

The power of the public purse: leveraging procurement to support jobs and training for disadvantaged groups

Headlines

- Public procurement represents about 12% of GDP, and almost half is undertaken by subnational governments.
- Social procurement can help to leverage this purchasing power to promote local employment and training opportunities for disadvantaged groups. Such strategies are increasingly being used across OECD regions and cities.
- Specific approaches include stipulations regarding training, employment targets for specific populations, or job quality as well as measures to expand supplier diversity, for example related to social economy organisations or SMEs.
- Evaluation evidence suggests that such strategies can have short-term positive outcomes in terms of training places, supplier diversity, etc., although long-term impacts are harder to document.

What's the issue?

Across the OECD, public procurement represents about 12% of GDP and 29% of government expenditure.¹ During recessions, its relative weight becomes even more important (i.e. reaching 13.3% of GDP in the wake of the 2008 financial crisis in 2009). There is a growing momentum for using public procurement as a lever for achieving broader policy goals, from levelling the playing field for SMEs to supporting the green transition.²

Subnational governments are responsible for almost 50% of public procurement spending in the OECD.³ As such, they are well positioned to ensure that public procurement is aligned to and supports broader local development goals. One avenue for doing so is using social procurement to expand training and job opportunities for disadvantaged groups.

Social procurement leverages purchasing power to generate social value above and beyond the value of products or services being procured. It differs from the "traditional" public procurement by going beyond the narrowly defined price-quality/value for money comparisons. In other words, instead of just getting products or services through a commercial supplier, organisations also aim to get social added value, for example, by generating job and/or training opportunities for disadvantaged people. This brief focuses how to integrate such social objectives into the procurement of other types of goods, services and infrastructure (i.e. not procurement of social services per say).

While gaining in popularity, social procurement is not a new concept. As early as the 19th century, there were attempts to link social issues with procurement in the United Kingdom, the United States, as well as France, including wage standards for employees of government contractors and employment opportunities for veterans and other workers with disabilities.⁴ Today, it is used in a wide variety of contexts, from “targeted procurement” in South Africa first designed as part of post-apartheid social and economic development, to requirements in Norway that all contractors for public building and construction projects over NOK 1.1. million (approx. EUR 106 600) use apprentices, to procurement targets for indigenous populations in Australia, Canada and the United States. In one survey of OECD countries, over 70% reported having some sort of framework including considerations related to supporting the long-term unemployed in public procurement.⁵

The [2019 OECD Council Recommendation on Global Events and Local Development](#) also stresses the importance of promoting “the use of strategic procurement, including sustainability objectives in particular through social and environmental clauses to ensure that the local population gain access to employment opportunities and benefits from skills training in relevant sectors such as construction, hospitality and security and to safeguard the environment.”

How does it work in practice?

Public procurement is a highly regulated activity. Accordingly, there are significant differences across countries, regions and cities in terms of how social objectives can be integrated into procurement.⁶ Likewise, varying levels of experience and capacities across procurement offices and staff shape the strategies that are practical and viable in a given community.

Depending on the relevant legal and institutional context, the table below provides some examples of how social procurement to support jobs and training can be implemented at the local and regional level.

<p>Designing social procurement strategies</p> <ul style="list-style-type: none"> • Consider using award criteria that allow for selection based on other criteria beyond just lowest cost, such as best-quality price ratio (e.g. most economically advantageous tender assessments that can include criteria beyond price such as quality, social and environmental characteristics, etc.). • Develop indicators and methodologies to monitor and validate compliance with social targets. • Consider how to use community benefits agreements, where social targets and strategies are negotiated between governments, developers and/or community groups for large infrastructure or redevelopment projects, including those delivered through public-private partnerships.⁷
<p>Integrating social objectives (e.g. social impact clauses, local labour clauses) into how "mainstream" providers deliver on public contracts</p> <ul style="list-style-type: none"> • Include bidding and contract stipulations regarding employment of target populations (e.g. workers who live in disadvantaged neighbourhoods near infrastructure investments, specific populations such as young people, women, people with disabilities or the long-term unemployed). • Include bidding and contract stipulations regarding the minimum provision of apprenticeships or other training opportunities. • Mandate minimum employment conditions (e.g. local living wages) for providers.

- **Consider how to integrate these objectives into various tender requirements**, including technical specifications; grounds for exclusion and qualification criteria; and contract performance clauses.

Promote supplier diversity, i.e. social enterprises, other social economy organisations and other firms that may be more likely to employ workers in target groups (e.g. women or indigenous-owned firms)

- Consider **set-asides, targeting or bid preferences** for specific types of firms and organisations. For example, **purchasing agreements or partnerships** can be used for amounts under tender thresholds to contract with social economy organisations, social enterprises and other types of targeted firms.
- Consider advantages and disadvantages of **unbundling large contracts** to make it easier for smaller firms and social economy organisations to bid.
- **Require or encourage prime contractors to subcontract** with targeted firms/organisations or support the development of joint ventures.
- Develop programmes to support targeted firms and organisations in **building their financial, human and social capital** to bid and deliver on public contracts successfully, or partner with larger firms as subcontractors.
- **Raise awareness** of public procurement opportunities, including through targeted outreach in specific business communities.

Practical examples



Sydney Metro Workforce Development and Industry Participation Strategy, Australia

The Sydney Metro is the largest infrastructure project in Australia, with over AUD 20 billion (around EUR 12.5 billion) investment. Successfully delivering on this project required addressing significant workforce and skills challenges – from a lack of formal training, to an ageing and not-diverse workforce, to high competition for skilled workers.

Given the scale of Sydney Metro and the challenges described above, workforce development was a key focus for Sydney Metro's delivery, in alignment with key Australian and New South Wales government strategies and policies. Launched in 2014, through structured government, industry and training sector partnerships, key priorities include

- **Industry participation** – increase opportunities for employment of local people, participation of SMEs including Recognised Aboriginal Businesses, and support industry to compete in both home and global markets through active participation in client-led programs.
- **Workforce skills development** – enable targeted and transferable skills development in areas with local and national skills shortages, support changing job roles and increase skill requirements, and embed transferable skills in the workforce.
- **Diversity and inclusion** – establish initiatives to increase diversity within the workforce and supply chain through collaborative partnerships with a key focus on Aboriginal participation.

- **Inspiring future talent and developing capacity** – engage young people via education and work experience and support vocational career development through apprenticeships and traineeships.
- **Collaboration** – collaborate with organisations that have a shared interest in driving skills, diversity, jobs and industry capacity through infrastructure projects.

Through a combination of contractual requirements regarding local employment, training and diversity and inclusion, as well as accompanying workforce development programmes, the project has been recognised as a leader for using infrastructure investment to drive skills and jobs outcomes. Hundreds of employees have already benefited. Many workers with previously low levels of language literacy and numeracy (43% of the 2 400 Sydney Metro Industry Curriculum (SMIC) programme participants) or no formal qualifications (55% of SMIC participants to date) have now received appropriate support and accredited training that meets Sydney Metro's quality standards. The Pre-Employment Program has also proven to be successful, with 80% of participants transitioning to employment.

Strong government-industry partnerships, extensive research and intelligence gathering and monitoring, and encouraging ownership over the targets on the part of contractors have been key to the success of the programme.

Learn more

[Sydney Metro Workforce Development and Industry Participation](#)

OECD (2019), "[Taking a sector-based approach to workplace training – Sydney Metro Case Study](#)", in *Engaging Employers and Developing Skills at the Local Level in Australia*

Barcelona City Council Decree for Socially Responsible Public Procurement, Spain

Designed and implemented by Barcelona City Council, the Municipal Decree 4043/13 for Socially Responsible Public Procurement aims to turn public procurement into an effective instrument serving the most vulnerable people in society. Through a participatory process, binding social clauses for public procurement contracts were developed and adopted to tackle the city's increasing unemployment, in particular of people with the most pressing socio-economic needs.

The Decree establishes collaborative synergies among different stakeholders (social and economic, for-profits and non-profits) and different municipal areas (procurement, public works, economic development agency, social services, etc.) that had not co-ordinated actions to date, with the common goal of achieving social and professional integration of the most vulnerable people in society.

Public contracts are reserved for special employment centres, work integration social enterprises and non-profit organisations whose goals involve employing or socially integrating people experiencing or at risk of social exclusion. More than EUR 500 million from the municipal budget is being allocated to construction work, services and supplies, which are now used to advance social cohesion.

The initiative has resulted in the creation of a vast network of public administrations, trade unions, business associations and social organisations, fostering social responsibility among all parties involved.

Learn more

OECD (2017), "[Barcelona City Council Decree for Socially Responsible Public Procurement](#)", in *Boosting Social Enterprise Development: Good Practice Compendium*.

What does the evidence say?



Evaluating success requires considering both the degree the desired objectives were achieved (ideally compared to counterfactuals), as well as the knock on effects it may have for other procurement objective (cost, on-time delivery). Unfortunately, limited rigorous evidence exists at this level, especially for longer-term outcomes. This is not to say that these types of strategies do not have positive longer-term impacts, but rather that these are harder to evaluate (e.g., difficult to construct counterfactuals). However, important learnings can still be drawn from the evidence that does exist.

For one, well-designed procurement policies can promote supplier diversity in the short-term, even if the longer-term community level impacts remain less clear. For example, one study of minority set-aside programmes in US cities found that the Black-white self-employment gap fell by 3 percentage points, and the employment gap fell by 4 percentage points (although these results are sensitive assumptions by about prior trends).⁸ Racial employment gaps shrank most in industries heavily affected by set-aside programmes, with the better educated benefitting the most.⁹ Likewise, the Canadian Procurement Strategy for Aboriginal Businesses has resulted in Aboriginal firms winning an increased share of contracts over time. For example, the share contracts awarded to Aboriginal firms under regular tendering processes (i.e. not set-asides) increased from about 0.3% in 1997 to 4.5% in 2011. However, available data did not allow for an assessment of whether this has had an impact on Aboriginal entrepreneurship, increased economic opportunities, and human capital development.¹⁰

Likewise, when considering expanding employment and training opportunities, positive immediate outputs can be found. Partially in response to a scarcity of apprenticeship offerings in the 1990s and early 2000s in Switzerland, nearly all Cantons began to offer preferential treatment in public procurement for firms offering training. Analysis of these policies shows that they indeed increased the number of training places available, although more through an increase in the number of small firms offering training, rather than through increasing the number of training places within firms already offering training.¹¹ A local hire ordinance in place for construction projects in the City of San Francisco since 2011 has been found to “effectively create opportunities for local construction workers, both seasoned journeypersons and new apprentices”. Between 2011 and 2020, 33% of all hours worked on eligible projects were performed by local hires, and 48% of apprentice hours were.¹²

The research also highlights the importance of addressing the perceived risks associated with social procurement. For example, in the Australia construction sector, one study found that social procurement requirements are perceived as having a higher risk when compared to other performance indicators (times, cost and safety).¹³ Likewise, there are also concerns about how set aside or preference programmes impact competition and efficiency in public procurement.¹⁴ However, evidence suggests that increased costs are not inevitable. While some studies have found social procurement objectives have increased costs in some US programmes, a review of 500 public procurement contracts signed by the city of Paris between 2011 and 2013 found no additional costs for the introduction of social clauses.¹⁵ Perverse incentives are another risk, including “partnerships by convenience”, where targeted firms partner with larger firms in order to win public contracts, but ultimately the non-targeted firm conducts most of the work, and targeted firm thus gains little if any experience from the project.¹⁶

This suggests that simply setting new procurement standards without complementary supports is unlikely to achieve the desired social objectives.¹⁷ Integrating stakeholders into initial strategy development and offering complementary capacity building, networking and mentoring support can help overcome some of these pitfalls. Perceived risks on the part of suppliers must also be addressed. For example, partnering supplies with local community groups

with specific experience working with disadvantaged groups who can provide employability training or mentoring; taking into account the extra training and supervision costs and lower productivity rates; and training for employers in order to highlight opportunities and reduce misguided perceptions or stereotypes about working with these populations.

Potential pitfalls . . .

- **Perceived conflicts between traditional and social procurement approaches**
 - Concerns about compliance with national and/or international procurement rules.
 - Social procurement viewed as more costly than traditional procurement practices as longer-term savings and benefits are not accounted for fully.
- **Gaps in public sector and potential supplier capacities and culture**
 - Limited understanding of how an industry's culture, structure and capacity impact their ability to achieve the desired social objectives.
 - Underestimating the shift in procurement culture and skills needed to successfully implement social procurement, in addition to the technical and legal requirements.
- **Creation of social targets that unduly burden some types of firms or that are not compatible with project demands**
 - Creating requirements that unintentionally burden SMEs, for example, requiring a set percentage number of apprenticeships, thus favouring already well-established firms.
 - Creating unrealistic targets in terms of scope and scale of job and training outcomes, including in relation to the timeline of contracts, e.g. short-term contracts may not be compatible with longer-term apprenticeship timelines.
 - Failing to incorporate social objectives throughout the purchasing process, from defining the requirements to selecting and awarding contracts to compliance monitoring.

. . . and strategies to avoid them

- **Consult with the local community and sector partners (e.g. in construction for infrastructure projects) to build buy-in from the early, preparatory stage**
 - Engage stakeholders (e.g. sector representatives, social partners) throughout the process – from pre-tender, to tender to contract execution, to monitoring and evaluation.
 - Engage with potential suppliers via market consultation early on to understand the skills and training needs for delivering on contracts and to clearly communicate the desired social objectives.
- **Design practical targets and indicators**
 - Systematically use social, environmental and economic indicators that are practical and understandable for both suppliers and procurement staff and can help demonstrate impact.
 - Scale social procurement targets to size of contracts, for example imposing requirements only for contracts over a certain size, or using purchasing agreements to contract directly with social economy organisations for smaller contracts.
 - Adopt indicators based on long-term objectives, rather than just immediate outputs.
- **Build internal capacities**
 - Invest in upgrading the skills of procurement staff to better design, manage and evaluate social procurement.
 - Assess whether the speed of procurement processes and payments can be an undue burden to certain types of suppliers, and take steps to remedy as feasible.

- Seek to leverage the expertise of other departments / agencies (e.g. social policy or employment departments) in designing social procurement strategies.
- **Use intermediary organisations and networks**
 - Work with intermediary organisations, such as business support services or social economy networks, to outreach and build the capacity of targeted firms and organisations.
 - Use labour market intermediaries, group training organisations and community organisations to support contractors in recruiting, training and retaining disadvantaged workers.
 - Provide training to employers to help build awareness of how to work successfully with those who may be facing barriers to employment or multiple types of disadvantage.

Learn more:

OECD/EU (2017), *Boosting Social Enterprise Development: Good Practice Compendium*, OECD Publishing, Paris, <https://doi.org/10.1787/9789264268500-en>.

OECD (2016), "Local actions can make apprenticeships work", in *Job Creation and Local Economic Development 2016*, OECD Publishing, Paris, <https://doi.org/10.1787/9789264261976-8-en>.

OECD (2013), *Tackling Long-Term Unemployment Amongst Vulnerable Groups*, https://www.oecd.org/cfe/leed/Tackling%20Long_Term%20unemployment_%20WP_covers.pdf

OECD (2013) *Job Creation through the Social Economy and Social Entrepreneurship*, https://www.oecd.org/cfe/leed/130228_Job%20Creation%20through%20the%20Social%20Economy%20and%20Social%20Entrepreneurship_RC_FINALBIS.pdf

European Commission (2019), *Buying for Social Impact: Good practice from around the EU*, <https://op.europa.eu/en/publication-detail/-/publication/3498035f-5137-11ea-aece-01aa75ed71a1>

OECD (2019), *Linking Indigenous Communities with Regional Development*, OECD Rural Policy Reviews, OECD Publishing, Paris, <https://doi.org/10.1787/3203c082-en>.

OECD Recommendation of the Council on Public Procurement: <https://www.oecd.org/gov/public-procurement/recommendation/>

OECD (2021), "Promoting gender equality through public procurement: Challenges and good practices", *OECD Public Governance Policy Papers*, No. 09, OECD Publishing, Paris, <https://dx.doi.org/10.1787/5d8f6f76-en>.

¹ OECD (2019), *Government at a Glance 2019*, OECD Publishing, Paris, <https://doi.org/10.1787/8ccf5c38-en>.

² Ibid; OECD Recommendation of the Council on Public Procurement

³ OECD (2018), *OECD Regions and Cities at a Glance 2018*, OECD Publishing, Paris, https://dx.doi.org/10.1787/reg_cit_glance-2018-en.

⁴ McCrudden, C. (2004), "Using public procurement to achieve social outcomes", *Natural Resources Forum*, Vol. 28/4, pp. 257-267, <http://dx.doi.org/10.1111/j.1477-8947.2004.00099.x>.

⁵ OECD (2021), "Promoting gender equality through public procurement: Challenges and good practices", *OECD Public Governance Policy Papers*, No. 09, OECD Publishing, Paris, <https://dx.doi.org/10.1787/5d8f6f76-en>.

⁶ For example, in the EU, some harmonised rules regulate the European public procurement market to ensure compliance with the principles of transparency, equality, and non-discrimination amongst bidders. The European Commission has increasingly promoted new Directives, enabling public buyers to take social aspects into account

throughout the procurement cycle. See European Commission (2019), *Buying for Social Impact: key findings*, <https://op.europa.eu/en/publication-detail/-/publication/b09af6a5-513a-11ea-aece-01aa75ed71a1> for further details.

⁷ Currently, this is most common in Canada and the United States.

⁸ Chatterji, A., K. Chay and R. Fairlie (2014), "The Impact of City Contracting Set-Asides on Black Self-Employment and Employment", *Journal of Labor Economics*, Vol. 32/3, pp. 507-561, <http://dx.doi.org/10.1086/675228>.

⁹ Ibid; The results are sensitive to assumptions about prior trends.

¹⁰ Aboriginal Affairs and Northern Development Canada (2014), "Evaluation of the Procurement Strategy for Aboriginal Businesses (PSAB)", <https://www.rcaanc-cirnac.gc.ca/eng/1446467773579/1537896463606>.

¹¹ Leiser, M. and S. Wolter (2017), "Empirical Evidence on the Effectiveness of Social Public Procurement Policy: The Case of the Swiss Apprenticeship Training System", *LABOUR*, Vol. 31/2, pp. 204-222, <http://dx.doi.org/10.1111/labr.12089>.

¹² Office of Economic and Workforce Development (2021), San Francisco Local Hiring Policy for Construction Annual Report, <https://oewd.org/sites/default/files/Workforce/Workforce-Docs/2021%20SF%20Local%20Hire%20Annual%20Report.pdf>.

¹³ Loosemore, M., S. Alkilani and R. Mathenge (2019), "The risks of and barriers to social procurement in construction: a supply chain perspective", *Construction Management and Economics*, Vol. 38/6, pp. 552-569, <http://dx.doi.org/10.1080/01446193.2019.1687923>.

¹⁴ OECD (2018), *SMEs in Public Procurement: Practices and Strategies for Shared Benefits*, OECD Public Governance Reviews, OECD Publishing, Paris, <https://dx.doi.org/10.1787/9789264307476-en>.

¹⁵ Saussier, S. and L. Vidal, "The Cost of Social Procurement for Governments: The Case of Paris City", https://www.chaire-eppp.org/wp-content/uploads/2021/04/Insertion_Sociale.pdf; Marion, J. (2007), "Are bid preferences benign? the effect of small business subsidies in highway procurement auctions", *Journal of Public Economics*, 91(7-8):1591–1624. Marion, J. (2009), "How Costly Is Affirmative Action? Government Contracting and California's Proposition 209", *Review of Economics and Statistics*, 91(3):503–522. 00037.

¹⁶ Aboriginal Affairs and Northern Development Canada (2014)

¹⁷ *ibid*