

THEORETICAL AND PRACTICAL APPROACHES TO PUBLIC PROCUREMENT SUSTAINABILITY

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Abstract:

Public procurement represents an important field both for the performance of state functions and for the economic activity of the country in general. As a result, some techniques for determining the capacity of the country's public administration to honor the financial commitments assumed by contracting the purchases of goods, works, and services must be used. In international financial practice, methodologies for determining the sustainability of public finances have been developed, which are applicable for determining the sustainability of public procurement. The application of the given methodology allowed the development of certain conclusions regarding the sustainability of public procurement in the Republic of Moldova. In the short term, this can be seen as normal. But in the conditions of the current economic and financial crisis, the long-term prospects remain uncertain. Furthermore, the high level of corruption remains a threat to the sustainability of public procurement in the Republic of Moldova, necessitating the continuation of activities to maintain transparency in public procurement as well as those related to corruption prevention.

Keywords: public procurements, sustainability of public procurement, sustainability criteria.

JEL classification: E61, H62, H63

Introduction

Public procurement represents the complex of activities and procedures related to obtaining work, goods, and services by national, regional, or local public authorities. Public procurement is the acquisition, definitive or temporary, of some products, works, or services by a legal person defined as a contracting authority through the awarding of a public procurement contract. (Achiziții..., n.d.)

The expert Angela Boguș states: "The efficient use of public money presupposes, first of all, the rationalization of public expenditure. Since the largest sector of government expenditure is public procurement, there is a major interest in it at the international level." According to the estimates of the World Bank, public procurement represents about 15-20% of the GDP of developing countries and about a third of national government budgets. At the same time, procurement has an important share in world trade—about 1.3 billion Euro annually." (Boguș, 2019)

In this context, experts from Expert-Group say: "Success in public procurement is mostly determined by the activity of the contracting authorities, the Public Procurement Agency and the institutions that exercise administrative control over the contracting authorities, legal bodies and the Court of Accounts." (Budianschi et al., 2014)

During the global pandemic COVID-19, the Republic of Moldova was affected by an economic and financial cataclysm called the pandemic crisis. From February 2022, this crisis entered a

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new phase under the influence of the energy crisis and the armed conflict between Russia and Ukraine.

Under these conditions, the problem of efficiency and sustainability of public finances in the Republic of Moldova, including public procurement, has become an actual issue. The given article tends to present an analytical picture of public procurement under the aspect of sustainability criteria.

Description of the Problem

The sustainability of public procurement represents the ability of the country's public authorities to honor their related contractual obligations without jeopardizing the state's solvency. Its appreciation is crucially important not only from the point of view of fulfilling the financial obligations assumed by public bodies (institutions) as a reputational image, but also from the perspective of the fact that through public procurement the function of redistributing public finances is realized, as well as from ensuring the functionality of the state. That is why, now, when we live in conditions of economic and financial crisis, it is vitally important that the public procurement mechanisms work efficiently, which is determined by the techniques described below.

Methodology and Data

For the preparation of this work, the works of researchers from different countries on the sustainability of public procurement were studied. Then the legal basis of the Republic of Moldova related to public procurement was examined, as well as the statistical data of the Agency for Public Procurement and other public institutions. In the same way, the opinions of the experts from the Republic of Moldova on the issues related to public procurement were examined.

Results

Based on the study of the specialized literature, the General Model of the Evaluation of the Sustainability of Public Procurement was developed (Figure 1).



Figure 1 - The General Model of the Evaluation of the Sustainability of Public Procurement

Source: developed by the author

This model, from the start, demonstrates that the sustainability of public procurement is dependent on three basic blocks of variables determined by the budget policy, the fiscal policy, and the state's debt policy.

According European Commission, „the sustainability public finances also referred to as fiscal sustainability, is the ability of a government to sustain its current spending, tax and other

policies in the long run without threatening the government's solvency or without defaulting on some of the government's liabilities or promised expenditures". (European Commission)
The Medium-Term Budgetary Framework methodology in the Republic of Moldova expresses budgetary sustainability by covering current expenses from revenues (except for grants). (Cadrul..., n.d.)

Some experts propose the following indicators for expressing budgetary sustainability (Veliev, 2011), (Luchian, Țepordei, 2016):

- *The minimum budget expenditures [CBm]* – all the means provided in the budget for the financing of the measures intended to ensure the functionality of the state;
- *Own budget revenues [VBp];*
- *Regulatory budget revenues [VBr];*
- *Budgetary debt [DB].*

The treatment of the indicators through the lens of sustainability is as follows:

- *Absolute sustainability:* $CBm < [VBp + VBr]$;
- *Normal sustainability:* $CBm = [VBp + VBr]$;
- *Unsustainable state:* $CBm > [VBp + VBr - DB]$;
- *Absolute unsustainable condition:* $CBm > [VBp + VBr]$.

On the other hand, the authors Luchian and Țepordei mention the concept of the researcher Stoian, who offered his own model of fiscal policy sustainability (Luchian, Țepordei, 2016):

$$\frac{db}{ds} = g + h - t + (r - \theta) \cdot b = d + (r - \theta) \cdot b \quad (1)$$

where:

- b - share of public debt in GDP;
- g - share of government spending on goods and services in GDP;
- h - share of government transfers in GDP;
- t - share of tax revenues in GDP;
- r - the real interest rate at which the public loans were contracted;
- θ - real rate of economic growth;
- d - share in GDP of the primary balance;
- s - time variable

From the above, it appears that the sustainability of public procurement can be considered as an economic function determined by the following blocks of components:

1. The volume and structure of public procurement dynamics;
2. The country's economic development as expressed by GDP dynamics;
3. The dynamics of public procurement within the total volume of public expenditures;
4. The state's capacity to mobilize ordinary revenues as expressed by the total volume of public revenues dynamics;
5. The availability of loan sources to cover the budget deficit and the dynamics of public debt.

The dynamics of the annual volume of public procurement in the Republic of Moldova is presented in Figure 2.

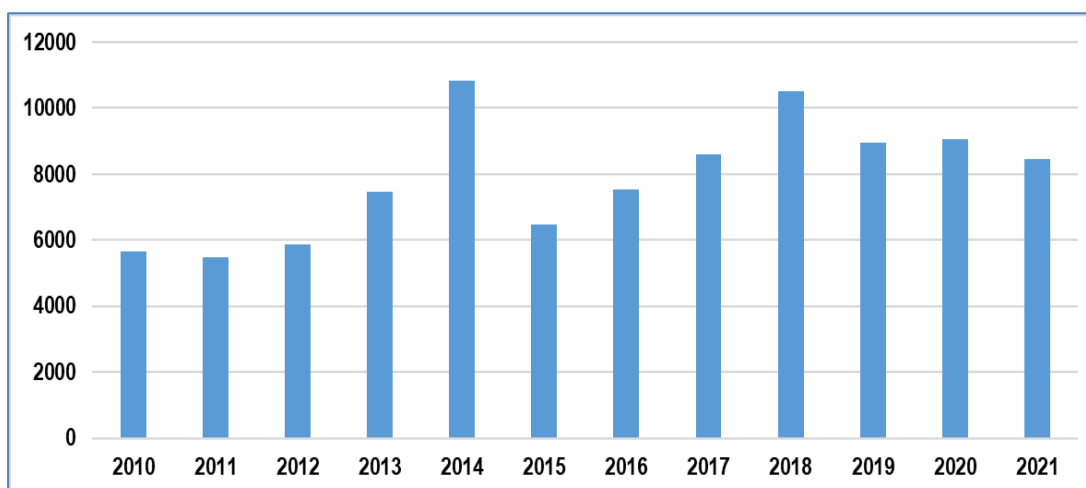


Figure 2 - Dynamics of the annual volume of public procurement in the Republic of Moldova (millions of MDL)

Source: (Raportele..., n.d.)

During the analyzed period, the total volume of public procurement in the Republic of Moldova was 94839 million MDL, and the average annual volume was 7903 million MDL. The maximum level of public procurement was recorded in 2014 at 10839 million MDL.

The basic indicators of the activity of the Public Procurement Agency (PPA) are presented in Table 1.

From the data in the table, it appears that during the analyzed period there was a general tendency to compress PPA activity.

This mostly refers to the number of procedures, which in 2021 was 3485, decreasing by 870 units.

Table 1

PPA's activity indicators

Indicator	2019	2020	2021
Number of procedures	5179	4355	3485
Number of contracts	13800	12416	13450
Amount of purchases (million MDL)	8939,9	9040,6	8445,5

Source: (Raportele..., n.d.)

In 2021, contracting authorities concluded 13450 additional contracts and agreements, 1034 more than in the same period of 2020.

In the period of 2021, the contracting authorities made public procurements in the total amount of 8445.5 million MDL, which is 595.2 million MDL less than in 2020 and represents a decrease of 6.6%.

The breakdown of public procurement by type of procedure is presented in Figure 3.

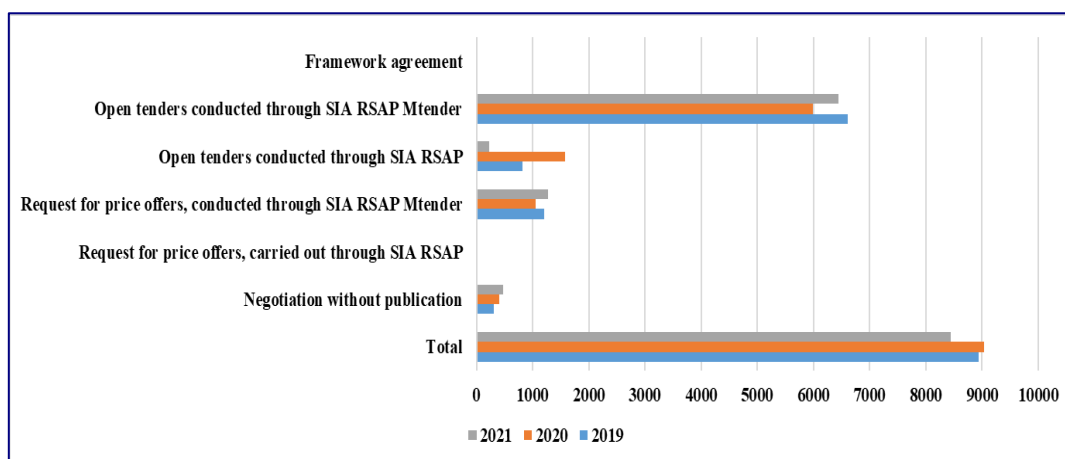


Figure 3 - Distribution of public procurement by type of procedures (million MDL)

Source: (Raportele..., n.d.)

In 2021, the largest share (76.4%) was held by the purchases made through the open auctions held through SIA RSAP Mtender in the amount of 6449.9 million MDL, which increased compared to 2020 by 456.4 million MDL (or by 7.6%).

Purchases made through requests for price offers, carried out through SIA RSAP Mtender had a share of 15.1% in the amount of 1278.6 million MDL, increasing compared to 2020 by 221.3 million MDL (or by 20.9%).

The Automated Information System "State Register of Public Procurements" Mtender (SIA RSAP Mtender) is an online electronic procurement system with multiple platforms, consisting of a web portal and a Central Data Unit of open type data (Open Data) and a network of several accredited private sector platforms to support e-auctions for public and private sector clients. The e-procurement platform is a public procurement e-commerce platform accredited to connect with MTender and provides digital e-auction services to both public sector clients and private sector buyers. Each MTender procurement platform provides a support service for buyers and economic operators registered on this platform to access MTender's electronic services.

The information regarding the distribution of public procurements according to the type of procurement object (goods/works/services) is presented in Figure 4.

In 2021, 70.9% of the total number of public procurement contracts related to the procurement of goods was in the amount of 9,538 units, which is 658 contracts more than in 2020. In terms of importance, the next position is occupied by works (17.5%) with 2352 contracts, an increase compared to the previous year with 377 units.

In terms of purchases, the majority (45.8%) is related to the procurement of goods in the amount of 3866.7 million lei, which increased by 316.4 million lei (or 8.9%) compared to 2021, and the purchases of works in the amount of 3516.1 million lei, which decreased by 1033.6 million lei (or 22.7%).

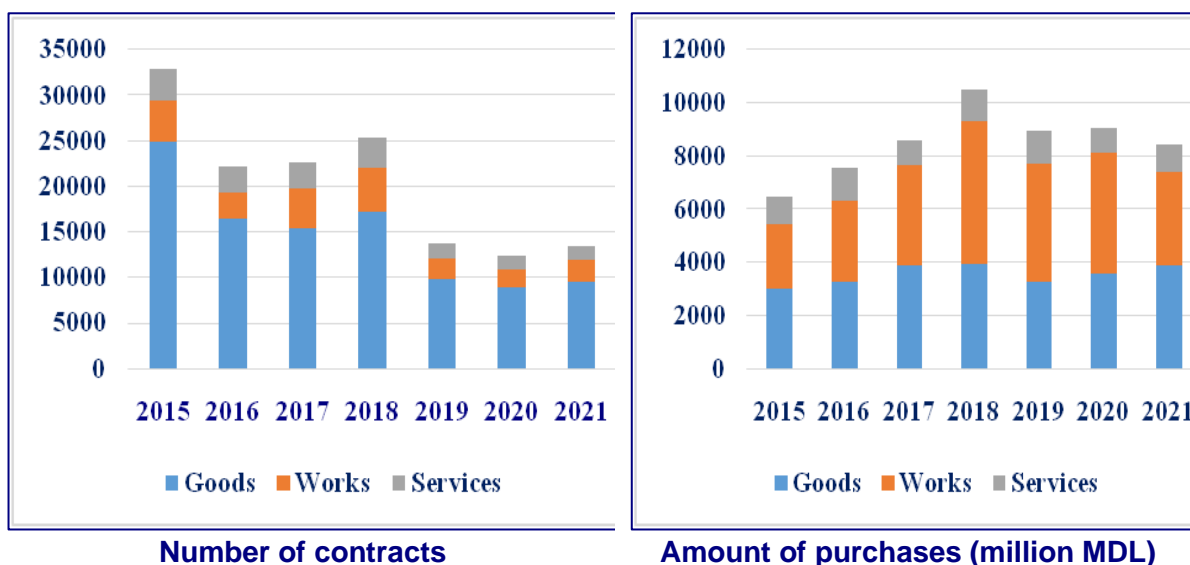


Figure 4 - Distribution of public procurements according to the type of procurement object

Source: (Rapoartele..., n.d.)

Apart from the above, there is another important indicator – the share of the volume of public procurement in GDP, the dynamics of which are presented in Figure 5.

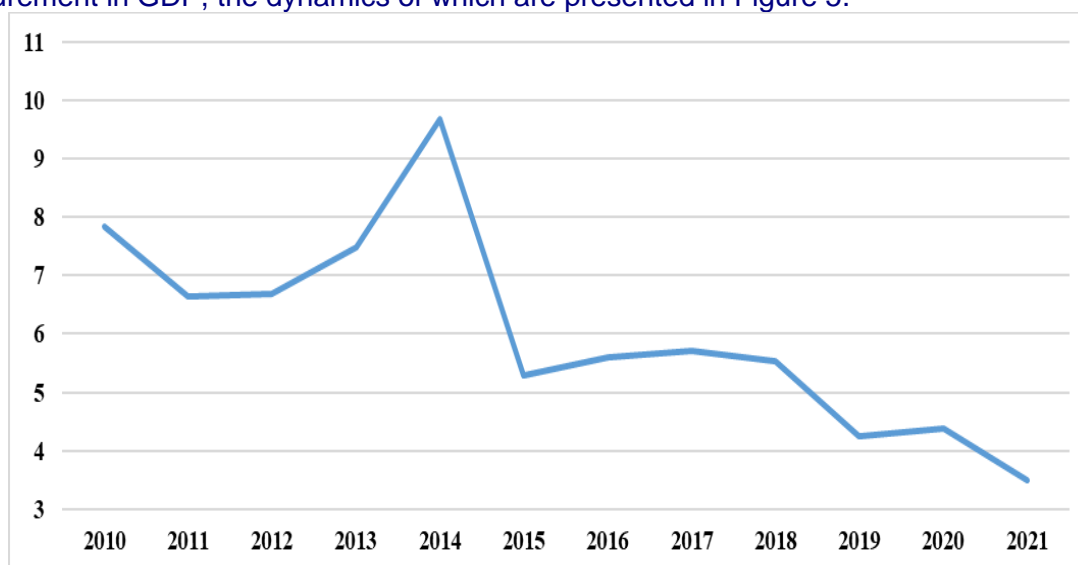


Figure 5 - Distribution of public procurements according to the type of procurement object (%)

Source: (Rapoartele..., n.d.), (Moldova..., n.d.)

In the period 2014–2021, this indicator had a general downward trend, ranging from 9.7% to 3.5%.

The increase in the GDP level and the decrease in the volume of public purchases contributed to this.

In essence, this is the first argument for the normal sustainability of public procurement in the Republic of Moldova.

Table 2 shows the dynamics of the basic indicators applied for the analysis of the sustainability of public procurement.

For the analysis of the sustainability of public procurement, we propose a set of indicators, whose annual deviations are presented in Table 3.

Based on the results of the analysis carried out, we can talk about the normal sustainability of public procurement in the short term.

Table 2

Dynamics of basic indicators (million MDL)

Indicator	2015	2016	2017	2018	2019	2020	2021
Gross domestic product (GDP)	145754	160815	178881	192509	206256	199734	241871
Public procurements	6462	7526	8605	10509	8940	9041	8446
NPB's expenditures	46394	48463	54522	59577	65976	73270	82014
NPB's revenues	43661	45954	53378	57965	62949	62650	77373
NPB's deficit	1946	2733	1145	1612	3026	10620	4641
State debt	33509	50786	51660	52013	52494	67821	77753

Source: (*Rapoartele...*, n.d.), (*Moldova...*, n.d.)

Table 3

Dynamics of annual deviations of basic indicators (%)

Indicator	2015	2016	2017	2018	2019	2020	2021	Annual average
GDP	+11,7	+9,2	+11,2	+7,6	+7,1	-3,2	+21,1	+9,3
Public procurements	-40,4	+16,5	+14,3	+22,1	-14,9	+1,1	-6,6	-1,1
NPB's expenditures	+4,5	+4,5	+12,5	+9,3	+10,7	+11,1	+11,9	+9,2
NPB's revenues	+2,9	+5,3	+16,2	+8,6	+8,6	-0,5	+23,5	+9,2
NPB's deficit	+11,1	+40,4	-54,4	+40,8	+87,7	+250,9	-56,3	+45,8
State debt	+22,0	+51,6	+1,7	+0,7	+0,9	+29,2	+14,6	+17,2

Source: (*Rapoartele...*, n.d.), (*Moldova...*, n.d.)

The arguments are the following:

- The average annual growth rate of public procurement (-1.1%) is relatively low compared to the average annual dynamics of NPB's expenditures (9.3%);
- The share of public procurement in the NPB's total expenses is continuously decreasing (from 15.8% in 2015 to 10.3% in 2021);
- NPB's revenues are growing, with the average annual increase (9.2%) being approximately the same as compared to NPB's expenses.

But in the long term, the sustainability of public procurement is negatively influenced by certain factors:

- The rapid growth, with an average annual rate of 45.8%, of the NPB's deficit threatens the state's ability to meet the financial commitments assumed for public procurement.
- As a consequence of the previous factor, there is a rapid growth of the state debt, with an average annual rate of 17.2%, which will lead to the essential increase in the expenses of servicing the respective debt in the future.

The long-term sustainability of public procurement is also compromised by the current processes in the field of public finances. According to the recent corrections to the State Budget for 2022 recently examined in the parliament, the negative difference between revenues and expenses can reach the level of 17.3 billion lei (compared to 4.7 billion lei in 2021), which inevitably will lead to the corresponding increase in the state debt. (Popescu, 2022)

In this context, the central authorities of the Republic of Moldova have high hopes for obtaining financial assistance from development partners.

As Marina Soloviova, program director, Expert-Group states: "Starting with loans from the IMF, in the amount of 144 million. There was also assistance from the EU, in the form of a grant for budget support in the amount of 75 million, macro-financial assistance in the form of grants and loans from the International Development Association and other sources. In total, from April to August, Moldova received an estimated 327 million dollars." (*Volumul...*, n.d.)

Also, a substantial threat to the sustainability of public procurement remains the high level of corruption.

In 2016, the estimated cost of corruption in public procurement in the Republic of Moldova amounted to 1.5 billion lei. (Straton, 2017)

After carrying out an analysis in 2018, the experts from Expert-Group declared: "Public procurement is an area extremely exposed to the risks of corruption. Corruption risks to proliferating in this field thanks to the huge sums allocated by the state for the procurement of goods, services, and work. At the international level, countries allocate between 15% and 30% of GDP for public procurement. In the Republic of Moldova, the given amount is slightly lower, at approximately 10-12%". (*Combaterea...*, n.d.)

With the approval of Law No. 131 of July 3, 2015 on public procurement in the Republic of Moldova, multiple measures were taken to make the processes related to public procurement more efficient and transparent.

The provisions of the RM-EU Association Agreement, the measures for the implementation of the Agreement on public procurement of the World Trade Organization, the Development Strategy of the public procurement system for the years 2016-2020 and the Action Plan regarding its implementation also contributed to this.

Every year, the National Anticorruption Center carries out measures to prevent corruption in the field of public procurement.

Thus, in 2021, a strategic analysis was carried out regarding the threats of corruption in the purchase and supply of electricity in the context of the liberalization of the energy market in the Republic of Moldova. In this context, it was recommended to "research through the prism of indicators regarding the purchase, transportation, and distribution of electricity, which develop the risk of increasing the tariff when providing it to household consumers, as well as the aspects that generate the risk of admitting acts of corruption at the level of non-household consumers and among public authorities at the subsequent launch of public procurement procedures." (*Raport...*, n.d.)

In the same way, the strategic analysis regarding public procurement was carried out. In this context, "several issues emerged, including: the lack of transparency criteria at the stage of public procurement planning; problems at the stage of drafting the award documentation; not ensuring the efficiency of the purchase (luxury cars are purchased); the passivity of economic operators; division into lots; unmotivated withdrawal of appeals; the concentration of certain types of acquisitions around a narrow circle of economic agents; the division of acquisitions for the purpose of applying low value acquisition procedures, a fact that does not ensure transparency in this process and promotes the personal interests of the heads of the contracting authorities; the legal framework of public procurement). (*Raport...*, n.d.)

Conclusions

In international financial practice, methodologies for determining the sustainability of public finances have been developed, which are applicable for determining the sustainability of public procurement. The application of the given methodology allowed the development of certain conclusions regarding the sustainability of public procurement in the Republic of Moldova. In the short-term perspective, the sustainability of public procurement can be considered normal. At the same time, the current economic and financial crisis makes long-term prospects uncertain. In this context, the ability of the central authorities to attract additional financing on the domestic market and from external donors is important. The fight against corruption, the improvement and exploitation of new technologies for the consolidation of governance, as well as ensuring the process of transparency in the use of public money within the national public procurement system, remain important tasks for the public authorities of the Republic of Moldova.

Future Directions

Now, the situation in the public finances of the Republic of Moldova is deteriorating against the background of the economic and financial crisis. In addition, the worsening of the situation in the energy field may require the reorientation of the basic vector of public procurement. All this can influence the state of sustainability of public finances in the Republic of Moldova, including in the field of public procurement. These processes can inevitably require the continuation of research related to the sustainability of public procurement in the Republic of Moldova.

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