form of grants and contributions as a means to directly support socioeconomic priorities and policy goals. Often, these goals are aimed at “building a strong society and a competitive nation that is inclusive and respectful of Canadian values.”⁴ For example, there are transfer payments that provide support to marginalized groups (e.g. to increase the participation of Aboriginal firms in the Canadian economy); support sustainable initiatives (e.g. assessing climate change considerations in natural resource development); provide funding for scientific research and development (e.g. enable the collection of scientific data); and assist Canadian firms overseas (e.g. financing to expand export opportunities).

¹ For the purposes of this paper, procurement refers to the acquisition of goods, services and construction services on behalf of the federal government. Defence procurement and the procurement of utilities are excluded from the analysis in this paper as they are often governed by additional legislation and regulations.

² Note that the use of transfer payments in this paper is based on a narrow definition which does not encompass ‘other transfer payments’ defined as major transfer to other levels of government or persons including, but not limited to, the Canada Health Transfer (CHT), the Canada Social Transfer (CST), fiscal arrangements such as equalization, transfers to the territories, a number of smaller transfer programs and the Quebec Abatement, and Gas Tax Fund transfers. Instead, the focus in this paper is on grants and contributions awarded to individuals and other organizations.

³ 2015 Purchasing Activity Report, Website, <https://www.canada.ca/en/treasury-board-secretariat/corporate/reports/contracting-data/2015-purchasing-activity-report.html> (Accessed June 1, 2017); Public Accounts of Canada 2015-2016, Website, <https://www.tpsgc-pwgsc.gc.ca/recgen/cpc-pac/2016/index-eng.html> (Accessed June 1, 2017).

⁴ *Policy on Transfer Payments*, Section 3. Web, <https://www.tbs-sct.gc.ca/pol/doc-eng.aspx?id=13525> (Accessed May 1 2017).

Increasingly, governments around the world, including Canada's, are turning to demand-push instruments such as procurement to achieve policy goals. This is realized through initiatives that leverage procurement in order to deliver socioeconomic benefits. In the context of this paper, leveraging procurement refers to the inclusion of socioeconomic benefits in the procurement process. Traditionally, purchasing decisions are based on a combination of technical criteria and financial cost, excluding socioeconomic benefits. However, when governments implement programs to leverage procurement, socioeconomic benefits are integrated into the cost-benefit analysis. Such benefits include supplier diversity, increased labour participation, and social well-being. For example, a program for leveraging procurement for sustainability could involve considering the inclusion of environmental benefits as part of the technical criteria when purchasing supplies. In other words, the procurement process is used to deliver something additional to the acquisition of required goods and services.

In Canada, one of the concerns that accompanies the practice of leveraging procurement is that the current bureaucratic environment does not facilitate easy implementation of such initiatives. The current procurement framework for delivering socioeconomic benefits consists of ad hoc programs resulting in a piecemeal approach to leveraging procurement that lacks central oversight. Moreover, there are concerns that programs for leveraging procurement overtake the operational requirements that prompted the procurement in the first case. In such instances, Ottawa may be asked to justify why a procurement contract was used to deliver benefits over conventional funding instruments such as grants and contributions. Consequently, as Canada and other jurisdictions expand the use of demand-push instruments such as procurement to meet strategic objectives, questions of efficacy arise. The central question in this paper is: when and how can government ensure that the most appropriate instrument is used when it wishes to

support socioeconomic objectives and policy goals at large? In order to answer this, a determination must be made about what structural and environmental factors enable the effective implementation of initiatives that leverage procurement to secure socioeconomic benefits. Lacking such enabling factors, it is generally better to continue delivering socioeconomic benefits predominantly through the use of traditional supply-pull funding instruments such as grants and contributions.

In order to determine what structural and environmental factors enable the effective implementation of procurement programs designed to deliver socioeconomic benefits, this paper presents a comparative case study of central governments in Australia, the United Kingdom and the United States, all three of which have integrated socioeconomic leveraging into their procurement frameworks. Based on analysis of these jurisdictions, the paper presents a variety challenges, best practices and recommendations for Canada to consider as it moves forward with a centralized framework for leveraging procurement.

Chapter 1 of the paper contextualizes the research question by providing an outline of the Canadian context, followed by an overview of the concept of leveraging procurement. The chapter includes a discussion on the history of leveraging procurement, as well as a review of literature behind the rationale for using demand-pull approaches to deliver socioeconomic benefits. Chapter 2 reviews how centralized initiatives and programs leveraging procurement have been implemented in Australia, the United Kingdom, and the United States. To that extent, the analysis in Chapter 2 begins with a description of each respective procurement framework, incorporating official reviews and evaluations of performance, as well as research studies conducted on the effectiveness of such programs, with the express purpose of highlighting key challenges and best practices. Chapter 3 provides a more complete analysis of factors that have

enabled the effective implementation of initiatives aimed at leveraging procurement. Best practices and recommendations for Canada to consider are presented in the broad categories of organizational change; informational issues, and; measurement, reporting and evaluation. Chapter 4 follows with more best practices, but with a specific focus on the need for collaboration between the role of supply and demand approaches to funding for socioeconomic priorities. The paper concludes with a summary of recommendations to assist the Canadian Government in its efforts to design policy that focuses on delivering results.

CHAPTER 1: Situating the Issue

In order to build a case around what enables the effective implementation of initiatives that leverage procurement, it is essential to: (a) understand how socioeconomic benefits are currently delivered and administered in Canada; and, (b) grasp the rationale for leveraging procurement. The following chapter thus provides an overview of the environment in which transfer payments and contracts are administered, followed by a discussion around the policy justifications for leveraging procurement.

1.1 Canadian Context

In Canada, transfer payments and federal contracts are governed centrally by policies administered by the Treasury Board Secretariat (TBS). The *Policy on Transfer Payments*, the government-wide administrative policy that governs how federal departments and agencies use transfer payment agreements, defines transfer payments as “monetary payments, or transfers of goods, services or assets to third parties, including Crown corporations, on the basis of an appropriation.”⁵ In Canada, transfer payments are authorized by Cabinet, which determines when they are the most appropriate policy instrument. Additionally, Cabinet approves the objectives and outcomes that the transfer payment is intended to achieve. Transfer payments can take the form of grants, contributions or ‘other transfer payments’⁶, with each category distinguished by different eligibility and entitlement criteria, levels of accountability, and varying post-award reporting and audit. Whereas a grant must meet pre-established eligibility and other entitlement

⁵ *Policy on Transfer Payments*, Appendix A.

⁶ Other transfer payments are defined as transfer payments other than grants or contributions, based on legislation or other arrangements. This category includes transfers to other orders of government in the form of Equalization payments, Canada Health and Canada Social Transfer payments.

criteria, a contribution is subject to performance conditions specified in a funding agreement and may be audited.⁷

As stated in the policy itself, grants and contributions are to be designed and delivered in a manner that addresses government priorities. As such, they function as one of Ottawa's key instruments in furthering its broad policy objectives and priorities.⁸ Notably, grants and contributions are not solely distributed in the form of monetary payments; they also consist of transfers of goods, services and assets, provided that this does not result in the government's acquisition of any goods, services or assets.

The acquisition of goods and services in order to deliver a government program constitutes a procurement. Unlike transfer payments, procurement is governed through a complex web of legislative, regulatory, and policy requirements. The *Contracting Policy* is the principal policy instrument that guides acquisitions to ensure they are conducted in a fair, open, and transparent manner, resulting in "best value or, if appropriate, the optimal balance of overall benefits to the Crown and Canadian people."⁹ Similar to transfer payments, contracts above a certain threshold require Cabinet approval.

While contracting is first and foremost used to meet the Government's operational requirements to provide services and deliver programs, it can also be conducted in a manner that "support[s] long-term industrial and regional development and other appropriate national objectives, including aboriginal economic development."¹⁰ In other words, procurement may be used to meet the Government's policy objectives and deliver socioeconomic benefits as long as the acquisition does not compromise the principles of fairness, openness, and transparency, and

⁷ Note that the distinction between grants and contributions is specific to Canada, and as such, the analysis in this paper will use these terms interchangeably.

⁸ *Policy on Transfer Payments*, Section 3.

⁹ *Contracting Policy*, Section 1, Web, <http://www.tbs-sct.gc.ca/pol/doc-eng.aspx?id=14494> (Access May 1, 2017).

¹⁰ *Contracting Policy*, Section 2.

respects trade obligations. Existing initiatives for leveraging procurement include programs designed to spur innovation; support local industry, SMEs, and Indigenous businesses, and; incentivize the purchase of green products. Currently, not all programs leveraging procurement have to be approved by the Treasury Board or Cabinet, and thus are not government-wide measures that are centrally administered.

Additionally, the legislative environment in Canada includes Comprehensive Land Claims Agreements (CLCAs), some of which contain procurement obligations to ensure that the respective beneficiary group benefits from government contracts. Other legal instruments that impact procurement are the country's various trade agreements. Table 1 below provides a summary of relevant Government initiatives for leveraging procurement, while Table 2 offers an overview of the two other sets of obligations that influence how Canada conducts procurement and implements programs leveraging procurement.

Table 1. Specific Programs Leveraging Procurement in Canada

Program	Objective	Requirements
Build in Canada Innovation Program	Encourage innovation by purchasing and testing innovative goods and services in the pre-commercial procurement stage.	- The program sets an aspirational government-wide goal, but does not set mandatory targets. - Bidders eligible for the program must be Canadian, and the product/service provided must meet a minimum of 80% Canadian content.
Canadian Content Policy	Promote the use Canadian suppliers for contracts not subject to trade agreements.	The policy applies on a case-by-case basis to competitive procurements over \$25k that are excluded from trade agreements, given that there is sufficient capacity and competition within Canadian suppliers.
Federal Contractor Program for Employment Equity	Promote employment equity among non-federally regulated employers.	Suppliers that are not federally regulated, but have a combined workforce in Canada of 100 or more permanent full-time staff must prepare an Agreement to Implement Employment Equity.
Industrial and Technological Benefit Policy	Leverage defence and security-related procurement contracts to create local jobs and domestic economic growth.	The policy sets mandatory requirements for bidders to submit a Value Proposition describing how economic benefits will be delivered for defence procurement contracts over \$100M. For defence contracts between \$20M-\$100M, the requirements for a Value Proposition is reviewed

	Note that this policy is delivered as part of Canada's Defence Procurement Strategy.	- on a case-by-case basis. - Firms awarded defence procurement contracts are required to undertake businesses activities in Canada equal to value of the contract, as described in their Value Proposition.
Office of Small and Medium Enterprises	Provide support to assist SMEs access federal government contracting opportunities.	The program provides outreach and tools to support SMEs participate in federal procurement.
Policy on Green Procurement	Promote the incorporation of environmental considerations when purchasing products and services.	The policy requires departments and agencies to set green procurement targets and requirements.
Procurement Strategy for Aboriginal Business	Promote contracting with Aboriginal businesses.	- Under the program, it is mandatory for departments and agencies to set aside procurements above \$5000 for competition amongst Aboriginal businesses under the following conditions: - The primary recipient or end users of the product/service are Indigenous populations; - The set-aside meets the principles of sound procurement management. - In order to be classified as an Aboriginal business, firms must meet eligibility criteria as determined by INAC. - The program also provides support to Aboriginal businesses to access federal government contracting opportunities.

Table 2. Other Obligations that Impact Procurement in Canada

Obligation	Description	Examples
Comprehensive Land Claims Agreement (CLCAs)	Agreements signed between Canada and Aboriginal groups that cover a range of governance issues such as ownership, land rights, and resource management. Agreements are implemented through legislation, meaning that the rights and obligations in these treaties are constitutionally protected.	26 signed Agreements, the following 8 of which include obligations relating to procurement: - James Bay and Northern Quebec Agreement - Inuvialuit Final Agreement - Gwich'in Comprehensive Land Claim Agreement - Nunavut Land Claims Agreement - Labrador Inuit Land Claims Agreement - Sahtu Dene and Metis Comprehensive Land Claim Agreement - Tlicho Land Claims Agreement - Nunavik Inuit Land Claims Agreement
Free Trade Agreements (FTAs)	Can contain procurement chapters that detail mandatory thresholds over which procurement contracts must be open to international competition, amongst other obligations related to transparency and notification.	<u>Domestic Trade Agreement:</u> - Canadian Free Trade Agreement (replaces Agreement on Internal Trade) <u>Bilateral FTAs:</u> - Canada-Chile - Canada-Columbia - Canada-Honduras - Canada-Korea - Canada-Panama

		• Canada-Peru <u>Multilateral and Plurilateral FTAs</u> • North American Free Trade Agreement (NAFTA) • World Trade Organization Agreement on Government Procurement (WTO-GPA) • Canada-EU Comprehensive Economic and Trade Agreement (CETA)
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Often, procurement contracts are used alongside grants and contributions to deliver socioeconomic benefits and meet broader policy objectives. This is illustrated below by way of innovation. Boosting innovation is a crosscutting priority and strategic aim of the Government's broader policy agenda, and has been stated as such in the two budgets released, as well as in mandate letters and departmental reports. The Government has declared innovation as a means through which to achieve its objective of middle class growth, and maintain the competitiveness of Canadian businesses in the global economy. Subsequently, direct program funding has been funnelled into programs such as the Innovation Canada, a new platform that aims to consolidate and streamline innovation-related programs across government departments.¹¹ Meanwhile, the Government also issues grants and contributions to initiatives that support innovation. For instance, Ottawa awards grants and contributions through the Industrial Research Assistance Program (IRAP) to firms that want to undertake innovation-related activities. On the procurement side, the Government maintains the Build in Canada Innovation Program (BCIP), which awards "government contracts to entrepreneurs with pre-commercial innovations through an open, transparent, competitive and fair procurement process."¹² Through this collaborative direct and indirect policy approach made up of combination of supply-push and demand-pull instruments, the Government aims to achieve its larger policy objectives. However, as Chapter 4

¹¹ Government of Canada, "Canada's Innovation and Skills Plan," Budget 2017, Web http://www.budget.gc.ca/2017/docs/themes/Innovation_en.pdf (Accessed June 2, 2017).

¹² Build in Canada Program Website, <https://concierge.innovation.gc.ca/en/find-programs/find-all/build-canada-innovation-program-bcip> (Accessed June 2 2017).

will explore, there are certain factors which enable the effective pairing of these two funding instruments to deliver socioeconomic benefits.

1.2 History of Leveraging Procurement

Leveraging public procurement to provide socioeconomic benefits and achieve broader policy objectives is not a new phenomenon. Since the 19th century, public authorities in the United States and the United Kingdom have used government contracts to address social justice issues. This was realised by attaching various socioeconomic goals to public works projects, with the emphasis being on lowering unemployment rates and improving labour conditions.¹³ Following the First World War, government contracts in both the U.K. and U.S. became mechanisms through which to integrate veterans, disabled workers, and other marginalized groups into the workforce. By the early 1940s, the U.S. Congress introduced statutes designed to enable federal agencies to award a “fair share” or “fair proportion” of government contracts to small businesses.¹⁴

The idea of using procurement as distributive justice gained further momentum in the U.S. after the Second World War and the rise of the Civil Rights Movement. Procurement began to be more explicitly used as a means to advance equal rights and anti-discrimination law. For example, affirmative action was actively pursued via government contracts through the inclusion of conditions regarding employment. Following the passage of the Civil Rights Act, additional regulatory provisions were announced to ensure that government contracts were being awarded to black-owned businesses, with the intent of stimulating the development of an entrepreneurial black middle class. Often, this was in the form of setting aside a portion of government contracts

¹³ Christopher McCrudden, “Using Public Procurement to Achieve Social Outcomes,” *Natural Resources Forum* 28 (2004): 258.

¹⁴ Max V. Kidalov, “Small Business Contracting in the United States and Europe: A Comparative Assessment,” *Public Contract Law Journal* 40 no. 2 (2011): 450-451.

to be awarded to businesses owned by disadvantaged groups, or businesses operating in historically underprivileged areas. Around the same time, the U.K. government enacted similar legislation to tackle the problem of discrimination against immigrants arriving from recently decolonized countries.¹⁵ By the 1970s, then, many Western governments were using procurement set-asides to target business and economic development goals.

The major distinction that marks the current phase of leveraging procurement is “the gradual shift to social policy objectives in procurement.”¹⁶ This shift is the result of the environmental movement’s impact. In the early 1970s, environmentalism turned its attention to procurement, and environmental groups succeeded in causing market disruptions through consumer boycotts, that led to new pressures on the public sector’s purchasing behaviour and practices.¹⁷ In 1972, the idea of purchasing green products was introduced at the U.N. Conference of the Human Environment.¹⁸ In addition to being able to address social injustices, the sheer volume and monetary value of government contracts was perceived as having enough influence on market trends to justify the integration of environmental considerations into the procurement process.¹⁹ The advent of sustainable development as a concept in the 1980s furthered the cause along, and by the 1990s many governments had committed to incorporating green purchasing practices as part of their larger support for sustainable development.²⁰

The trend towards the wider incorporation of sustainability criteria in purchasing decisions was broadened with the emergence of corporate social responsibility (CSR) in the

¹⁵ McCrudden, “Using Public Procurement,” 259-260

¹⁶ Nevena Dragicevic and Sara Ditta, “Community Benefits and Social Procurement Policies: A Jurisdictional Review,” Mowat Centre, 2016: 6. Web, https://mowatcentre.ca/wp-content/uploads/publications/121_community_benefits_and_social_procurement_policies.pdf (Access February 10, 2017).

¹⁷ David LePage, “Exploring Social Procurement,” Accelerating Social Impact CCC, Ltd., 2014: 6. Web, https://ccednet-rdec.ca/sites/ccednet-rdec.ca/files/ccednet/exploring-social-procurement_asi-ccc-report.pdf (Accessed February 10, 2017).

¹⁸ David M. Attwater, “Promoting Sustainable Development with Canadian Public Procurement,” *Public Contract Law Journal* 44, no.1 (2014): 81.

¹⁹ LePage, “Exploring Social Procurement,” 2.

²⁰ Attwater, “Promoting Sustainable Development,” 82.

1990s. CSR, which prompts businesses to consider the social consequences of their corporate activities, also encourages firms to engage in philanthropic activities and re-examine their supply chains and production lines to make them more socially responsible.²¹ Additionally, this period facilitated the growth of social enterprises – businesses focused on prioritizing the delivery of social value in addition to business profits. In their literature review of social procurement, Barraket and Weissman describe this era as part of a wider shift in public administration towards an “investment mindset” focused on delivering outcomes and impacts, instead of one focused on input, costs, and outputs.²² As environmental and sustainability concerns continue to increase, practitioners and academics are promoting the idea of a blended return on investment (ROI) that is not predominantly based on financial cost, but also incorporates social value.²³ The newest facet of leveraging public procurement is the use of government contracts to support social enterprises in the early stages of their development.²⁴ This will be explored further in Chapter 4.

Additionally, given the current fiscal environment – in which many governments are operating in a period of adverse economic conditions, increased budgetary pressures, and austerity measures – leveraging procurement is a strategy that can offset the costs associated with the provision of traditional government functions. This strategy is “part of a wider policy framework that has involved considerable devolution of public service delivery” to the private and voluntary or ‘third’ sector through a combination of privatization, contracting out, and deregulation.²⁵ On a more macro level, this has resulted in governments embracing demand-pull policies as supply-push policy instruments (e.g. transfer payments) face increased budgetary and

²¹ LePage, “Exploring Social Procurement,” 7.

²² Jo Barraket and Janelle Weissman, “Social Procurement and its Implications for Social Enterprise: A Literature Review,” *Working Paper No. CPNS 48*, The Australian Centre for Philanthropy and Nonprofit Studies, 2009: 3. Web, <http://socialprocurementaustralasia.com/wp-content/uploads/2013/09/Social-Procurement-and-its-implications-for-Social-Enterprise.pdf> (Accessed March 6, 2017).

²³ LePage, “Exploring Social Procurement,” 29.

²⁴ Barraket and Weissman, “Social Procurement,” 3.

²⁵ Ibid.; McCrudden, “Using Public Procurement,” 264.

regulatory constraints.²⁶ Delivering socioeconomic benefits indirectly through government contracts permits public spending to do ‘double duty’ in that not only is a required good or service acquired, but also a socioeconomic benefit is achieved and a broader public policy objective is supported. In other words, there is social value added to procurements as they produce “greater value for public spending by simultaneously fulfilling commercial and socioeconomic procurement objectives.”²⁷ Many governments, then, are “seeking to unlock greater value” from their procurement spending.²⁸

One of the key transformations in thinking strategically about leveraging procurement to meet socioeconomic objectives is the shift in the meaning of value for money.²⁹ Even when governments were using public works projects to mitigate economic problems such as unemployment in the post-WWI and WWII era, the objective was still to obtain the best value for money by awarding contracts to the cheapest bidder. Today, public procurement is used as “an economic driver,”³⁰ and many governments no longer consider value for money in the “strict sense of price and quality as the sole objective of public procurement.”³¹ Subsequently, cost-benefit analyses when purchasing now include more strategic objective such as those mentioned above.

The Organization for Economic Co-operation and Development (OECD), which conducts a biannual survey of public sector performance, governance, and public management issues including public procurement, corroborates this finding. While efficiency and cost effectiveness remain the primary objectives of public procurement, a significant majority (94%) of OECD

²⁶ Silvia Appelt and Fernando Galindo-Rueda, “Measuring the Link between Public Procurement and Innovation.” OECD Science, Technology and Industry Working Papers 2016/03, 2016: 6. Web, <http://www.oecd-ilibrary.org/docserver/download/5jlvc7sl1w7h-en.pdf?expires=1499890863> (Accessed March 12, 2017).

²⁷ Barraket and Weissman, “Social Procurement,” 10.

²⁸ Dragicevic and Ditta, “Community Benefits,” 5.

²⁹ Ibid., 6.

³⁰ International Institute for Sustainable Development, *Procurement, Innovation and Green Growth: The Story Continues...*, 2012: 75. Web, http://www.iisd.org/pdf/2012/procurement_innovation_green_growth_continues.pdf (Accessed March 12, 2017).

³¹ Appelt and Galindo-Rueda, “Measuring the Link,” 17.

countries surveyed for the 2015 edition of the survey responded that public procurement is used as “a tool to implement policies or strategies to foster secondary policy objectives.”³² Secondary policy objectives include, but are not limited to: (a) promoting sustainable green growth; (b) developing small and medium sized enterprises (SMEs); (c) driving innovation; (d) encouraging responsible business conduct and; (e) achieving broader industrial policy objectives at large.³³

There is thus a long history of leveraging public procurement to achieve broader policy objectives. Throughout the years, various governments have used procurement contracts to address socioeconomic issues such as unemployment, improvement of labour conditions, and the integration of traditionally discriminated workers into the workforce.³⁴ This progressed into initiatives designed to stimulate economic and business development by setting aside procurements from open competition. More recently, due to tight government budgets, there has been a gradual shift towards embedding social policy objectives into the procurement process that are not directly related to procurement’s principle purpose, i.e. the acquisition of goods and services for government operations.³⁵

1.3 Why Leverage Procurement?

According to the OECD, in 2015 member countries devoted an average of 30% of their total general government expenditure towards public procurement.³⁶ In terms of GDP, this accounts for an average of 13% of a country’s total GDP. This represents a significant proportion of a

³² Organization for Economic Co-operation and Development. *Government at a Glance 2015*, 138.

³³ Ibid.

³⁴ Dragicevic and Ditta, “Community Benefits,” 6.

³⁵ Jose Maria Legarreta Hernandez, “Barriers to HUBZone Businesses Participation in Federal Contracts and Subcontracts: Policy Implications and Recommendations,” Thesis. Capella University, 2007: 1.

³⁶ Dataset: OECD Government at a Glance 2015.

government's spending, making public procurement “an attractive and feasible instrument”³⁷ through which to pursue broader public policy aims and deliver socioeconomic benefits.³⁸

Table 3. General Procurement Statistics (2015)³⁹

Jurisdiction	Number of Contracts	Total Value of Contracts	Procurement as a share of total government expenditure	Procurement as a percentage of GDP
Canada	341,380	19.8 billion CAD	32.7%.	13.5%
Australia	70,338	56.9 billion AUD	35.2%*	12.8%*
United Kingdom	-	242 billion GBP	32.0%	13.7%
United States	-	437.9 billion USD	24.76%	9.35%

*Australian data based on 2014 statistics.

The sheer scale of public procurement expenditure means that governments have the ability to greatly impact the national economy by influencing – and sometimes creating – the overall demand for socially responsible goods and services, and setting sustainable market trends.⁴⁰ The scale of public procurement also means that the benefits governments can deliver are substantial. Moreover, public sector procurement has been noted to motivate private sector activities⁴¹ and encourage innovation.⁴² Finally, government procurement has also succeeded in providing support to SMEs and social enterprises.⁴³

³⁷ Luke Georghiou, et al., “Policy Instruments For Public Procurement Of Innovation: Choice, Design and Assessment,” *Technological Forecasting & Social Change* 86 (2014): 1.

³⁸ Lorna Booth, “Public Procurement,” *Briefing Paper Number 6029*. House of Commons Library, 2015: 4.

³⁹ Procurement data is compiled from the following annual national sources: Canada – Purchasing Activity Report (2015); Australia - Statistics on Australian Government Procurement Contracts (2015); USA – USASpending.gov. Annual data for the U.K. is not readily available, and so the total value is based on that available in Lorna Booth’s “Public Procurement,” 2015. Data regarding procurement as a share of government expenditure and percentage of GDP is taken from the OECD Government at a Glance 2015 Database.

⁴⁰ Scholars corroborating the size of public procurement with setting market trends include: Lutz Preuss, “Buying into our Future: Sustainability Initiatives in Local Government,” *Business Strategy and the Environment* 16, no. 5 (2007): 255; Organization for Economic Co-operation and Development, *Public Procurement for Sustainable and Inclusive Growth: Enabling reform through evidence and peer reviews*, 2012: 2; Helen Walker, et al., “Sustainable Procurement: An International Policy Analysis of 30 OECD Countries,” *5th International Public Procurement Conference*, Seattle, USA, August 17–19, 2012: 2557; Attwater, “Promoting Sustainable Development,” 80; LePage, “Exploring Social Procurement,” 6; Georghiou, et al., “Policy Instruments,” 1.

⁴¹ For more on public sector procurement’s influence on private sector activities see: Stephen Brammer and Helen Walker, “Sustainable Procurement in the Public Sector: An International Comparative Study,” *International Journal of Operations & Production Management* 31, no. 4, (2011): 453 and Preuss, “Buying into our Future,” 355.

⁴² For more on research on the link between innovation and procurement see: Anastasia Astashkevish and Andreeva Lyobox, “Trends in the Development of Legislation on Innovation Procurement,” *Mediterranean Journal of Social Sciences* 6, no 5. (2015): 392; Elizabeth Thurbon, “The Abandonment of Procurement-linked Strategic Activism in Australia: Standing Still with

In terms of influencing the national economy, public procurement has been found to trigger market demand for sustainable goods and services.⁴⁴ As purchasers of diverse products and services, procurement spending “represents scaled-up and long-term demand across a wide number of industries.”⁴⁵ For example, government purchasing of clean technology can signal to the private sector that it is worthwhile to invest in developing sustainable products. The risks firms often associate with pursuing such activities are balanced by the fact that government is a large buyer that can sustain demand. Public sector spending is also considered more long term and stable than the private sector, thus further mitigating supplier risks.⁴⁶ In this way, public procurement influences and motivates private sector activities. As Kidalov summarizes, “often, the government is buying the ‘public goods’ that the market would not otherwise supply in the same way, the same manner, or the same quantities the Government sets in response to public priorities.”⁴⁷

Moreover, governments’ ability to modify the domestic regulations under which procurement is conducted is an additional push factor that communicates to the private sector that, for example, sustainable development through green purchasing is valued.⁴⁸ In 2015, the OECD found that more than 75% of member countries had developed policy guidance related to the use of procurement to promote sustainable development via the purchasing of ‘green’ goods and services.⁴⁹ In adopting some form of sustainable purchasing provisions, governments around

Room to Move,” *Australian Institute of International Affairs* 69, no. 5 (2015): 579; Expert Panel on Research and Development, *Innovation Canada: A Call to Action*, Review of Federal Support to Research and Development, 2011; Brammer and Walker, “Sustainable Procurement,” 454; Barraket and Weissman, “Social Procurement,” 9; Appelt and Galindo-Rueda, “Measuring the Link,” 6.

⁴³ Stellina Galitopoulou, and Antonella Noya. “Policy Brief on Scaling the Impact of Social Enterprises: Policies for Social Entrepreneurship.” European Union/OECD, 2016: 80.

⁴⁴ Attwater, “Promoting Sustainable Development,” 80.

⁴⁵ IISD, “Procurement, Innovation and Green,” 4.

⁴⁶ Walker, et al., “Sustainable Procurement,” 3557.

⁴⁷ Kidalov, “Small Business Contracting,” 448.

⁴⁸ IISD, “Procurement, Innovation and Green,” 27.

⁴⁹ OECD, *Government at a Glance 2015*, 138.

the world motivated suppliers to develop and provide green products and services, and consequently created new markets for such sustainable goods.⁵⁰ This view is supported by an institutional theory perspective, which advances the idea that regulatory pressure – such as that which government provides – is a key driver of purchasing behaviour.⁵¹

Innovation, in particular, is an area that has become an important strategic objective pursued by governments through public procurement. The growth of this trend is partly attributed to public procurement stimulating the demand for innovative products. Particularly in economies that are stunted, government contracts to conduct research and development of innovative products functions as an important tool to spur domestic growth and support SMEs.⁵² The decision to incorporate innovation into procurement frameworks has direct results on how firms produce goods and services. According to OECD data, there has been an increase of 44% between 2012 and 2014 in the number of countries leveraging procurement to deliver innovative goods and services.⁵³ Further, the OECD reports that 14% to 36% of firms awarded procurement contracts between 2010 to 2012 undertook an innovation-inspired activity as part of the contract.⁵⁴ Similarly, in Georghiou's study of 800 suppliers in the U.K., 67% of firms indicated that bidding for and completing government contracts had an impact on their innovation activity, with 25% responding that all of their innovation was a result of public procurement and 56% owing their contract award itself to innovation.⁵⁵ Since the government is a large purchaser of goods and services, it can promote the creation and commercialization of

⁵⁰ IISD, "Procurement, Innovation and Green," 4; Attwater, "Promoting Sustainable Development," 80

⁵¹ Kamrul Ahsan and Shams Rahman, "Green Public Procurement Implementation Challenges in Australian Public Healthcare Sector," *Journal of Cleaner Production* 152 (2017): 194.

⁵² Astashkevish, "Trends in the Development," 392.

⁵³ Appelt and Galindo-Rueda, "Measuring the Link," 6.

⁵⁴ Ibid.

⁵⁵ Georghiou, et al., "Policy Instruments," 7.

new and innovate technologies that may otherwise be considered too risky to invest in.⁵⁶ Of course, there is only so much that procurement can do in practice to stimulate innovation; procurement budgets are fixed and governments only require so much innovative products and services. The impact of procurement in increasing innovation is thus constrained to its operating budget.

With respect to economic and business development, it has been suggested that reserving procurements for local economic actors such as SMEs and social enterprises is essential to their development. Procurement contracts can be used to increase the capacity and skills of local economic actors to compete for government contracts and enable them to expand and grow. Fostering this growth is seen essential to creating competitive domestic industries and regions, and spurring domestic economic growth. By providing support to local economic actors through contracts, Galitopoulou and Noya found that public procurement in Europe enabled social enterprises to scale out and reduced their dependency on traditional supply-side funding instruments such as grants.⁵⁷

It is important to note that governments largely pursue the use of procurement to achieve socioeconomic objectives where they perceive win-win situations. Often, regulatory and institutional frameworks that govern procurement are not so conducive to creating the necessary conditions for such ‘win-win situations’. As studies note, public procurement is often focused on performance metrics and is administrated according to the principles of transparency, competition, fairness, best value, and respect of international standards and obligations – particularly those arising from trade agreements.⁵⁸ In some instances however, leveraging

⁵⁶ Thurbon, “The Abandonment of Procurement-linked,” 582; Appelt and Galindo-Rueda, “Measuring the Link,” 15-16.

⁵⁷ Galitopoulou and Noya, “Policy Brief,” 117.

⁵⁸ Appelt and Galindo-Rueda, “Measuring the Link,” 17.

procurement is interpreted as “unfairly biasing procurement procedures.”⁵⁹ Thus, where using procurement to achieve socioeconomic objectives is perceived as conflicting with policies that attempt to maintain the principles mentioned above – for instance by distorting competition or creating trade barriers – governments are unlikely to move forward with such initiatives.⁶⁰

In order to justify and rationalize the implementation of initiatives for leveraging procurement, there must be evidence in support of it. However, there is limited available evidence that suggests public procurement “can create strong social value while maintaining economic efficiencies and fulfilling regulatory obligations.”⁶¹ Not only is there a dearth of evidence – the OECD reports that measurement of socioeconomic goals is as low as 39% in some cases⁶² – but there are also issues with the quality of available data. Subsequently, there are further issues with assessing this data to accurately determine if and what additional socioeconomic value has been added through procurement.⁶³ In other words, there is little quantitative research on the effectiveness of leveraging procurement. Without the ability to quantify how the delivery of benefits relates to the real and perceived price premium that government is supposedly paying when procurement is leveraged, it is hard to make a stronger case for leveraging procurement. The issue of measurement will be discussed in further detail in Chapter 3 of this paper.

Given the problem with measuring the delivery of socioeconomic benefits, it has been suggested by some that the support for leveraging procurement is characterized by a “symbolic

⁵⁹ Sarah-Anne Munoz, “Social Enterprise and Public Sector Voices on Procurement,” *Social Enterprise Journal* 5, no. 1 (2009): 71.

⁶⁰ Rao and Holt 2005 quoted in Brammer and Walker, “Sustainable Procurement,” 454; OECD, *Public Procurement*, 11,

⁶¹ Barraket and Weissman, “Social Procurement,” 10.

⁶² OECD, *Government at a Glance 2015*, 138.

⁶³ Ingrid Burkett, “Social Procurement in Australia,” *Foresters Community Finance*, 2010: 24, Web, http://www.csi.edu.au/media/uploads/Social_Procurement_in_Australia_Report_-_December_2010.pdf (Accessed March 6, 2017); Barraket and Weissman, “Social Procurement,” 10.

legitimacy” of doing good deeds, rather than based on evidence.⁶⁴ Despite the overarching problem of collecting evidence, the few qualitative empirical studies that do exist have found that there is value in leveraging procurement. Most evidence on this front is regarding innovation, where public procurement has been found to have a positive effect in spurring research and development R&D and innovative activity.⁶⁵ Furthermore, research studies have found that structuring procurement in support of local economic actors through SME and social enterprise development often produces strong outcomes in terms of increased economic participation.⁶⁶

In addition to measurement and evaluation, another big detriment to implementing initiatives for leveraging procurement is the real and perceived costs associated with purchasing goods and services when socioeconomic value must be considered as part of the procurement process. Given the current fiscal environment, governments are focused on reducing costs, which makes it more difficult for procurement staff to take risks, and justify increased expenses on innovative, sustainable or socially responsible products and services. As noted above, there has been some shift in how value for money is interpreted; however, there is no uniform or standardized application of this broader understanding of value for money. Often, the interpretation of value for money can vary between departments within one jurisdiction. As a response, suppliers often tout the lower life-cycle cost of their products as opposed to conventional products and service.⁶⁷ For example, while governments may pay a premium up front for a product made of more expensive recycled material, it may be easier to dispose of at the end of life. Similarly, services provided by a social enterprise that employs disadvantaged

⁶⁴ Dart 2004 quoted in Barraket and Weissman, “Social Procurement,” 11.

⁶⁵ Appelt and Galindo-Rueda, “Measuring the Link,” 63.

⁶⁶ Barraket and Weissman, “Social Procurement,” 11.

⁶⁷ *Innovation Canada*, 3.

workers may cost more, but the additional social value it provides is not factored into a traditional cost-benefit analysis; e.g. the increased savings that governments may accrue from lower unemployment payouts. A more holistic costing methodology that incorporates externalities such as longer-term overall costs, savings, benefits, and risks – rather than a simple price cost-benefit in which the bidder offering lowest price is awarded the contract – better supports the case for leveraging procurement.⁶⁸

⁶⁸ Larry Arshoff, et al., “Procurement Change in Canada: An opportunity for Improving System Performance,” *Healthcare Management Forum* 25, no.2 (2012): 67.

CHAPTER 2: Case Studies

As Canada undertakes its Policy Suite Reset exercise to streamline and clarify Treasury Board policy instruments that govern the use of funding instruments to ensure activities provide value for money,⁶⁹ there are opportunities to learn from the challenges other jurisdictions have faced in their respective implementation of procurement initiatives. Australia, the United Kingdom, and the United States are leaders in field of leveraging procurement and have robust procurement systems designed to achieve specific socioeconomic objectives, as well as public policy goals at large. Using a variety of different policy measures, each have incorporated socioeconomic objectives into their central procurement frameworks. The present chapter provides a summary of these respective frameworks.

2.1 Australia

In Australia, the federal government uses public procurement as an instrument to address broader social policy concerns such as employment and training, equity and anti-discrimination, and local economic development and sustainability.⁷⁰ This shift in thinking about public procurement was initiated in 2007, with the Labour government's development of a social policy agenda on the basis of the principles of 'social inclusion'. Subsequent assessments of the social inclusion policy agenda resulted in the adoption of a government-wide policy framework that moved away from the traditional welfare state paradigm towards a social investment state model dedicated to creating opportunities and removing barriers in the way of achieving desired socioeconomic goals. As noted by scholars, this opened up a conversation in Australia about what government

⁶⁹ Allison Christie and Glenn Richardson, "Treasury Board Secretariat: Policy Suite Reset" (presentation, Canadian Institute for Procurement and Materiel Management National Workshop, Ottawa, Canada, June 6, 2017).

⁷⁰ Burkett, "Social Procurement," 13.

should be doing to “stimulate social and economic justice beyond grants and individualized welfare programs.”⁷¹ Since then, there have been progressive amendments made to the federal procurement framework to allow for easier implementation of programs that leverage procurement. A 2012 review by Walker et al. of the sustainable procurement policy frameworks of OECD countries recognised Australia as a leader in strategic procurement. Not only did the Australian policy framework include the most sustainable procurement elements, but it was also found to be the country with the most supplementary social and economic procurement policy guidance.⁷²

Federal procurement in Australia is governed by the newly revised 2017 *Commonwealth Procurement Rules* (CPRs).⁷³ Provisions in the CPRs that permit and encourage the leveraging of procurement for socioeconomic benefits are related to the interpretation of value for money, innovation, environmental sustainability criteria, and SME participation. At the core of the procurement framework is the concept of achieving value for money, and the CPRs explicitly state that value for money requires the consideration of financial and non-financial costs and benefits. Non-financial costs and benefits include, but are not limited to, the quality of the goods and services, flexibility for innovation, environmental sustainability, and whole-of-life costs. The CPRs also contain provisions aimed at ensuring that SMEs have fair access to federal contracts. To that extent, the CPRs commit to sourcing at least 10% of procurement by value from SMEs.⁷⁴ While promoting small businesses has historically been a focus of Australian public procurement, it was usually at the state or regional level. This current iteration at the national level, as well as the inclusion of a target, represents a new approach to achieving social policy

⁷¹ Burkett, “Social Procurement,” 14.

⁷² Walker, et al., “Sustainable Procurement,” 3572.

⁷³ Government of Australia, Department of Finance, *Commonwealth Procurement Rules*, March 2017, Web, <https://www.finance.gov.au/sites/default/files/commonwealth-procurement-rules.pdf> (Accessed June 1, 2017).

⁷⁴ *Commonwealth Procurement Rules*, March 2017.

goals compared to that of the past, where the focus had been on achieving desired outcomes in general rather than meeting specific targets.⁷⁵

In addition, the CPRs state that contracts valued above \$4 million AUD⁷⁶ require authorities to consider the broader economic benefits of the procurement to the Australian economy. Economic benefit is defined in guidance as: (a) making better use of Australian resources that would be otherwise underutilized, and; (b) increasing productivity. Making better use of underutilized resources includes employing marginalized workers or using spare industrial capacity, while increasing productivity refers to embracing innovation or increasing workers' skills. Expected benefits of this approach include increased R&D activities, improved domestic technological knowledge, and greater Indigenous workforce participation. These economic benefits are to be considered as part of the value for money assessment, as long as there is no significant price distortion arising from an introduction of excessive costs.⁷⁷

Notably, the CPRs do not apply to social enterprises that employ persons with disabilities, or to SMEs with 50% Indigenous ownership. Indigenous procurement is managed outside of the CPRs through the *Indigenous Procurement Policy* (IPP). Launched in 2015 as a replacement for the previous 2010 Indigenous Opportunities Program, the IPP's objective is to leverage procurement spending to: (a) increase demand for Indigenous produced goods and services; (b) stimulate Indigenous economic development, and; (c) contribute to the growth of the Indigenous business sector. The IPP applies to all federal departments and entities under the CPRs, and sets an overall target of 3% of all contracts to be awarded to Indigenous businesses by 2020. It also includes mandatory set-asides for all contracts in remote areas, as well eligible

⁷⁵ Burkett, "Social Procurement," 13.

⁷⁶ The \$4 million AUD threshold is only for goods and services contracts. The relevant threshold for construction services is \$7.5 million.

⁷⁷ Government of Australia, Department of Finance, "Consideration of broader economic benefits in procurement," 2017. Web, <https://www.finance.gov.au/sites/default/files/guidance-new-rules-10-30-and-10-31-16.pdf> (Accessed June 1, 2017).

contracts that fall between \$80,000 to \$200,000 AUD. Contracts that fall within this range require procurement officials to first check whether an Indigenous SME can provide the goods or services needed, before opening competition to the market. Finally, the IPP contains minimum Indigenous participation requirements for contracts for select commodities valued over \$7.5 million.⁷⁸ The participation requirement can take the form of a contract-based requirement of at least 4% Indigenous employment or an organization-based requirement of at least 3% Indigenous employment throughout the term of the contract. Reporting on all of the above is mandatory.⁷⁹

At the end of its first year, the IPP overwhelmingly surpassed its total portfolio procurement target of 3% (256 contracts) with almost 1509 contracts awarded to Indigenous businesses, valued at over \$284 million AUD in total. However, the Australian Government did not fare as well with set-asides, and only 183 of the available 10,773 contracts (18%) valued between \$80,000 to \$200,000 AUD were awarded to Indigenous businesses.⁸⁰ In addition to the IPP, the government also maintains other initiatives to increase supplier diversity, labour participation and social well-being including the *Workplace Gender Equality Procurement Principles* and the *National Disability Strategy*. The former requires suppliers to obtain a letter of compliance under the *Workplace Gender Equality Act*, while the latter promotes the adoption of universal design principles in procurement.⁸¹

The public procurement framework in Australia also has a whole host of related environmental purchasing requirements that impact federal procurement. There is the *Energy Efficiency in Government Operations* policy which commits the government to meeting

⁷⁸ Government of Australia, Department of the Prime Minister and Cabinet, *Indigenous Procurement Policy Factsheet*, 2015. Web, https://www.pmc.gov.au/sites/default/files/publications/factsheet_ipp_overview_1.pdf (Accessed May 10 2017).

⁷⁹ Ibid.

⁸⁰ Indigenous Procurement Policy, Website, <https://www.pmc.gov.au/indigenous-affairs/economic-development/indigenous-procurement-policy-ipp> (Accessed May 10 2017).

⁸¹ Government of Australia, *Sustainable Procurement in the Australian Government Report*, 2013, 8-10. Website, <http://www.environment.gov.au/protection/national-waste-policy/publications/sustainable-procurement-australian-government-report-2013> (Accessed May 10, 2017).

minimum efficiency requirements and annual energy reporting; the *Australian Packaging Covenant*, which requires the government to develop instructions on packaging materials and waste, and; the *National Waste Policy* which obliges the government to report on how its procurements meet waste reduction goals and contribute to broader economic, environmental and social goals.⁸² The latter is accompanied by a Sustainable Procurement Guide which details how value for money assessments should be conducted.

2.2 United Kingdom

Since the 1990s, the U.K. has been a leader in using procurement as a means of social investment.⁸³ As with most other OECD countries, the British public procurement system is guided by the principles of transparency, competitiveness, accountability, efficiency, integrity and of course, best value for money.⁸⁴ These principles are contained in the *Public Contracts Regulations* (PCRs),⁸⁵ which in turn are informed by the *EU Directive 2014/24/EU on Public Procurement*, the overarching procurement framework in the European Union. The updated PCRs have been in effect since February 2015, with some provisions scheduled for effective dates throughout 2017 and beyond. The U.K.'s public procurement framework also includes the *Public Services (Social Value) Act of 2012*, which aims to integrate the concept of social value into the procurement process.

In terms of leveraging procurement, there are a few articles in the PCRs that allow for the reservation of contracts to further social wellbeing and increase labour participation. The first of these is Regulation 20, which allows procurement authorities to reserve contracts for social

⁸² Government of Australia, *Sustainable Procurement in the Australian Government Report*, 2013, 8-10.

⁸³ Barraket and Weissman, "Social Procurement," 5.

⁸⁴ Brammer and Walker, "Sustainable Procurement," 457

⁸⁵ British Parliament, Statutory Instruments No. 102 Public Procurement: *The Public Contracts Regulations 2015*, February 5, 2015. Web, http://www.legislation.gov.uk/uksi/2015/102/pdfs/uksi_20150102_en.pdf (Accessed January 25, 2017).

enterprises that provide social and professional integration for disabled or disadvantaged persons, as long as 30% of the employees of the social enterprise are disadvantaged. On the green purchasing front, Regulation 41 permits the use of environment criteria as part of the required technical specifications. Procurement officials also have the ability to reserve contracts for certain services, as well as for innovation partnerships through Regulation 77 and 31 respectively.⁸⁶ In addition to reserving contracts, the revised PCRs attempt make procurement more accessible to SMEs and social enterprises by introducing self-certification. Furthermore, there is a requirement for procurement authorities to consider dividing contracts into smaller lots.

Leveraging public procurement to provide socioeconomic benefits is more explicitly stated in the *Social Value Act* (“the Act”). The Act requires public authorities at both the national and local level to consider how procurement “might improve the economic, social and environmental well-being of the relevant area” and how procurement officials “might act with a view to securing that improvement.”⁸⁷ In the Act, procurement authorities are instructed to adopt a value for money methodology that takes into account the “added and collective benefits a service may generate,”⁸⁸ rather than focus on lowest cost when assessing bids. The Act also requires procurement officials to consider whether a procurement necessitates consultation with relevant stakeholders, although it does not prescribe a consultation process.⁸⁹ The idea is that consultations would determine if social value could be incorporated into a procurement.

An explanatory “Procurement Policy Note” containing further guidance for authorities was published alongside the Act. The Note offers clarity on when to apply the Act, by stating

⁸⁶ *Public Contracts Regulations*, 2015.

⁸⁷ Cabinet Office, *Public Services (Social Value) Act*, 3a. Web http://www.legislation.gov.uk/ukpga/2012/3/pdfs/ukpga_20120003_en.pdf (Accessed January 25, 2017).

⁸⁸ Malin Arvidson and Helen Kara, “Putting Evaluations to Use: From Measuring to Endorsing Social Value,” Third Sector Research Centre Working Paper 110, 2013, 4. Web, <http://www.birmingham.ac.uk/generic/tsrc/documents/tsrc/working-papers/working-paper-110.pdf> (Accessed March 12).

⁸⁹ *Public Services (Social Value) Act*, 7.

that the mandatory consideration of social value is restricted to the pre-procurement stage of service contracts only. The pre-procurement stage was chosen on the basis that it is where “social value can be considered to the greatest effect,”⁹⁰ given that it is when specifications are developed and consultations with stakeholders are likely held. Neither the Act nor the Note instruct procurement officials on how exactly to implement any provisions. Moreover, neither oblige procurement authorities to keep formal records of how they have met the requirement for the mandatory consideration of social value. To show compliance with the Act, procurement authorities “only need to show that they have thought about these issues and have thought about whether they should consult on them.”⁹¹ The lack of clear direction, advice and instruction in applying the Act has been noted as one of its key shortcomings.⁹²

According to the official government review of the Social Value Act, benefits of the Act – where it has been taken up – include environmental improvements, increased use of local businesses in the supply chain, increased employment for disadvantaged persons, and greater opportunities for training and local employment.⁹³ However, the same review noted that the incorporation of social value in procurement is low when considered within the grand scheme of total public sector procurements.⁹⁴ Another review of the Act, commissioned by Social Enterprise U.K., found similar varying levels of success. It concluded that 45% of councils that follow the Act consider the application of the Act above the required European Union threshold

⁹⁰ Cabinet Office, “Procurement Policy Note – The Public Services (Social Value) Act 2012 – advice for commissioners and procurers,” 2012, 6. Web, http://buysocialdirectory.org.uk/sites/default/files/public_services_social_value_act_2012_ppn.pdf (Accessed January 25, 2017).

⁹¹ James Butler, “Procuring for Good: How The Social Value Act Is Being Used By Local Authorities,” Social Enterprise U.K., 2016: 5. Web, <https://www.base-uk.org/sites/default/files/news/16-06/procuringforgood1.pdf> (Accessed May 23, 2017).

⁹² Dragicevic and Ditta, “Community Benefits,” 10; Arvidson and Kara, “Putting Evaluations to Use,” 4.

⁹³ Cabinet Office, Her Majesty’s Government, *Social Value Act Review 2015*, 16. Web, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/403748/Social_Value_Act_review_report_150212.pdf (Accessed January 25, 2017).

⁹⁴ *Ibid.*, 4.

of €209,000, and that 33% of councils consider social value routinely. In addition, almost 25% of local councils have produced a social value policy or document to supplement the Act.⁹⁵

The U.K. government has additional elements within its policy framework that support the use of public procurement as a tool to deliver socioeconomic benefits related to increased supplier diversity, labour participation and improved social well-being. Since the issuing of the Social Issues in Purchasing Guide in 2006, authorities have been directed to make the procurement process accessible to SMEs and social enterprises, black and minority ethnic enterprises, and businesses owned by women and persons with disabilities.⁹⁶ In 2009, the government also introduced a reformed Small Business Research Initiative (SBRI) based a similar American program. Amongst other things, the improved SBRI imposes on departments a procurement set-aside target of 2.5% of R&D budgets to be spent on SME contracts. The SBRI runs competitions to award firms contracts valued between £50K to £1M to develop and test innovation goods and services. A review of the SBRI conducted in 2010 found that SMEs were awarded 74% of all contracts awarded in the first year. Procurement authorities surveyed for the review also had positive feedback on the program's first year, and viewed the initiative as a positive step towards increasing innovation.⁹⁷

Support to small businesses and enterprises was furthered in 2010, when the U.K. Government set a target of 25% of procurement spending to be awarded to SMEs. The 25% target included direct primary contract award to SMEs, as well as indirectly through subcontracting. By 2013/14, the U.K. government had met the target by sourcing 26% of its procurements through SMEs. This was achieved primarily through increasing sub-contracting

⁹⁵ Butler, "Procuring for Good," 4.

⁹⁶ Kidalov, "Small Business Contracting," 491.

⁹⁷ Emma Tredgett and Alex Coad, "The shaky start of the U.K. Small Business Research Initiative (SBRI) in Comparison to the U.S. Small Business Innovation Research Programme," *Working Papers in Management*, Birbeck University, 2015: 16. Web, <http://www.bbk.ac.uk/management/docs/workingpapers/WP10.pdf> (Accessed March 6, 2017).

opportunities for SMEs. The government also implemented a series of new measures to increase SMEs' access to government contracts. Measures included simplifying bidding procedures and increasing transparency of the procurement process; creating a Crown Representative for SMEs; barring the practice of dismissing financially sound bidders because of low turnover; breaking up larger contracts into smaller ones more accessible to SMEs; and, prompt payment of invoices to SMEs. Additionally, the U.K. Government introduced a Mystery Shopper program that allowed suppliers to raise procurement concerns in an anonymous manner.⁹⁸

The U.K. public procurement framework also contains various measures to encourage the purchasing of green goods and services. The overarching instrument that informs all green procurement in the U.K. is the European Commission's Green Public Procurement Programme. To enforce this initiative, the U.K. Government has set Government Buying Standards (GBS). The GBS are a set of mandatory and 'best practice' sustainable product specifications that departments must oblige by when procuring products and services.⁹⁹ The government has also committed to meeting its Greening Government Commitments (GGCs) through procurement by making an explicit commitment to ensure that by 2015, it was buying more sustainably sourced and efficient products. The current set of GGCs for 2016-2020 list the improvement of sustainable procurement as a key commitment. In order to meet this commitment, departments are expected to report on systems that are currently in place, and planned action that will be taken to purchase more sustainably and increase compliance with the GBS. Importantly, the government provides a 'Flexible Framework tool' that enables departments to measure and monitor their progress on sustainable procurement.¹⁰⁰

⁹⁸ Booth, "Public Procurement," 13-14.

⁹⁹ Gov.UK Sustainable procurement tools, Website, <https://www.gov.uk/guidance/sustainable-procurement-tools> (Accessed June 10)

¹⁰⁰ Gov.UK Greening Government Commitment, Website, <https://www.gov.uk/government/publications/greening-government-commitments-2016-to-2020/greening-government-commitments-2016-to-2020> (Accessed June 10, 2017).

2.3 United States

The federal public procurement framework in the United States consists of more than 4000 laws, regulations, and internal departmental systems.¹⁰¹ With respect to socioeconomic procurement policies, the American acquisitions system is designed to further public policy objectives such as decreasing unemployment, promoting equal employment opportunities, protecting domestic industry, advancing fair labour standards, protecting the environment, and most visibly, supporting the development and progress of small businesses.¹⁰²

With the creation of the Small Business Administration (SBA) in 1953, the U.S. has used federal contracts to contribute to the development of socially and economically disadvantaged small businesses and SMEs. The establishment of the SBA was followed with the *Small Business Act of 1958*, which created set-aside provisions to reserve contracts for small businesses. It also required federal agencies to engage in outreach programs and provide financial assistance in order to make procurement more accessible to small businesses.¹⁰³ The Act is informed by the two related principles of “maximum practicable opportunity” and “fair proportion” to ensure that small businesses are given equal opportunities to win government contracts to the extent most practicable.¹⁰⁴ Since the passage of the Act, Congress has continually embraced the use of procurement set-asides to improve access to federal procurement and has passed successive legislation to this effect.¹⁰⁵

Currently, the SBA administers: (a) prime contracting programs, which set a government-wide goal of sourcing 23% of total federal contracts by value from small businesses; (b)

¹⁰¹ Astashkevish, “Trends in the Development,” 394.

¹⁰² Hernandez, “Barriers to HUBZone,” 1.

¹⁰³ Kathleen Mee, “Improving Opportunities for Women-Owned Small Business in Federal Contracting: Current Efforts, Remaining Challenges and Props,” *Public Contract Law Journal* 41, no. 3 (2012): 728.

¹⁰⁴ Kidalov, “Small Business Contracting,” 494.

¹⁰⁵ Kate M. Manuel and Erika K. Lunder, “Federal Contracting and Subcontracting with Small Businesses: Issues in the 112th Congress,” *Congressional Research Service* 7-5700, R42390, 2013: 1.

subcontracting programs for small disadvantaged businesses (SDB) that oblige federal agencies to negotiate subcontracting plans with successful bidders prior to contract award; and, (c) a Goaling program which requires federal agencies to report on their progress in meeting stated SBA goals.¹⁰⁶ In support of the Goaling program, the SBA publishes an annual Scorecard that rates the federal government's procurement performance. In instances when goals are not met, federal agencies and departments are required to appear before Congress and explain why targets were not achieved.¹⁰⁷ The SBA furthermore ensures that limitations on bundling and consolidating procurements are enforced so that requirements for goods and services are not grouped into larger single contracts that small businesses cannot win.¹⁰⁸ Table 4 lists the SBA's relevant contracting programs.

Table 4. SBA-Administered Small Business Programs¹⁰⁹

Program	Summary and Requirements
Small Business Set Aside Program	- Federal government contracts valued between \$3500 and \$150,000 are automatically set aside for small business competition, given that 2 or more small businesses can bid ("Rule of Two"). - Contracts valued over \$150,000 must be set aside if the Rule of Two is met. - Contracts valued over \$700,000 and construction contracts over \$1.5M must include small business subcontracting plans.
8(a) Business Development Program	- Offers a wide range of business development assistance to small disadvantaged businesses that meet its certification requirements. - Qualified businesses must be 51% owned by disadvantaged individuals whose reported net worth is under \$250,000 at the time of the application. Businesses that qualify can spend a maximum of 9 years in the program.
Small Disadvantaged Business (SDBs) Certification Program	- Unlike the 8(a) program, the SDB program only pertains to contract access (not business development). - Firms can be certified through the SBA or self-qualify as SDBs. Regardless of method of certification, SDBs are eligible for special bidding benefits and subcontracting opportunities. Goal: 5% of total value of all small business eligible contracts.
Historically Underutilized Business Zone Program	- Provides sole source contracts, set-asides, and price evaluation preferences (up to 10%) in open competitive procedures to businesses that qualify, with the aim of stimulating local economic development. - Qualified businesses must meet SBA small business eligibility and employ, at

¹⁰⁶ Robert Jay Dilger and Sean Lowry, "Small Business Administration: A Primer on Programs and Funding," *Congressional Research Service* 7-5700, RL33243, 2016.

¹⁰⁷ Dragicevic and Ditta, "Community Benefits," 21-22.

¹⁰⁸ Manuel and Lunder, "Federal Contracting," 22.

¹⁰⁹ Table is compiled based on program descriptions from Dilger and Lowry, "Small Business Administration," 17-21.

(HUBZone)	- minimum, 35% of total staff from HUBZone areas. Goal: 3% of total value of all small business eligible contracts.
Service-Disabled Veteran-Owned Small Business Program	- Provides sole source contracts and sets aside competition for businesses that are 51% owned by service-disabled veterans. All contracts valued over \$100,000 must include a clause that requires the prime contractor to provide the maximum practicable opportunity for service-disabled veterans to compete for sub-contract opportunities. Goal: 3% of total value of all small business eligible contracts.
Women-Owned Small Business Program	- Provides sole source contracts and sets aside competition for businesses that are owned by women in industries where women are underrepresented. Goal: 5% of total value of all small business eligible contracts. The WOSB Program remains of the few that has yet to reach its 5% target.
Subcontracting Programs for Small Disadvantaged Businesses	- Requires federal agencies to ask prime contract bidders to submit subcontracting plans that set goals and targets for small business participation prior to contract award, with the aim of developing capacity within small businesses to perform federal contracts directly. - Annual reporting is conducted for compliancy evaluation.
Goaling Program	- Requires every federal department and agency, in consultation with the SBA, to set small businesses contracting goals. Goals should reflect the maximum practicable opportunity for small businesses to participate in federal procurement contracts administered by the department or agency. - Sets a government-wide goal of minimum 23% of the total value of all small business eligible prime contract awards to small businesses for each fiscal year.
Mentor-Protégé Program	- Promotes contracting and subcontracting with small businesses by pairing established businesses with new small businesses. - Only available in select departments, including the Department of Defence.

According to the *Annual Review of Government Contracts*, the success of the small business set-aside programs is such that 2015 was the third year in a row that federal agencies and departments met their overall goal of 23%.¹¹⁰ Smith's study of the impact of 8(a) program also demonstrates similar successes in contributing to small business development and growth. Since its implementation, firms in the 8(a) program have reported positive financial outlooks, and decreased their reliance on financing, technical assistance, and marketing assistance. Additionally, controlling for normal business development rates, firms in the program have shown increases in size and scope. In general, time spent in the 8(a) program was found to be

¹¹⁰ National Contract Management Association and Deltek, *Annual Review of Government Contracting*, 2016. Web, http://www.ncmahq.org/docs/default-source/default-document-library/pdfs/exec16---book---annual-review-of-government-contracting_lowres (Accessed June 1, 2017).

positively associated with firm growth.¹¹¹ The success of such initiatives has become more imperative as Congressional interest in SBA administered programs grows. Increasing the participation of small businesses in the procurement process is not only viewed as putting into practice the principles of maximum practicable opportunity and fair proportion, but also as an important means through which to “stimulate economic activity, create jobs, and assist in national economic recovery.”¹¹² Importantly, the work of the SBA has been supported outside of its own mandate. The socioeconomic goals and set-aside procedures contained in the Act have been fortified with additional legislation passed by the Department of Defence, the Coast Guard, and NASA.¹¹³

In addition to its contracting programs, the SBA also delivers the Business Development Program. This is aimed at helping socially and economically disadvantaged entrepreneurs and firms “gain a foothold in government contracting” through a multi-year development scheme.¹¹⁴ Furthermore, the SBA maintains the Surety Bond Guarantee Program which is similarly aimed at increasing small business access to government contracting by providing bid, performance and payment bonds for small businesses. The Program is designed to encourage government officials to contract with small businesses that have no prior experience, by assuming the risk associated with the contract.¹¹⁵

The SBA and its respective Act are embedded in the larger public procurement framework as governed by the *Federal Acquisition Regulation* (FAR).¹¹⁶ Published in 1984, the FAR is a massive 2,000 page manual that translates federal acquisition laws from Title 10 and

¹¹¹ Raymond D. Smith, et al., “Impact of the 8(a) Program on Minority Firm Development: An Exploratory Study,” *Journal of Developmental Entrepreneurship* 9, no. 1 (2004): 51-52.

¹¹² Dilger and Lowry, “SBA: A Primer,” 1.

¹¹³ Kidalov, “Small Business Contracting,” 482.

¹¹⁴ Dragicevic and Ditta, “Community Benefits,” 14

¹¹⁵ Dilger and Lowry, “SBA: A Primer,” 15-16.

¹¹⁶ General Services Administration, Department of Defence and National Aeronautics and Space Administration, *Federal Acquisition Regulation*, March 2015. Web, <https://www.acquisition.gov/sites/default/files/current/far/pdf/FAR.pdf> (Access January 25, 2017).

Title 41 of the U.S. Constitution into practice. Obligations arising from the *Small Business Act* such as mandatory small business set asides between \$3,500 and \$150,000 and the “Rule of Two”, have been translated into Part 19 of the Socioeconomic Programs subchapter of the FAR.¹¹⁷ Additional provisions in Part 19 list requirements for the SBA procurements programs as listed in Table 4.

The Socioeconomic Programs chapter in the FAR also contains the government’s *Sustainable Acquisition Policy* (“Policy”), which aims to protect and improve the quality of the environment, as well as “foster markets for sustainable technologies, materials, products, and services.”¹¹⁸ The Policy builds on green purchasing incentives originally introduced in 1993 and reaffirmed through a 2009 Executive Order, when more green purchasing tools were introduced and new performance targets were set.¹¹⁹ As per the 2009 Executive Order and subsequent Policy, federal agencies are responsible for ensuring that 95% of new contracts for products and services are either energy efficient, water efficient, bio-based, or environmentally preferable.¹²⁰ Further to the Policy, federal agencies and departments must provide an analysis and assessment of how their procurement decisions will ensure that green purchasing does not restrict competition or have a detrimental impact on costs.¹²¹

Other Socioeconomic Programs in the FAR include the Indian Incentive Program which aims to increase the participation of Indian-owned economic enterprises in federal procurement, as well as a program designed to increase the participation of Historically Black Colleges and Universities and Minority Institutions in federal procurement. The FAR also houses the Buy American Act, which “[r]estricts the purchase of supplies, that are not domestic end products, for

¹¹⁷ *Federal Acquisition Regulation*, 19.502-2(b).

¹¹⁸ *Ibid.*, 23.000.

¹¹⁹ LePage, “Exploring Social Procurement,” 7; IISD, “Procurement, Innovation and Green,” 75

¹²⁰ *Federal Acquisition Regulations*, 23.193(b).

¹²¹ IISD, “Procurement, Innovation and Green,” 19.

use within the United States.”¹²² This Act is designed to support the growth and development of a strong domestic industry.

The U.S. government also maintains several programs designed to use procurement to develop innovative goods and services. Of these, the most relevant is the SBA-coordinated Small Business Innovation Research Program (SBIR). Established in 1982, the purpose of the SBIR is to “increase the participation of small, high technology firms in federal research and development endeavors.”¹²³ The SBIR commits federal agencies and departments with R&D budgets over \$100 million to devote, at minimum, 3% of their budget to the program.¹²⁴ Small businesses are then able to apply for a grant to ‘explore’ innovative technology that has the potential for commercialization. The end goal is that the SBIR funded development of goods and services through grant financing is able to be purchased by the government.¹²⁵ The success of the SBIR program has resulted in similar policies adopted in various international jurisdictions.

2.4 Summary

In conclusion, the overview above reveals noteworthy similarities in how public procurement is leveraged to deliver socioeconomic benefits relating to supplier diversity, labour participation and social wellbeing. There seems to be an understanding across jurisdictions that procurement should be regulated in a manner that supports sustainability, domestic growth, mitigates inequality, and furthers innovation. Subsequently, public procurement policy frameworks are

¹²² *Federal Acquisition Regulation*, 25.001(a).

¹²³ Dilger and Lowry, “SBA: A Primer,” 25.

¹²⁴ Eight departments and three other federal agencies currently have SBIR programs, including the Departments of Agriculture, Commerce, Defense, Education, Energy, Health and Human Services, Homeland Security, and Transportation; the Environmental Protection Agency; the National Aeronautics and Space Administration (NASA); and the National Science Foundation (NSF). (Dilger and Lowry 25)

¹²⁵ Thurbon, “The Abandonment of Procurement-linked,” 582; IISD, “Procurement, Innovation and Green,” 75.

structured so that the achievement of these goals is in part delivered through government contracts.

CHAPTER 3: Enabling Environment – Challenges, Lessons Learned and Best Practices

The challenges and lessons learned from implementing procurement initiatives abroad can be used to inform the Canadian federal government's efforts as it moves forward with its own policy discussions on how to execute a framework for leveraging procurement to achieve socioeconomic objectives. The next section will discuss characteristics essential to creating an enabling and welcoming environment suited to such procurement initiatives, and recommend internal action the Government can take to ensure that its activities relating to leveraging procurement are effectively implemented and realized.

Of course, it must be noted that the effectiveness of policies designed to leverage procurement rest on the context in which they are applied. As Burkett notes from her review of policy impact and effectiveness, policy instruments are often not enough on their own and usually require “more concrete and contextual action” to have their desired impact.¹²⁶

With respect to that, recommendations broadly endorse:

- Fostering a shift in organizational culture;
- Addressing informational gaps, knowledge sharing, and capacity issues; and
- Improving reporting, measurement, and evaluation techniques.

3.1 Organizational Culture

The importance of organizational culture in enabling innovation-friendly, socially responsible and environmentally sustainable purchasing behaviour cannot be understated. Effective

¹²⁶ Burkett, “Social Procurement,” 26.

implementation of a framework for leveraging procurement requires a shift in organizational culture through the support of senior leadership,¹²⁷ an affective commitment to change at the individual level,¹²⁸ and a demographically diverse procurement staff.¹²⁹

Decades of purchasing goods at lowest-price and increasing red tape and bureaucracy has resulted in the public sector's development of behaviors and norms that do not translate seamlessly into action required to effectively implement initiatives designed to leverage procurement. Procurement staff, until recently, had been asked to make purchasing decisions primarily on the basis of best value as determined by cost. An emphasis on price first, rather than quality – which in the case of leveraging procurement translates to added socioeconomic value – has created a cadre of risk-averse procurement officers who interpret value for money in a narrow way.¹³⁰ This behaviour was further incentivized in the recent decade due to austerity budgets and cutbacks. Now an established norm, best value's interpretation as lowest price has been noted across jurisdictions as one that significantly hampers the application of initiatives designed to leverage procurement, as the decision to purchase socially responsible or innovative goods and services is perceived to cost more. This increased cost is seen as not 'fitting' with the role of the public sector as a steward of public funds. The fit between an organization's strategic vision and the behaviour asked of its members is a key enabler of change. If members do not see new norms and practices reflected in the overall culture and direction of the organization, they

¹²⁷ Jolien Grandia, et al. "It's Not Easy Being Green: Increasing Sustainable Public Procurement Behaviour," *Innovation: The European Journal of Social Science Research* 28, no. 3, (2015); LePage, "Exploring Social Procurement," 14; Burkett, "Social Procurement," 64.

¹²⁸ Grandia, et al., "It's Not Easy Being Green," 254; Brammer and Walker, "Sustainable Procurement," 467, Georghiou, et al., "Policy Instruments," 5.

¹²⁹ Mansi Mansi and Rakesh Pandey, "Impact of Demographic Characteristics of Procurement Professionals on Sustainable Procurement Practices: Evidence from Australia," *Journal of Purchasing and Supply Management* 22, no.1 (2016).

¹³⁰ Barraket and Weissman, "Social Procurement," 12; LePage, "Exploring Social Procurement," 14.

are less likely to enforce them.¹³¹ As such, it is recommended that Canada take measures to inform public servants of what “sound stewardship” entails in its current iteration.

In Brammer and Walker’s comparative study of international sustainable procurement, leadership within an organization was determined to be one of “the most important facilitator[s] of engagement” in that support for it at the senior levels stimulated the spread of the practice.¹³² In Australia, with respect to procuring healthcare related products and services, the support of senior management was “considered as one of the principal internal drivers of environmentally responsible procurement.”¹³³ In this instance, the support of senior management helped spur mid-level management to mobilize the necessary resources to translate green procurement strategies into action. Moreover, senior leadership’s clear communication of the objectives of green procurement and strategic direction to purchase more sustainably instigated procurement officers to buy green.¹³⁴

In other instances where leadership has displayed a lack of ownership around the objectives of leveraging procurement, there has been limited application of new policies.¹³⁵ As a majority of initiatives aimed at increasing the application of socioeconomic considerations in procurement are not mandatory or prescriptive, support and commitment as communicated by leadership to ‘go ahead’ and pursue such measures is vital. Direction from senior management and leadership thus functions to raise awareness of programs to leverage procurement, and further, acts as an impetus to change behaviour.¹³⁶ To that end, the U.K. Cabinet Office continues to target senior procurement officials through its Commissioning Academy.¹³⁷

¹³¹ Grandia, et al., “It’s Not Easy Being Green,” 246.

¹³² Brammer and Walker, “Sustainable Procurement,” 467.

¹³³ Ahsan and Rahman, “Green Public Procurement,” 184.

¹³⁴ Ibid.

¹³⁵ Barraket and Weissman, “Social Procurement,” 12; Dragicevic and Ditta, “Community Benefits,” 20.

¹³⁶ Burkett, “Social Procurement,” 60.

¹³⁷ *Social Value Act Review 2015*, 10.

Similarly, the Australian government appoints internal ‘champions’ to encourage cultural change by publicizing opportunities for sustainable and social procurement.¹³⁸ Thus, it is recommended that Canada explore ways in which senior leadership, through the re-training and appointment of internal champions, can be used to empower procurement staff to consider leveraging procurement for socioeconomic objectives.

However, a study conducted by Grandia found that while leadership, particularly transformational leadership that communicates a ‘vision’, may have an impact on procurement, it is not the main enabler or detriment of change. Instead, the study suggested that procurement officers need to be further engaged to adopt an “affective commitment to change” at an individual level.¹³⁹ An affective commitment to change refers to the behaviour and attitude of those responsible for purchasing, and implies that commitment to change, when informed by an actual belief in its value, results in most effective implementation. Individual behaviour has been found as an important enabler, especially at the more discretionary aspects of the procurement process. For example, studies have shown that particularly in relation to sustainable procurement, the behaviour of procurement officers determines whether the full potential of sustainable purchasing is realized,¹⁴⁰ in the sense that officers have “a strong capacity to influence” the materials purchased.¹⁴¹ All of this, of course, must be examined within the scope of influence that procurement staff can actually exercise in their respective roles. In jurisdictions where the role of procurement officers is narrowly defined, the impact of individual behavior and attitude are understandably limited. To this extent, Canada must ensure that its implementation of initiatives to leverage procurement are supported by re-training of procurement staff to better

¹³⁸ Burkett, “Social Procurement,” 64.

¹³⁹ Grandia, et al., “It’s Not Easy Being Green,” 255.

¹⁴⁰ Ibid., 253-254.

¹⁴¹ Zsidisin and Siferd (2001) quoted in Mansi and Panday, “Impact of Demographic Characteristics,” 31.

understand and incorporate new policy objectives, thus ensuring that procurement officers are vested in making socially responsible and sustainable purchasing decisions.

An important, and understated, determinant of behavior is the demographics of procurement staff. According to Mansi and Pandey's research on the characteristics of procurement staff in Australia, gender, educational qualification, and work experience all positively impacted the application of sustainable procurement programs. The findings of the study report that organizations with more female procurement officers are likely to pursue more environmentally friendly purchasing. Additionally, when staff is more qualified and has been working in the field for longer, it is more likely that environmental and philanthropic goals are more actively pursued.¹⁴² A similar study on the demographics of senior management in the United States discovered that higher levels of minority representation in leadership positions resulted in an increased proportion of federal contracts awarded to small minority-owned firms under the SBA's 8(a) program.¹⁴³ This research further demonstrates that leadership, particularly when diverse, contributes to promulgating an organization's priorities, beliefs and values. It is recommended, that Canada seek to increase the diversity of its procurement staff and senior management when recruiting and hiring, and endorse measures aimed at increasing retention.

3.2 Informational Issues

The successful implementation of a procurement framework for leveraging socioeconomic benefits requires: training of staff to build internal capacity;¹⁴⁴ appropriate guidance to assist staff in clarifying interpretation challenges; and, tools to help to develop a culture that supports

¹⁴² Mansi and Pandey, "Impact of Demographic Characteristics," 38.

¹⁴³ Craig R. Smith and Sergio Fernandez, "Equity in Federal Contracting: Examining the Link between Minority Representation and Federal Procurement Decisions," *Public Administration Review* 70, no. 1 (2009).

¹⁴⁴ LePage, "Exploring Social Procurement," 3.

the use of procurement in a strategic manner. Research in the field of green procurement highlights that the lack of training for procurement officials is “the single most important barrier to implement[ation].”¹⁴⁵ Without proper training, staff are unable to upgrade existing skills, develop required competencies or cultivate the mindset to apply new concepts. The fact that procurement authorities must juggle what are often perceived as competing priorities only makes training and capacity-building more important. It is thus essential that the development of initiatives that leverage procurement is accompanied with complimentary training packages as part of its wider implementation framework, and that such training is advertised and made available to procurement staff government-wide.

Key to all of the above is knowledge and understanding of the concepts and values that inform the use of leveraging procurement to deliver socioeconomic benefits. In Hebb and Hachigan’s global review of social value procurement, it was noticed that a large barrier to implementing such procurement reforms were ‘interpretation challenges’ that resulted from a lack of clear definition of what was trying to be achieved.¹⁴⁶ Similarly, Dragicevic and Ditta found that most jurisdictions offered unclear interpretations about social procurement, “leaving many contracting authorities in the dark when it comes to understanding the purpose or expectations of the policy.”¹⁴⁷ While in principle ambiguous definitions for incorporating socioeconomic value provide procurement officials with greater flexibility, several reviews of the U.K.’s Social Value Act noted that a lack of understanding of what social value meant limited procurement officers’ ability to implement provisions, and ultimately led to inconsistent

¹⁴⁵ Ahsan and Rahman, “Green Public Procurement,” 183.

¹⁴⁶ Tessa Hebb and Heather Hachigan. “Social Value Procurement Measurement and Evaluation: A Global Review and Assessment of Social Value Procurement Evaluation Toolkits and Frameworks,” Carleton Centre for Community Innovation, 2017: 4. Web, https://carleton.ca/3ci/wp-content/uploads/SVP-Evaluation_Final_April_13_2017.pdf (Accessed June 1, 2017).

¹⁴⁷ Dragicevic and Ditta, “Community Benefits,” 17.

practice.¹⁴⁸ Lack of knowledge was again mentioned in Ahsan and Rahman’s study of sustainable procurement in Australia, where procurement officials cited a lack of familiarity with the application of green procurement.¹⁴⁹ In the U.S., an assessment of the HUBZone training program cited similar failings.¹⁵⁰ Therefore, it is recommended that Canada develop a definition of social value that is robust, but still affords procurement officials flexibility and contingency to ensure the procurement process is not adversely impacted.

The knowledge gap and lack of capacity mentioned above are exacerbated by a lack of clear strategic direction and communication of objectives from within the organization. If the public sector wants to encourage leveraging procurement, it must state clearly defined goals, as well as parameters for what it is seeking to achieve and how.¹⁵¹ When the objective of procurement programs is clearly communicated, there is “greater motivation to develop initiatives and generate structures that [can] support more such initiatives.”¹⁵² Clarification thus leads to improvements in the training, guidance, and tools that are made available to procurement officials.

The most common capability issue plaguing the implementation of programs designed to leverage procurement is a dearth of available guidance. In a time when public officials are being asked to navigate an increasingly complex procurement system with competing priorities of value for money against strategic considerations like innovation and sustainable development, a lack of guidance can translate into inaction.¹⁵³ As was discussed earlier, one of the areas that procurement officials have noted as having weak guidance is the concept of socioeconomic

¹⁴⁸ *Social Value Act Review*, 9; Social Enterprise U.S.. *The Future of Social Value*, 2014: 9.

¹⁴⁹ Ahsan and Rahman, “Green Public Procurement,” 183.

¹⁵⁰ Hernandez, “Barriers to HUBZone,” 67.

¹⁵¹ Burkett, “Social Procurement,” 38.

¹⁵² *Ibid.*, 59.

¹⁵³ Appelt and Galindo-Rueda, “Measuring the Link,” 18; Brammer and Walker, “Sustainable Procurement,” 467.

value.¹⁵⁴ An additional area cited as requiring better guidance is the interpretation of legal issues. The Social Value Act Review found that confusion around what was legally permissible under trade agreements and procurement legislation prevented officials from implementing social value considerations.¹⁵⁵ Mixed legal advice, and a lack of clear guidance centrally have led to wide range of approaches and different interpretations of how the Act should be applied to ensure it complies with the European Commission's public procurement regulations.¹⁵⁶ Likewise, in Australia, a lack of legal clarity around acceptable social procurement activities under preferential trade agreements has limited the ability of procurement staff to engage with, and award contracts to suppliers who may be able to deliver socioeconomic benefits.¹⁵⁷ Better guidance around both of these concepts is thus essential to implementing a procurement program to deliver socioeconomic benefits. As such, Canada should consider supplementing its procurement policies with thorough guidance and training materials on determining added socioeconomic value, as well as guidance that offers legal clarity.

A successful approach to addressing capacity gaps is the centralization of expertise and staff that “compensate for sub-critical expertise and high learning costs across departments.”¹⁵⁸ This centralized function could consist of specialized intermediaries, whose role would be to support organizations address socioeconomic value in complex procurements. These positions would not only help procurement staff apply new policies effectively, but would also build up capacity and risk management practices within existing procurement staff.¹⁵⁹ In its procurement framework, then, Canada should explore the options for creating a consolidated center of expertise for applying socioeconomic benefits.

¹⁵⁴ Munoz, “Social Enterprises,” 74.

¹⁵⁵ *Social Value Act Review*, 24.

¹⁵⁶ Social Enterprise U.S., “Future of Social Value,” 8.

¹⁵⁷ Burkett, “Social Procurement,” 67

¹⁵⁸ Georghiou, et al., “Policy Instruments,” 5.

¹⁵⁹ *Ibid.*, 10.

While the core tools of implementing procurement programs are policy training and tools to build capacity, there is also another critical component: business systems. The electronic systems used by procurement officials to carry out acquisitions are often not compatible with the use of strategic procurement. Since these systems function as the ‘default’ for how procurement officials carry out their work, making them more integrated and harmonious with programs for leveraging procurement is likely to incentive the behaviour of staff to purchase more sustainably and innovatively. Further, changes to these systems would signal to staff that the organization, at large, values the use of procurement to meet socioeconomic objectives.¹⁶⁰ As part of its longer-term implementation goals, Canada must investigate ways to modify its financial management systems to better support processes for leveraging procurement.

3.3. Measuring, Reporting, and Evaluation

Measurement is crucial to demonstrating progress in meeting the objectives of leveraging procurement, corroborating the added socioeconomic value of such procurement, and incentivizing purchasing behaviour. The need for robust and accurate measurement is fundamental as this data feeds into the monitoring and evaluation cycle. One of the most commonly cited concerns across jurisdictions in implementing programs that leverage procurement is the lack of evidence for doing so. This dearth of evidence is the result of both, a failure to collect data on the part of government, as well as shortcomings in assessing available data.

Measuring contracting activity is understood to be a critical component of good governance and sound stewardship. In effect, tracking and reporting contracting activities acts as

¹⁶⁰ IISD, “Procurement, Innovation and Green,” 27.

a safeguard against compromising the transparency and integrity of procurement decisions.¹⁶¹ Contracting data is collected across all three jurisdictions to track how public money is spent, and to assess whether the procurement process was fair, open, and transparent. Commonly collected data includes the value of the contract, who it was awarded to, whether it was competitively awarded, and what was set-aside from trade agreements and why. While in traditional procurement reporting contracting authorities are aware of what is being sought, procurement officers lack clarity and direction in what it is they are seeking to achieve when leveraging procurement.¹⁶² Without knowing what they are to achieve and thus track, procurement officials are at odds with how to demonstrate the value of leveraging procurement. The clear articulation of social value objectives is therefore needed to initiate discussions about what to measure. As a first step in this process, Canada must examine and determine a clear definition of what will be measured as part of social value.

Failure to develop proper evaluation schemes significantly impacts the ability of procurement officials to demonstrate financial accountability and articulate the value and benefits of socially, economically and environmentally sustainable purchases.¹⁶³ In a fiscal environment characterized by budgetary constraints, evidence of achieving value for money is essential to the continued application of socioeconomic procurement. The availability of data would enable the evaluation of results of programs for leveraging procurement and contribute to setting new standards and norms. Measurement tools, then, function as an essential component of the implementation phase as they quantify impact and provide the necessary evidence on which to base future policy initiatives.

¹⁶¹ Appelt and Galindo-Rueda, "Measuring the Link," 8.

¹⁶² Hebb and Hachigan, "Social Value Procurement," 15.

¹⁶³ *Ibid.*, 4.

The problems plaguing measurement and evaluation result from the complexity of measuring and assessing added socioeconomic value. In addition to ensuring that a framework and proper mechanisms exist to capture accurate data, governments must first produce relevant indicators. In the case of social procurement, generating such indicators is not an easy exercise, and governments must work hard to ensure that financial proxies for measuring social value most accurately capture the relevant cost savings.¹⁶⁴ Measuring the link between procurement and the ‘delivery’ of socioeconomic benefits is difficult as inputs that feed into the achievement of socioeconomic goals cannot easily be differentiated. Without being able to distinguish inputs, it is difficult to conclude whether the existence of a program for leveraging procurement alone influenced behaviour.¹⁶⁵ There is also the difficulty of differentiating between outputs, outcomes, and impacts. Whereas outputs and outcomes are short-term indicators that are easier to collect and evaluate, impacts are long-term indicators of change and, as a result, are noticeably harder to measure and evaluate.¹⁶⁶ Contracting data collection is often not focused on such long-term gains. Even in jurisdictions that have in place measurement systems for socially, economically and environmentally responsible purchasing, social indicators were least successfully measured as it was unclear what to collect and report. As such, clear definitions of social value are a starting point from which Canada can work to craft meaningful indicators that can then be expressed as key performance indicators for reporting, monitoring and evaluation purposes.¹⁶⁷

One of the central shortcomings of the U.K.’s *Social Value Act* is a lack of data. The Act was implemented without a corresponding reporting framework, and reviews of its progress so far have noted that the lack of measurement and data makes it difficult to assess how far social

¹⁶⁴ Hebb and Hachigan, “Social Value Procurement,” 4.

¹⁶⁵ Appelt and Galindo-Rueda, “Measuring the Link,” 61

¹⁶⁶ Hebb and Hachigan, “Social Value Procurement,” 15

¹⁶⁷ Barraket and Weissman, “Social Procurement,” 123.

value is being included in the procurement process.¹⁶⁸ As such, the U.K. government has committed to ‘Inspiring Impact’, a 10 year program with social enterprises to develop impact measurement systems and develop a social value measurement scheme that works to benefit both purchasers and suppliers.¹⁶⁹ Similarly, Canada should consider initiating discussions with industry to develop partnerships for socioeconomic measurement schemes.

Furthermore, measurement and reporting schemes function as incentives for procurement authorities, and thereby, help modify their purchasing behaviour. In some jurisdictions, measurement of procurement has been found to “influence behaviour in both intended and unintended ways, particularly when used as targets.”¹⁷⁰ In fact, previous studies have found that monitoring how much is spent on social procurement increased the proportion of contracts being awarded to social enterprises and SMEs.¹⁷¹ On the other hand, setting targets that are not based on sound evidence and data can incentivize perverse behaviour, as was found in a review of the Australian construction industry’s use of targets for socioeconomic impacts.¹⁷² As Canada is still in the first stage of developing its programs for leveraging procurement and lacks the necessary evidence and measurement systems to support the quantification of targets, initiatives for achieving socioeconomic objectives should not currently be based on mandatory targets.

While expanding coverage of the data collected and further improving access to procurement data is vital to the success of future procurement initiatives, governments must again keep in mind the notion of capability and capacity. Currently, there is a noted lack of knowledge and skills among procurement officers with respect to reporting. This usually corresponds to pushing the burden of data collection and evaluation onto suppliers, which in this

¹⁶⁸ Social Enterprise U.S., “Future of Social Value,” 8

¹⁶⁹ *Social Value Act Review*, 11.

¹⁷⁰ Appelt and Galindo-Rueda, “Measuring the Link,” 8.

¹⁷¹ Munoz, “Social Enterprises,” 72.

¹⁷² Ana Maria Esteves and Mary-Anne Barclay, “Enhancing The Benefits of Local Content: Integrating Social and Economic Impact Assessment into Procurement Strategies,” *Impact Assessment and Project Appraisal* 29, no.3 (2011): 207.

case often happen to be SMEs or social enterprises already facing resource and capacity constraints.¹⁷³ As such, in addition to developing infrastructure that makes measurement more feasible, governments must also support procurement staff in acquiring the competencies required to validate, assess and evaluate data.¹⁷⁴ In other words, the public sector must stimulate knowledge sharing and nurture a culture that values monitoring and evaluation.¹⁷⁵ Canada, then, should ensure its initiatives for achieving socioeconomic objectives are supplemented with programs of work and tools that support procurement officers on the reporting and monitoring of such contracts.

Internationally, the U.S. has one of the most robust procurement measurement systems. Annually, procurement officials are responsible for producing procurement strategies that contain small business contracting goals, which are then reported back on at the end of the year. In instances where these stated goals are not met, the responsible agency or department must appear before Congress and explain why it failed to reach its objectives, and what it will do to avoid this in the future. Additionally, the SBA publishes an annual scorecard that ranks how the federal government has met its various SBA-administered program goals. While an approach that works well, the resources and expertise required to carry out such an extensive measurement program are immense.¹⁷⁶ For countries where it is not feasible to assign such resources to monitoring and evaluation – the SBA employs over 3,000 people alone – it may be more beneficial for governments such as Canada's, who are at the earlier stages of developing measurement frameworks, to establish links to existing domestic initiatives such as Open

¹⁷³ Hebb and Hachigan, "Social Value Procurement," 4.

¹⁷⁴ Appelt and Galindo-Rueda, "Measuring the Link," 8.

¹⁷⁵ Galitopoulou and Noya, "Policy Brief," 14.

¹⁷⁶ Dragicevic and Ditta, "Community Benefits," 21-22.

Government, which advocates for government data to be publically available by default in the name of greater transparency and accountability.¹⁷⁷

There is also a need for administrative data to be cross-sectoral, so that government spending comprising of procurement, transfer payments, and other funding instruments is contained within one system.¹⁷⁸ For example, there is currently no measurement scheme that can express to what extent government has spent on stated policy objectives such as innovation or green.¹⁷⁹ Knowing what was spent where would undoubtedly assist governments when making broader policy choices such as deciding whether to use a contract or grant to sustain innovative practices. Again, this requires a substantial investment of resources to create data sets that are interoperable, not only across various federal agencies and departments, but also between types of expenditures, which are recorded using different business systems. For jurisdictions such as Canada that are still in the early stage of developing their procurement programs, the creation of measurement programs for monitoring, reporting and evaluation need to be considered within the scope of tracking performance while refraining from creating unnecessary burdens on procurement officials.¹⁸⁰

3.4 Summary of Recommendations

A summary table listing challenges, best practices and recommendations is presented on the following page.

¹⁷⁷ Open Government Canada Website, <http://open.canada.ca/en> (Accessed June 2 2017).

¹⁷⁸ Appelt and Galindo-Rueda, “Measuring the Link,” 8.

¹⁷⁹ Ibid.,” 19.

¹⁸⁰ Dragicevic and Ditta, “Community Benefits,” 22.

Table 5. Summary of Challenges, Best Practices, and Recommendations

Theme	Challenge	Best Practice	Recommendations for Canada
Organizational Culture	Counter-productive organizational norms (e.g. lowest-price, red tape)	Ensure fit between organization's strategic vision and desired changes to attitude/behaviour	Take measures to inform public servants of what "sound stewardship" entails in its current iteration.
	Senior leadership support	- Consistent communication of the objectives of programs that leverage procurement - Clear strategic direction to apply socioeconomic considerations when purchasing	- Retrain of management and leadership to empower procurement staff to consider leveraging procurement to meet socioeconomic objectives. - Appoint an internal champion that encourages the use and uptake of initiatives that leverage procurement.
	Affective commitment to change	Vested individual belief and interest in making socially responsible and sustainable purchasing decisions.	Retrain procurement staff to better understand and embrace new procurement philosophy.
	Demographics of procurement staff	Diverse procurement staff and senior management (e.g. gender, qualifications, work experience, tenure)	- Seek to increase the diversity of procurement staff and senior management when recruiting and hiring. - Endorse measures aimed at increasing retention.
Informational Issues	Training of staff to build internal capacity	Proper training, upgrading of skills, development of new competencies	- Ensure training programs are developed as part of the larger implementation framework for initiatives that leverage procurement. - Ensure that training is advertised and made available to procurement staff government-wide. - Explore options for creating a consolidated center of expertise to help procurement officials apply socioeconomic benefits.
	Knowledge gaps and ambiguous definitions	Definitions and concepts that are well defined.	Develop a robust definition of social value.
	Appropriate guidance and	Comprehensive guidance regarding how	Supplement procurement policies with

	capability concerns	to interpret key provisions and legal concerns.	thorough guidance and training materials on determining added socioeconomic value, as well as guidance that offers legal clarity.
	Tools that support the use of procurement in a strategic manner	Business and financial systems that are compatible with the use of strategic procurement	Investigate ways to modify financial management systems to better support processes for leveraging procurement as part of long-term planning.
Monitoring, Reporting, and Evaluation	Lack of clarity and direction in what is trying to be achieved through leveraging procurement	Clear articulation of social value objectives	Determine what impacts will be measured as part of social value.
	Complexity of creating a reporting framework for measuring and assessing added socioeconomic value	Relevant indicators that differentiate between outputs, outcomes and impacts	- Craft meaningful indicators that can be expressed as key performance indicators for reporting, monitoring and evaluation purposes. - Initiate discussions with industry to develop partnerships for socioeconomic measurement schemes.
	Incentivising procurement authority behaviour	Development of targets based on sound evidence and data	Initiatives for achieving socioeconomic objectives should not be based on mandatory targets.
	Data collection; capability and capacity of procurement staff to measure purchasing activities	Support procurement staff in acquiring the competencies required to validate, assess and evaluate data	- Ensure initiatives leveraging procurement for socioeconomic benefits are supplemented with respective programs of work and tools that support procurement officers on the reporting and monitoring of such contracts - Establish links to existing data-oriented initiatives such as Open Government
	Different internal systems for measuring government spending	Cross-sectoral administrative data	Ensure measurement programs for monitoring, reporting and evaluation are considered within the scope of tracking performance while refraining from creating unnecessary burdens on procurement officials.

CHAPTER 4: Enabling Environment – Access to Finance

In addition to the recommendations in the previous chapter, the review of procurement policy frameworks in the three jurisdictions highlighted the need for a more collaborative and comprehensive approach that incorporates demand-pull mechanisms (procurement) with supply-push instruments (transfer payments), particularly in achieving the socioeconomic objectives of economic development for social enterprises and SMEs, as well as to encourage innovation.

Currently, funding and finance are key barriers to the growth of local SMEs and social enterprises.¹⁸¹ Funding local economic actors at the early stage of their development enables them to develop into sustainable businesses, which can then bid on government contracts. In other words, funding available through grants makes government procurement more accessible to SMEs and social enterprises. This ability to bid on, successfully compete for and win government contracts contributes to the growth of a competitive, more robust and diverse domestic market, which itself is a broad policy objective of most governments. Additionally, the partnering of grant funding and procurement contracts supports the development of innovative goods and services. Apart from the literal funding of innovative projects, grants also function as a signal for private sector investment, which further supports SMEs and social enterprises become sustainable and competitive.¹⁸² Thus, one such enabling factor to achieving socioeconomic objectives at large is to create a collaborative direct and indirect policy approach that combines the use of procurement and transfer payments to foster economic development.

¹⁸¹ Frank Villeneuve-Smith and Nick Temple, “State of Social Enterprise Survey 2015.” Social Enterprise U.S., 2015: 4. Web, <https://www.bigsocietycapital.com/sites/default/files/attachments/State%20of%20Social%20Enterprise%20Report%202015.pdf> (Accessed May 23, 2017).

¹⁸² Robin Kleer, “Government R&D Subsidies as a Signal for Private Investors,” *Research Policy* 39, no.10 (2010): 1361.

4.1 Local Economic Actors: Social Enterprises and SMEs

As governments face budget cuts and operate in austerity environments that force them to offload service provision, policy measures are required to ensure that social enterprises – as they continue to be relied on as a vehicle to fulfill broader public policy agendas – are allocated the necessary resources to be able to successfully provide such services.¹⁸³ This particular emphasis on social enterprises over SMEs is due to the former's focus on providing social and community impact in addition to a good or service as part of their blended ROI.

In the U.K., it is recognized that social enterprises are “unique forms of businesses that face considerable barriers to accessing appropriate forms of finance.”¹⁸⁴ 33% of social enterprises stated that obtaining grant funding was a barrier to their growth, and 25% stated that the lack of such funding was a barrier to sustainability.¹⁸⁵ While a portion of their revenue is derived from regular market functions, due their blended ROI, social enterprises require financial support from government.¹⁸⁶ In their review of international social procurement practices, Barraket and Weissman found that social enterprises are still heavily reliant on grants to sustain their core operations, with 17% of social enterprises indicating that such funding is essential to their survival. Funding in the form of grants is used to carry out basic business functions such as employing staff and purchasing capital equipment and property, as well as assisting overall business growth through the development of new services and products.¹⁸⁷ Deprived of such public sector funding, social enterprises face financial sustainability issues, with a majority of them unable to cover more than 75% of their operating costs with revenue alone.¹⁸⁸ Since social enterprises usually require more funding than SMEs – a national survey conducted by Social

¹⁸³ Barraket and Weissman, “Social Procurement,” 17.

¹⁸⁴ Burkett and Drew 2008 quoted in Barraket and Weissman, “Social Procurement,” 17.

¹⁸⁵ Villeneuve-Smith and Temple, “State of Social Enterprise,” 50-51.

¹⁸⁶ Galitopoulou and Noya, “Policy Brief,” 12.

¹⁸⁷ Barraket and Weissman, “Social Procurement,” 80.

¹⁸⁸ Galitopoulou and Noya, “Policy Brief,” 12.

Enterprise U.K. found that 44% of social enterprises sought funding compared to 19% of SMEs¹⁸⁹ – a comprehensive financial management framework must provide additional grant opportunities for social enterprises so that they are able to compete alongside SMEs for government contracts. As such, it is recommended that Canada examine the ways in which grant funding is proportionally allocated between local economic actors.

However, social enterprises and SMEs cannot survive on government funding alone; hence the dual emphasis on both grants and procurement. This is due to several factors, namely that grants usually are for shorter durations. Additionally, the process of applying and getting grants is resource-intensive for local economic actors, with some recipients describing the process as “overly bureaucratic and difficult to assess.”¹⁹⁰ Skepticism in the grant system is further amplified by the limited access and availability of funding. Not only do only a few economic actors successfully win grants, but the funding amount itself is limited. In the U.K., grant funding only contributed to a minimal amount needed to sustain new SMEs. Most economic actors reported that, more often than not, they had to match grant funding with equal amounts of funding from other sources (e.g., public sector loan schemes, private loans, and bank financing).¹⁹¹ A particular difficulty for social enterprises is the lack of clarity about whether they are eligible for funding that is available for SMEs – despite most social enterprises meeting SME criteria. In a survey of social enterprises in Canada, 93% of respondents answered that eligibility criteria for grants was unclear.¹⁹² Subsequently, it is recommended that Canada, as part of its government-wide exercise to streamline transfer payments, introduce more simplified eligibility criteria.

¹⁸⁹ Villeneuve-Smith and Temple, “State of Social Enterprise,” 48.

¹⁹⁰ Appelt and Galindo-Rueda, “Measuring the Link,” 12.

¹⁹¹ Sandra L. Fielden, et al., “U.S. Government Small Business Finance Initiatives: Social inclusion or Gender Discrimination?” *Equal Opportunities International* 25, no. 1 (2006): 32.

¹⁹² David LePage and Andrea Di Lucca, “A Challenge to the Social Economy Ecosystem: Social Enterprise Access to Current Government Services for Small and Medium Size Enterprises,” *Canadian Review of Social Policy*, no. 67 (2012): 82.

Interestingly, a study examining the gender dynamics of grant funding uncovered a distortion in the amount of government funding that is dispersed to women-owned SMEs compared to that owned by men.¹⁹³ This was attributed to the eligibility criteria of grant initiatives, which are based on male models of business ownership that women-owned businesses are unable to meet. For example, women-owned businesses were less likely to meet eligibility criteria relating to work experience, tenure, and full-time status. Moreover, women owned business usually sought funding for ventures in industries such as retail, which are not targeted by grants.¹⁹⁴ As best practice then, it is recommended that Canada apply robust Gender-based Analysis on its future transfer payment initiatives and procurement programs.

As local economic actors grow and become more sustainable, they generally become less reliant on government funding.¹⁹⁵ In a national study of U.K. social enterprises, 34% of respondents stated they had received a grant from the public sector. However, only 5% of respondents noted this funding as their main source of income.¹⁹⁶ This can be attributed to the longer history of funding social enterprises in the U.K., which has led to their current stable state. Once local SMEs and social enterprises are at a stage where they are sustainable, procurement, rather than funding in the form of grants and contributions, becomes more important.

4.2 SMEs, R&D and Innovation

Specifically, as SMEs become more stable, procurement becomes a better instrument of choice to attain innovative products and services. A traditional approach to innovation is through supply-pull financial instruments such as grants, loans, and fiscal incentives. Through these,

¹⁹³ Fielden, et al., "U.S. Government Small Business," 25.

¹⁹⁴ Fielden, et al., "U.S. Government Small Business," 35.

¹⁹⁵ Barraket and Weissman, "Social Procurement," 80.

¹⁹⁶ Villeneuve-Smith and Temple, "State of Social Enterprise," 27.

firms are encouraged to pursue longer-term research and development (R&D) for innovative activities that they may not have been comfortable exploring with their own resources.¹⁹⁷ Grants are thus used to support SMEs pursue risky projects.¹⁹⁸ Additionally, apart from the literal direct funding of innovative projects, government funding through transfer payments also functions as a signal for private sector investment.¹⁹⁹

At the initial stages of procurement, support through grants has the potential for broader spillover effects, and as such, governments are more willing to provide support and reduce firms' commercialization risks.²⁰⁰ There is also support for the view that investing in R&D through transfer payments can lead to further innovative procurement. According to a study conducted by Georghiou on 800 suppliers in the U.K., 51% of suppliers that carried out R&D as part of their contract increased their R&D expenses following contract award.²⁰¹ Moreover, since successful initial purchases are key to ongoing procurement, grants that enable innovative R&D are critical to building future growth.²⁰² The policy frameworks are reflective of this, particularly with regards to innovation in the pre-commercial procurement (PCP) phase.²⁰³ It is at this stage that the programs such as SBIR and SBRI are geared towards. As a general rule, PCP does not fall under procurement law or trade agreements, making it one of the procurement policy areas that is least hampered by external factors.²⁰⁴ Thus, there is considerable scope to ensure that R&D-focused PCP contracts are 'directed' to meet policy objectives.

Procurement as a means of economic development support is cyclical in that it inspires more innovative activity. In the U.S., it has been established that there is a positive correlation

¹⁹⁷ Georghiou, et al., "Policy Instruments," 2.

¹⁹⁸ Astashkevish, "Trends in the Development," 393.

¹⁹⁹ Kleer, "Government R&D," 1361.

²⁰⁰ *Innovation Canada*, 4.

²⁰¹ Georghiou, et al., "Policy Instruments," 7.

²⁰² *Innovation Canada*, 4.

²⁰³ Georghiou, et al., "Policy Instruments," 6; Appelt and Galindo-Rueda, "Measuring the Link," 18.

²⁰⁴ *Innovation Canada*, 8.

between R&D expenses and having been awarded a federal contract. According to one study, firms awarded government contracts were twice as likely to report more R&D expenses in the following years.²⁰⁵ As such, the relationship between procurements and grants is formalized through the Small Business Development Centers, which partner with the SBA to provide grant funding to small businesses for technical and managerial training to develop into sustainable businesses that can then compete for procurement contracts.²⁰⁶ In the U.S., between \$28.8B and \$32.6B of the total \$34B spent on R&D in 2010 was delivered through government contracts, with the remainder funded through grants, reimbursements and other financial incentives.²⁰⁷ Meanwhile, in Canada the situation is reversed. According to the 2013 Survey of R&D in Canadian Industry the federal government spent \$67M on R&D contracts, whereas \$337M was spent on R&D through grants and contributions.²⁰⁸

Perhaps one the reasons why U.S. spending on R&D is issued largely through contracts rather than grants is the robust decision-making tools that public authorities have at their disposal. Due to previous real and perceived mishandling of federal spending, the U.S. Congress passed the Federal Grant and Cooperative Act of 1977. This Act provides standardized tests to determine whether to award contracts or grants.²⁰⁹ As is the case with implementing social value considerations, a lack of guidance and available tools to help procurement officers decide between which instrument to use may deter them from choosing the riskier option, in this case a contract, as it is subject to far more legal and regulatory obligations than transfer payments, which are removed from trade obligations. As such, it recommended that as best practice,

²⁰⁵ Appelt and Galindo-Rueda, “Measuring the Link,” 7.

²⁰⁶ Dilger and Lowry, “SBA: A Primer,” 16.

²⁰⁷ Appelt and Galindo-Rueda, “Measuring the Link,” 40.

²⁰⁸ Ibid., 38.

²⁰⁹ Sarah Pettijohn, “Federal Government Contracts and Grants for Nonprofits,” *Urban Institute*, 1 (2013): 2.

Canada considers developing tools to assist procurement authorities in their decision-making between financial instruments at the programmatic level.

To support innovation through a combination of grant funding and procurement, the U.K. government has adopted the use of ‘innovative agencies’. These agencies function as ‘quasi-governmental’ bodies: they are supported by government funding, and their intentions are to meet the government’s aims of driving innovative technology. One the biggest innovative agencies, the National Endowment for Science, Technology, and the Arts (NESTA), ran a successful competition merging grant funding and procurement into a comprehensive policy approach to support innovation. In this particular instance, the competition was designed to innovate and procure services designed to achieve measurable carbon reduction. The competition was organized as a ‘challenge grant’, in that sustainable projects were provided cash prizes as incentives to commercialize products and service that could then be procured by the government. Throughout the competition, successful participants were provided increased levels of support to commercialize their innovative goods and services. Both domestically and internationally, NESTA was deemed a successful method through which to achieve innovative procurement.²¹⁰ Given the success of NESTA’s challenge grant, it is recommended that Canada explore the extent to which the legislative and regulatory framework could support the mixed use of grant and procurement initiatives such as ‘innovative agencies’ or ‘challenge grants’.

As McMurty and Brouard summarize, small businesses are “not simply the result of the activities of entrepreneurs, either collective or individual,” but also “government legislation and enabling institutions.”²¹¹ In the case of supporting the growth of local economic actors through

²¹⁰ Ola Tjornbo and Frances R. Weastley, “Game Changers: The Big Green Challenge and the Role of Challenge Grants in Social Innovation,” *Journal of Social Entrepreneurship* 3, no. 2, (2012).

²¹¹ J.J. McMurty and Francois Brouard, “Social Enterprises in Canada: An Introduction,” *Canadian Journal of Nonprofit and Social Economy Research* 6, no.1, (2015): 7.

procurement, there is a case to be made that transfer payments are essential enabling tools. Consequently, a comprehensive Canadian federal approach to support domestic economic growth through financial management instruments must carefully determine the relationship between traditional supply-push instruments such as transfer payments and demand-pull instruments such as procurement.

Table 6 summarizes best practices and recommendations as discussed above.

Table 6. Access to Finance: Summary of Best Practices and Recommendations

Theme	Best Practice	Recommendations for Canada
Local Economic Actors (SMEs and Social Enterprise)	Comprehensive financial management framework that provides additional grant opportunities for social enterprises so that they are able to compete alongside SMEs for government contracts	- Examine the ways in which grant funding is proportionally allocated to local economic actors. - Streamline and simplify eligibility criteria for funding. - Apply robust Gender-Based+ Analysis on its future transfer payment initiatives and procurement programs.
SMEs, R&D and Innovation	Collaborative use of grants and procurement to spur innovative activity	- Clarify opportunities for collaborative use of grants and procurement contracts to support innovation and R&D activities during the PCP phase under existing trade obligations. - Consider developing tools to assist procurement authorities in their decision-making (procurement vs. grants) at the programmatic level. - Explore the extent to which the legislative and regulatory framework could support the mixed use of grant and procurement initiatives such as 'innovative agencies' or 'challenge grants'

CONCLUSION

This paper set out to answer the question: when and how can governments ensure that the most appropriate instrument is used when it wishes to support socioeconomic objectives and policy goals at large? In order to answer this, the paper presents structural and environmental factors that enable the effective implementation of initiatives that leverage procurement, on the basis that lacking such enabling factors, socioeconomic benefits should primarily be delivered through the use of traditional supply-pull funding instruments such as grants and contributions.

As part of determining when to leverage procurement, the paper began with an overview of concepts and issues that accompany the implementation of initiatives and programs that leverage procurement. While the use of procurement to achieve objectives secondary to the acquisition of goods and services is not new, socioeconomic considerations that are relevant in today's context are different from those prior. Current socioeconomic objectives include supplier diversity, increased labour participation, and social well-being as achieved through support for SMEs and businesses owned by those belonging to disadvantaged or minority groups, economic development for social enterprises, green purchasing, and encouraging innovation at large.

As demonstrated, leveraging public procurement for socioeconomic development has the ability to generate substantial benefits. Governments around the world have duly noted this and have begun integrating policies that permit and encourage the use of procurement to achieve secondary socioeconomic objectives. While a lack of data accompanies the rise and determination of governments to do more with public funds, it is generally accepted that through leveraging procurement, taxpayer dollars can – and should – be used to do ‘double duty’ and meet two purposes: acquiring the necessary product or service for government operations, and contribute to meeting a socioeconomic objective.

As Canada moves forward with developing a framework for leveraging procurement, there are several factors to consider. Broadly speaking, reforms are needed to the bureaucratic environment in which procurement is conducted. Success and failures from Australia, the U.K., and the U.S. provide a sense of challenges that accompany the implementation of initiatives that leverage procurement that Canada can ponder as it scopes its own framework. This paper has outlined three major areas of concern: (a) organizational change; (b) informational issues and; (c) measurement, reporting and evaluation. For each category, best practices and recommendations that contribute to an enabling environment have been identified. The paper also provides a related tertiary analysis of factors that enable a comprehensive financial instrument approach.

Of course, the transposition of best practices from one jurisdiction to another is not so straightforward. Recommendations in this paper are thus necessarily incomplete, and require further analysis incorporating the various legislative, regulatory, and policy barriers that impact the use of grants, contributions and procurement in Canada.

While this paper focuses on challenges that governments have encountered, and ensuing lessons learned and best practices that Canada can explore and adopted internally, moving forward with initiatives to leverage procurement requires shifts within the supplier community as well. Such factors include, but are not limited to, developing networks and partnerships between purchasers and suppliers, and more importantly, improving supplier capacity and capabilities. Suppliers have a crucial role to play in advancing the government's procurement agenda. While government demand-pull policies can incentivize suppliers to adapt to some of the changes of socioeconomic procurement, leveraging procurement will necessarily require the supplier community to internalize organizational changes to effectively compete for government grants, contributions, and contracts.

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