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Luiss
School of European Political Economy

Research project

Procurement of multilateral development banks: critical issues and prospects for Italian small and medium-sized enterprises' exports

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INTRODUCTION

The international public procurement sector has always represented a competitive market environment for Italian companies. Today there are approximately twenty Multilateral Development Banks (MDBs), but the best known is certainly the World Bank (WB), the largest in terms of the geographic extent of its sphere of operations, the first by foundation, and an example of best practices that has been replicated by other MDBs to be as effective and efficient as possible. In the beginning, these Banks provided aid primarily in the public sector, but once post-conflict reconstruction ended, the private sector also became part of their sphere of operations with a view to creating value for local or national communities, going beyond the financial aspects of profitability and return on investment. The new objectives involved financing for the creation of businesses needed to improve the functioning of the Single Market and financing projects of common interest to several member states.

The project aims to analyze the relationship between Italian firms and MDBs' procurement from different perspectives. The research aims to answer the following questions: 1) to what extent do Italian firms intercept MDB contracts and of what value compared to other nations? 2) what are the characteristics of SMEs that can win the most procurements from MDBs? 3) what factors would need to be strengthened to make SMEs more competitive and enhance export?

DATASET and METHODOLOGY

This report is based on the World Bank's preliminarily reviewed data on procurement contracts. The dataset reports both the number and value of procurement contracts awarded by each country from 2000 to 2019. This first stage involves a descriptive analysis of the data to gain key insights into trends and decide where to focalize by addressing which research questions. Descriptive statistics are an essential tool for summary and understanding of data. They provide an efficient way to synthesize and present data clearly and concisely. They serve to describe data by summarizing its properties and are used to describe the central tendency of a data set, including measures such as mean, median, mode and range. These measures provide a quick snapshot of the data and help identify trends and patterns in the dataset. They can also be used to identify outliers and to compare different data sets. In this case, we will begin by summarizing large data sets and then attempt to identify relationships between the described variables using data we have or obtained through a new collection. This can be done by calculating correlations between variables to understand the cause and effect of them.

PART I – Values of projects awarded to Italian firms

General trend

The total yearly value of the contracts awarded to Italian firms remained stable from 2000 to 2005, ranging from 60 to 120 million. Values started increasing in 2006, peaking in 2010 (1.1 billion) with an increase of 268% compared to the previous year (320 million). Value kept being high but volatile until 2016 (148 million) when there was an 84% drop compared to 2015 (905 million). The last three years of the dataset (2016 - 2019) show values to the 2006 – 2009 period. However, we can notice increased volatility: a yearly increase of 319% in 2018 is followed by a 40% drop in 2019 (**FIG. 1**).

Comparison with G7 and EU countries

The Group of Seven (G7) is an informal forum that brings together the world's most advanced economies, including the United States, the United Kingdom, Germany, Japan, Canada, France and Italy. Founded in 1975, the G7 is a platform for members to discuss, strategize and coordinate global economic, political and security issues.

Looking at the performance of firms belonging to G7 countries, we can notice a period of underperformance of Italian firms from 2000 to 2005. In these years, the total annual values of contracts awarded to Italian firms are almost half of the average value of the total annual value of contracts awarded to G7 firms. However, from 2008, the total yearly values of contract awarded to Italian firms become higher than the average of the G7 firms (except for 2015 and 2016). Notably, Italian values in 2010 are 323% higher than the G7 average (**FIG. 2**). The years from 2010 to 2015 were exceptionally positive not only compared to the Italian firms' historical trend (**FIG. 3**) but also compared to the other G7 countries. Indeed, while, in 2006, the total yearly value of the projects awarded to Italian firms accounted for only 10% of those awarded to all the G7 firms, it increased to more than 50% in 2010 and 2015 (**FIG. 4**).

Comparing Italian values with those of the main EU countries France, Germany, and Spain, we notice the same pattern as highlighted above. There is an initial underperformance from 2000 to 2005, followed by a strong outperformance from 2010 to 2015. Finally, there is no clear leader from 2015 to 2019. We can also see some similarities with the Spanish data that might be worth investigating in our research (**FIG. 5**).

Comparison with BRICS countries

BRICS is a term used to refer to the grouping of five of the world's largest emerging economies-Brazil, Russia, India, China, and South Africa. These countries have been united by their common economic growth and have become increasingly important in global economic and political affairs. The term

BRICS was first coined in 2001 by Jim O'Neill, chairman of Goldman Sachs. In the years since its inception, BRICS countries have experienced impressive growth and development and have become increasingly important in the global economy. Currently, BRICS countries account for about 40 percent of the world's population and account for more than 25 percent of global GDP. They also account for about 17% of world exports and nearly 18% of foreign direct investment. These countries have become increasingly important in global economic and political affairs. The group has become a platform for the five countries to discuss and coordinate their positions on global issues and to work together to address global challenges. In addition, the BRICS countries are also becoming increasingly important in the global financial and banking sector. Together, they have established a New Development Bank¹, which will provide support for infrastructure and sustainable development projects in member countries.

Comparing the total annual value of contracts awarded to Italian companies with those awarded to BRICS companies, we observe a similar pattern to that seen when looking at G7 companies, but the values are relatively very low. In most years, the total annual value of contracts awarded to Italy is less than 10 percent of those awarded to Italian and BRICS companies. In the best years, 2010 and 2013, Italian companies reach a share of almost 20%. We can also note a stable and strong leadership of China, which India has been challenging for some years (**FIG. 6**).

Looking at the difference with the average values of BRICS companies, Italian companies performed very poorly throughout our sample period. The only positive exceptions are the years 2010 and 2013, when total annual Italian values were 20 percent higher than the BRICS average. These years were exceptionally positive considering that, in those years, the average total annual value of contracts awarded by BRICS companies was relatively high compared to its historical values (**FIG. 7**).

PART II – Number of projects awarded to Italian firms

General trend

Our dataset shows a decline in the total annual number of projects awarded to Italian companies from 2000 (93 projects) to 2019 (26 projects). This decline was interrupted by a rebound in 2010, with a year-on-year increase of 58 percent. However, this did not change the overall negative trend (**FIG. 8**).

Comparison with G7 and BRICS countries

Looking at the total annual number of projects awarded to G7 companies, we observe a relatively stable share of Italian companies, ranging from 5 percent to 10 percent of the total (**FIG. 9**). Similarly, we observe a stable proportion between the number of projects awarded to G7 and BRICS companies (**FIG.**

¹ <https://www.ndb.int>

10). However, from 2000 to 2019 there has been an almost 80% decline in the average number of projects awarded to both G7 and BRICS companies (**FIG. 11**).

However, when looking at the average number of contracts awarded to G7 companies, Italy underperformed G7 companies during all years covered by our dataset. The total annual number of projects awarded to Italian companies was always at least half of the G7 annual average until 2015. The following year, Italy's distance from the G7 average was only 15 percentage points. However, the outlook is deteriorating again, with a distance in 2019 of 33 percentage points (**FIG. 12**).

PART III – Country specificity

Comparison of central and southern Europe

In the data source used, there are a total of 210 countries that are considered, although many of these do not have persistence in winning procurement from 2000 to 2019 and in some years do not have awarded. Let's compare Italy with three other European countries that should have the winning opportunities (France, Spain, and Germany) and look at the positioning of these. For the number of procurements awarded, Italy gets a result of about 0.7 percent awarding all finding itself in 51st place in the ranking. Spain has a similar behavior in fact it ranks 61st with 0.5 percent of total procurement awarded. In contrast, France ranks seventh with 2.2 percent of procurements awarded and Germany 13th with 1.5 percent (**FIG 15**).

The picture changes sharply if we look instead at the value of procurements awarded. In this perspective, Italy is above all others, ranking fourth in the list and winning 3.2 percent of total procurement by value in \$. Spain follows right behind in fifth place with 2.9 percent. In contrast, France and Germany are below, not by much, in ninth and tenth place with 2.4 percent and 2.3 percent, respectively.

From these results we can deduce the existence of an inherent strategy in the companies of these nations, which leads them in one case to participate in a smaller number of tenders but with a very high value, and in the other to manage the choice of procurement in a more balanced way, thus having a fairly high number of awards, but with a more heterogeneous distribution in terms of the financial value of the project (**FIG 16**).

Table 1. Ranking of country by value of procurement awarded

Rank	Country	Value	Percentage	Rank	Country	Value	Percentage
1	China	\$ 43.627.664.438,26	19,50%	9	France	\$ 5.454.149.267,74	2,44%
2	India	\$ 26.023.312.120,18	11,63%	10	Germany	\$ 5.206.315.224,85	2,33%
3	Brazil	\$ 10.247.636.887,26	4,58%	11	Russian Federat	\$ 4.481.869.502,51	2,00%
4	Italy	\$ 7.181.041.027,89	3,21%	12	South Africa	\$ 3.652.593.035,77	1,63%
5	Spain	\$ 6.576.491.639,45	2,94%	13	Afghanistan	\$ 3.494.389.542,30	1,56%
6	Argentina	\$ 6.551.480.126,82	2,93%	14	United Kingdom	\$ 3.191.677.237,59	1,43%
7	Turkey	\$ 6.229.215.045,16	2,78%	15	Indonesia	\$ 3.181.086.246,14	1,42%
8	Vietnam	\$ 5.700.379.026,09	2,55%	16	Bangladesh	\$ 2.729.878.867,08	1,22%

PART IV – CONCLUSIONS AND RESEARCH QUESTIONS

Summing up

In summary, looking at the values of contracts awarded to Italian companies, we can divide the sample into the following subperiods:

- a. 2000-05: Italian firms underperform both G7 and BRICS.
- b. 2006-09: Contracts awarded to Italian firms begin increasing in value and surpassing G7 countries.
- c. 2010-15: Italian firms hugely outperform G7, while also outperforming BRICS in 2010 and 2013.
- d. 2016-19: Values of contracts awarded to Italian firms become similar to average G7 values (**FIG.13**).

However, looking at the number of contracts awarded, we observe a clear underperformance of Italian firms in all years of our sample, compared to firms in the G7 and BRICS (**FIG 14**).

Research questions

From this preliminary analysis we can deduce the following main research questions that we propose to address in our research project:

1. What lies behind Italian firms' exceptional outperformance during the years from 2010 to 2015?

We find particularly interesting to investigate the years:

- a. 2005 to 2008: Italian firms start increasing their competitiveness.
- b. 2010 and 2013: Italian firms outperform BRICS' ones.
- c. 2016: Italian firms' values diminish to average G7 ones.

2. Why do Italian firms keep underperforming G7 firms when it comes to the number of projects awarded, while also having a downward trend? Does this depend on the behavior of few large and outperforming firms? If this is the case which policies can be implemented to diffuse their best practices in order to increase the number of awarded projects?
3. Does a similar pattern emerges also when looking at procurements by other development banks?
4. What are the characteristics of the firms participating and winning procurement contracts with respect to those non participating and/or not winning?

FIGURES

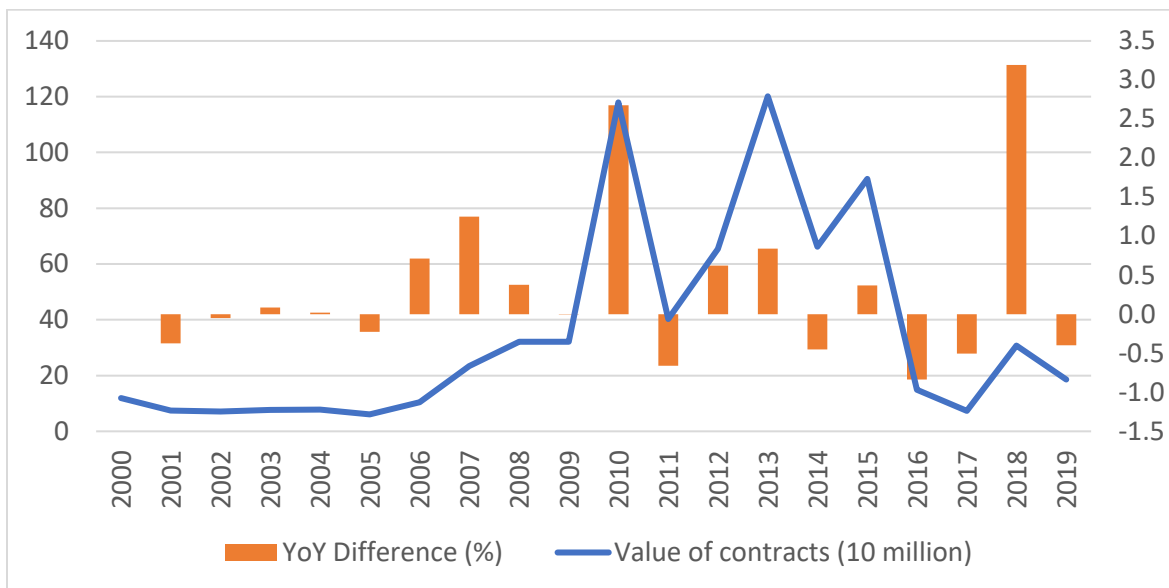


Figure 1. Total yearly value of contracts awarded to Italian firms (left axis) and year-over-year difference (right axis).

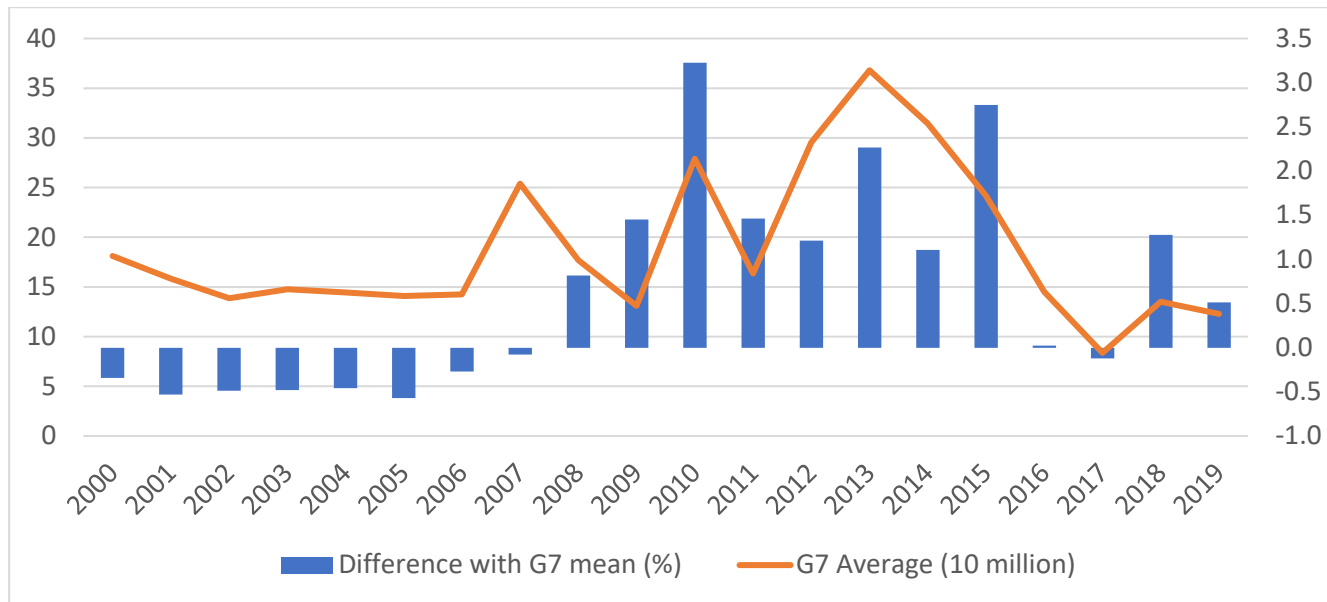


Figure 2. Yearly average value of total contracts awarded to G7 firms (left axis) and yearly percentage deviation of the value of contracts awarded to Italian firms from it (right axis).

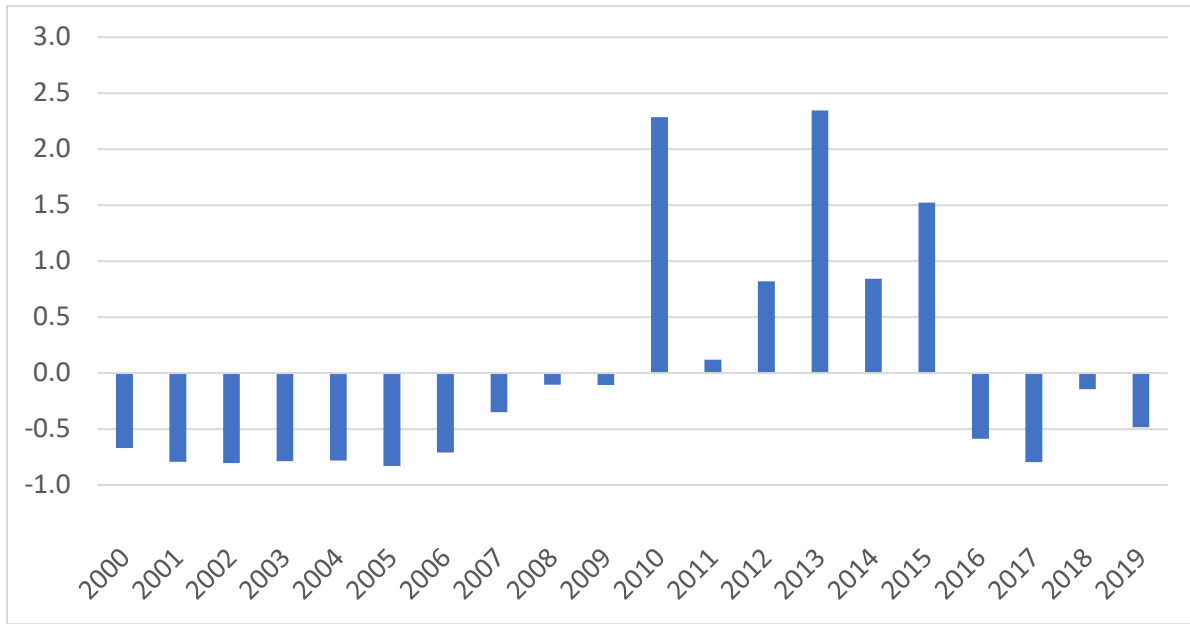


Figure 3. Yearly percentage deviation of the total value of contracts awarded to Italian firms from the average total yearly value of contract awarded to Italian firms from 2000 to 2019.

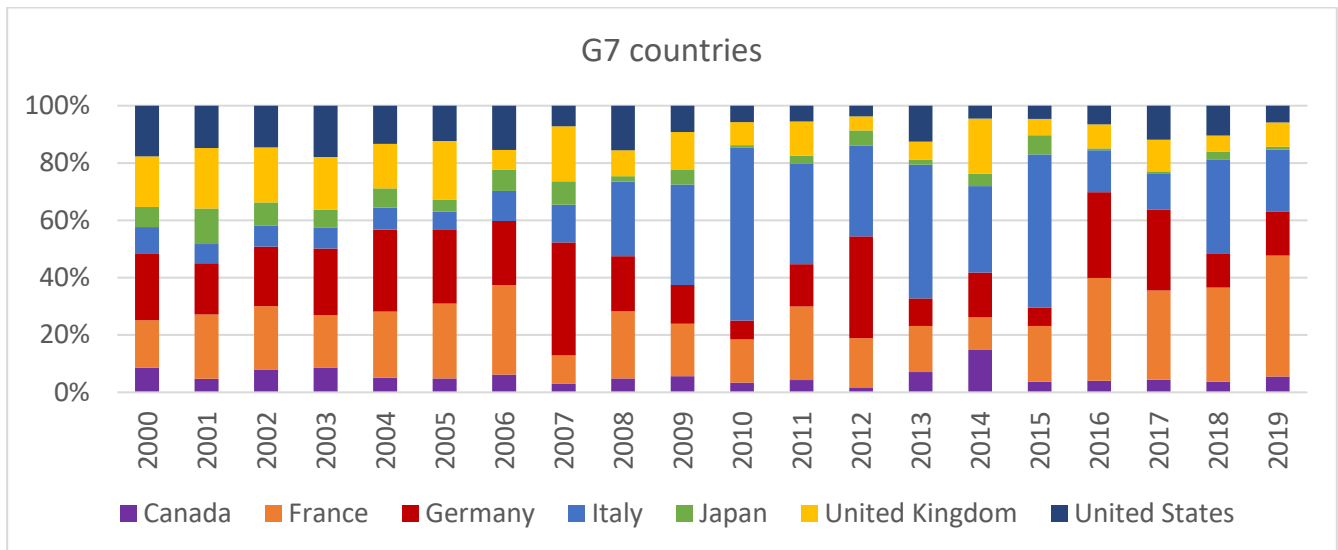


Figure 4. Total value of contracts awarded to G7 firms divided by country.

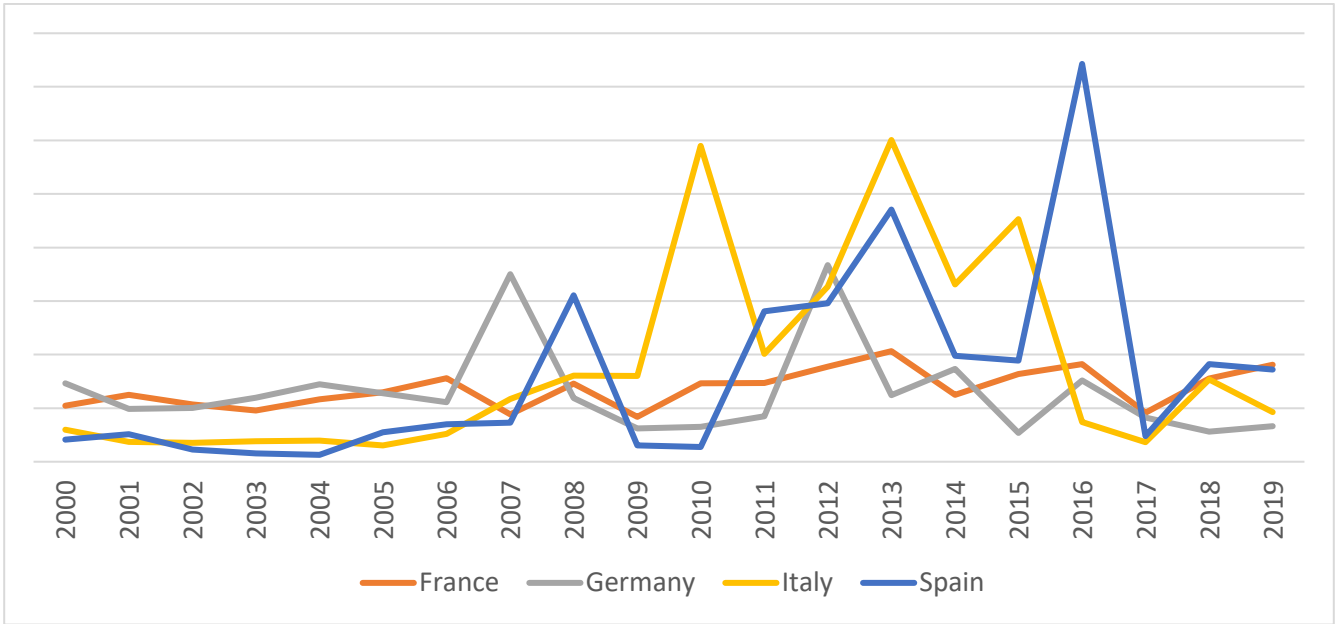


Figure 5. Total yearly values of contracts awarded to firms from France, Germany, Italy, and Spain.

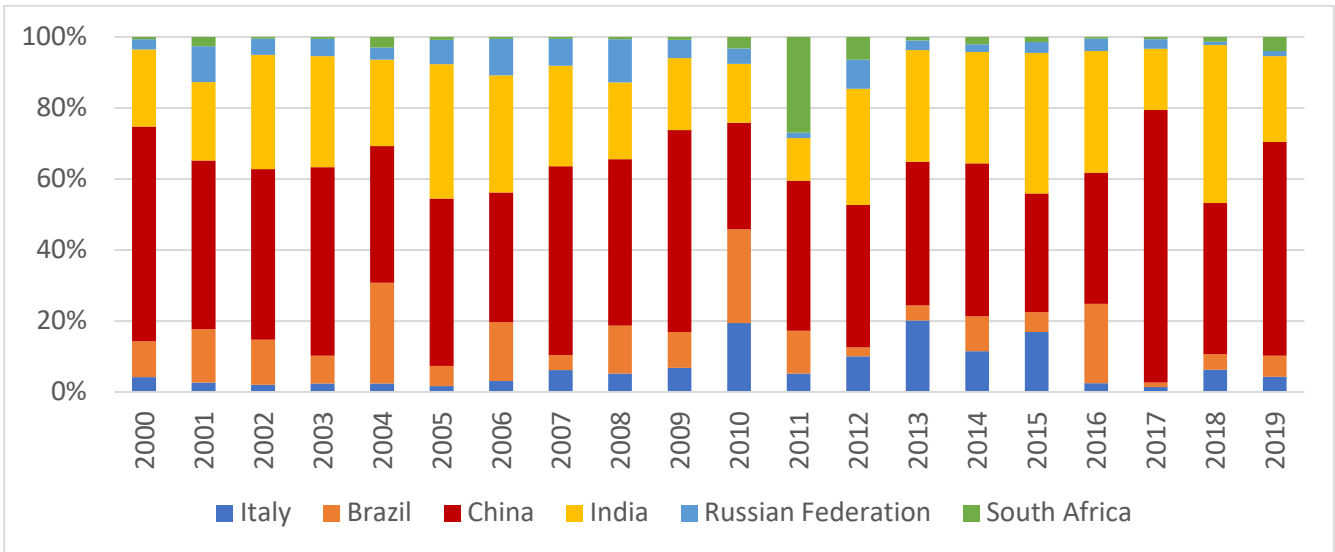


Figure 6. Distribution of the percentage share of awarded projects from Italy and BRICs

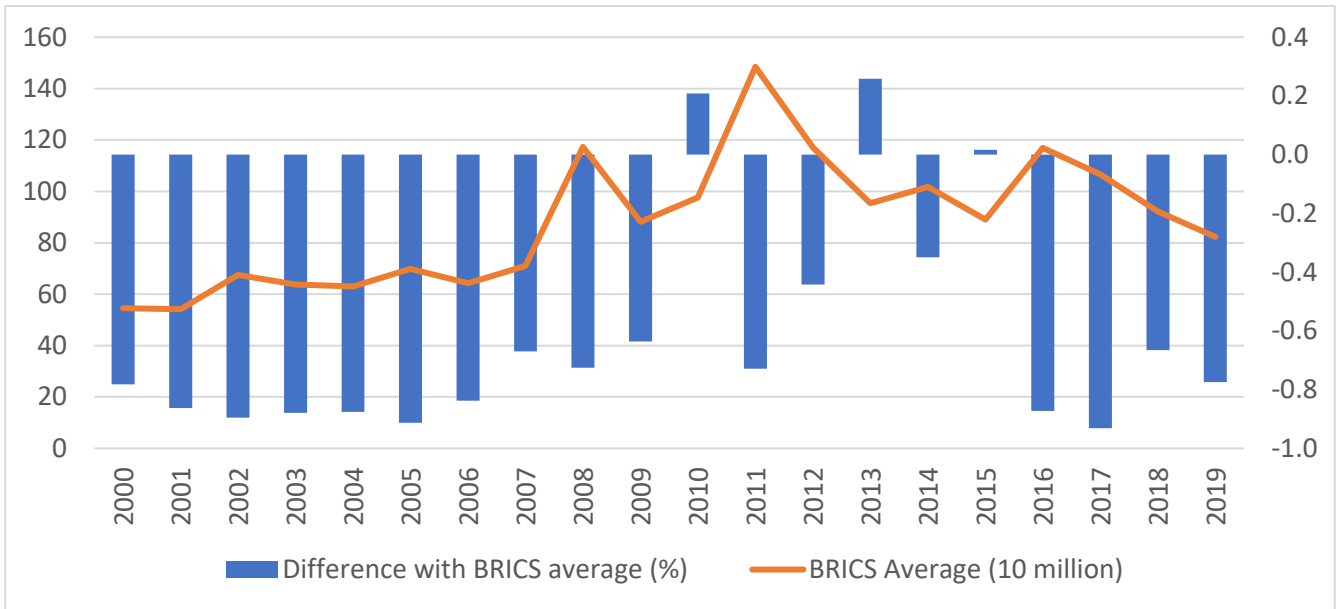


Figure 7. Yearly average total value of contracts awarded to BRICS firms (left axis) and yearly percentage deviation of yearly total values of contracts awarded to Italian firms from it (right axis).

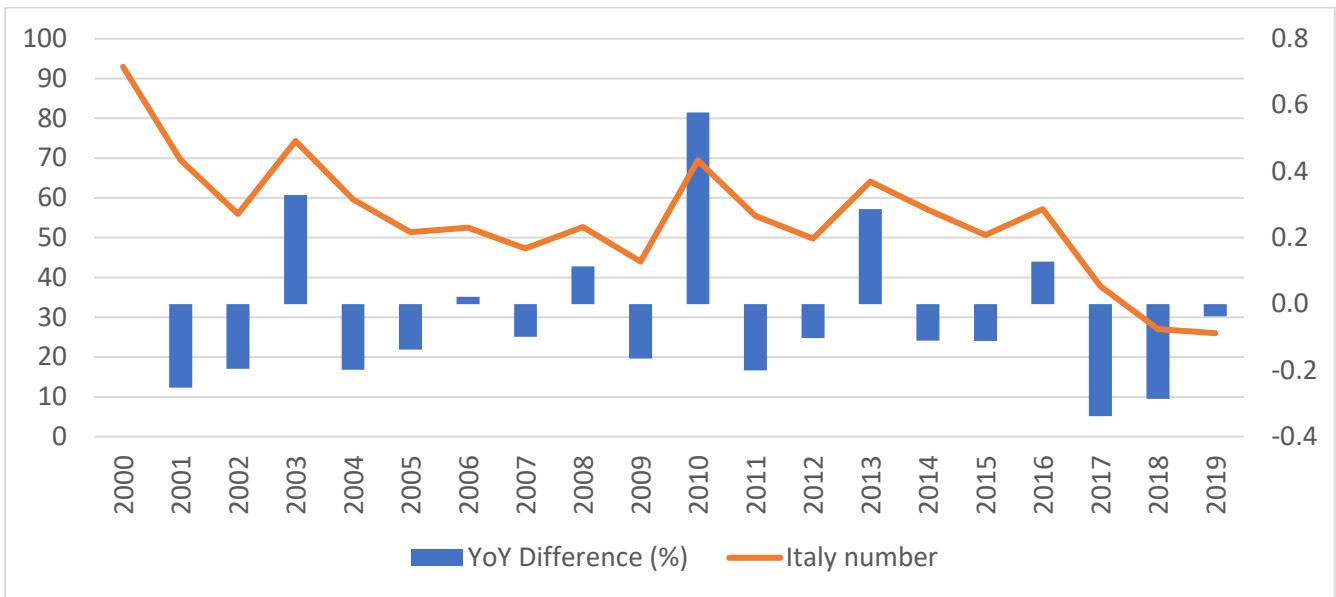


Figure 8. Total yearly number of contracts awarded to Italian firms (left axis) and year-over-year variation.

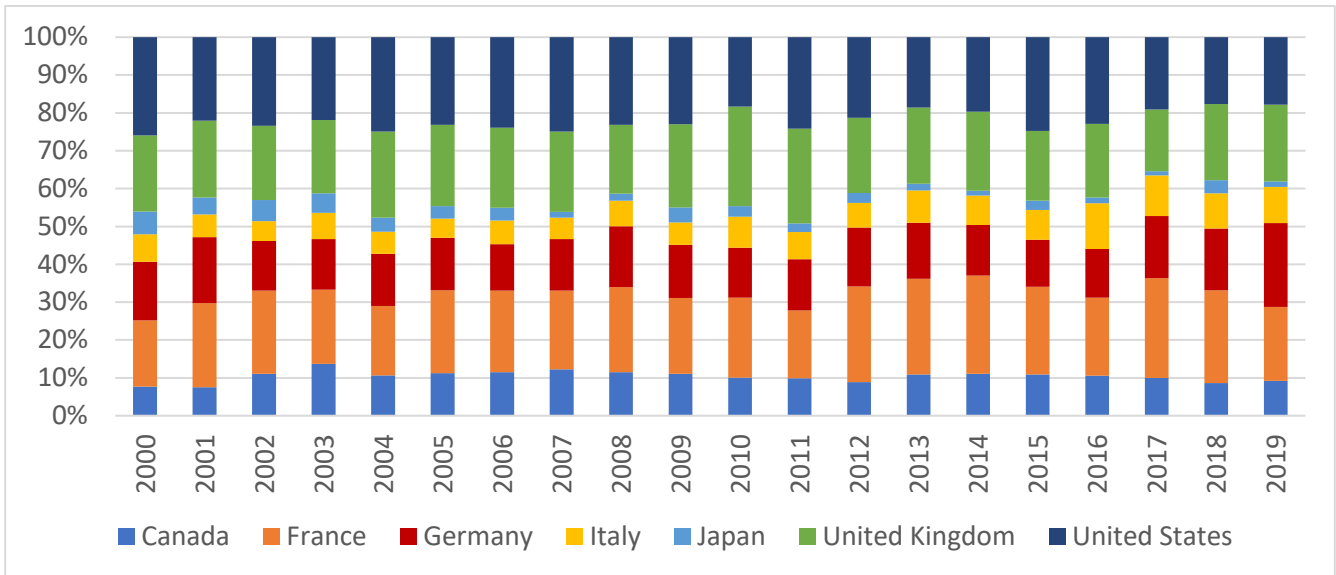


Figure 9. Yearly total number of contracts awarded to G7 firms divided by country.

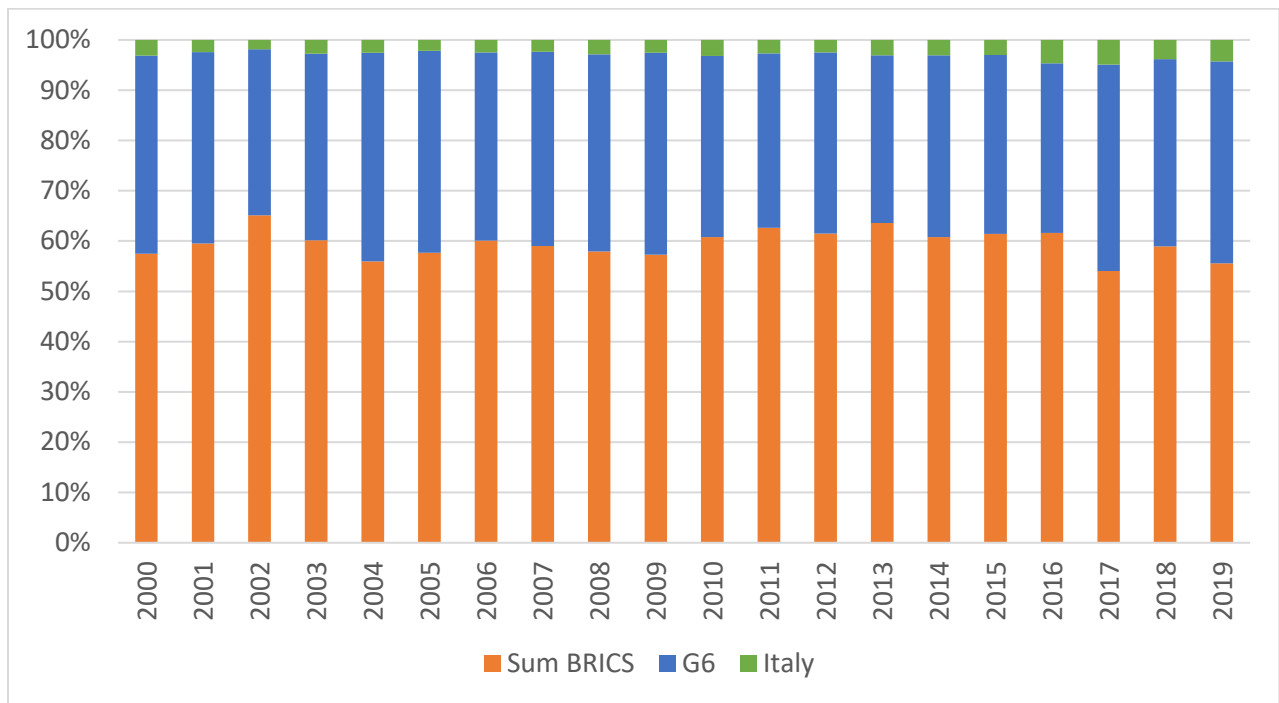


Figure 10. Italy's total annual country share compared with the sum of BRICS and G6 shares

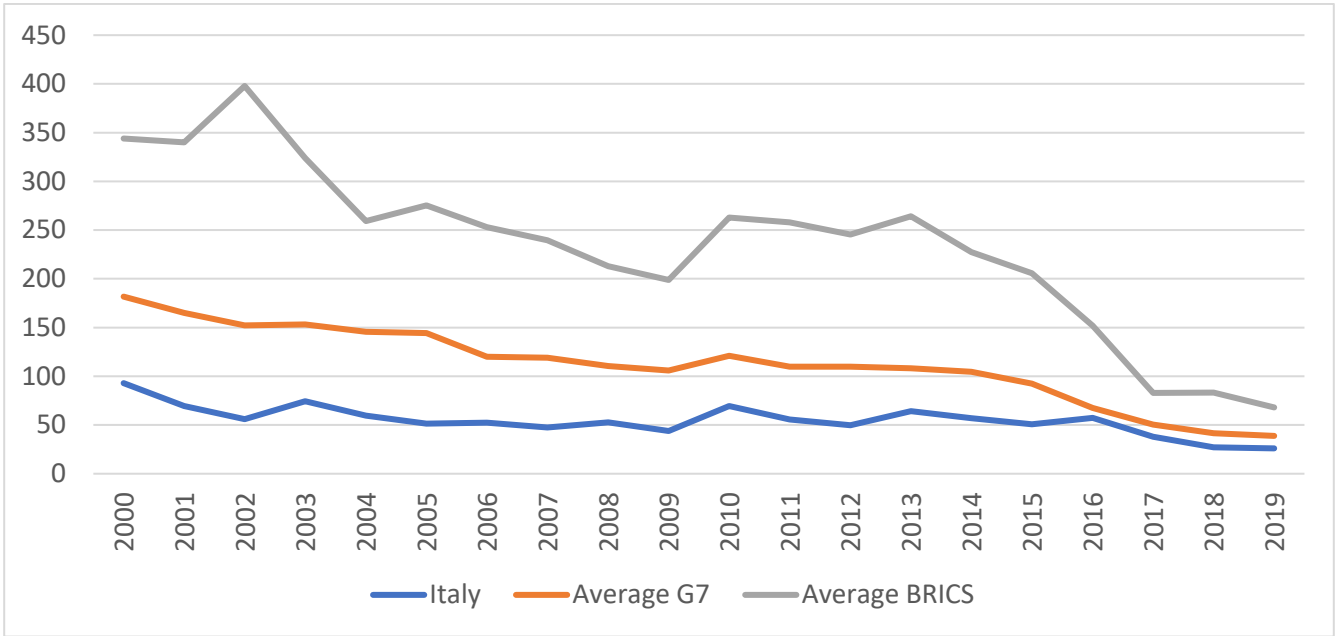


Figure 11. Yearly total number of contracts awarded.

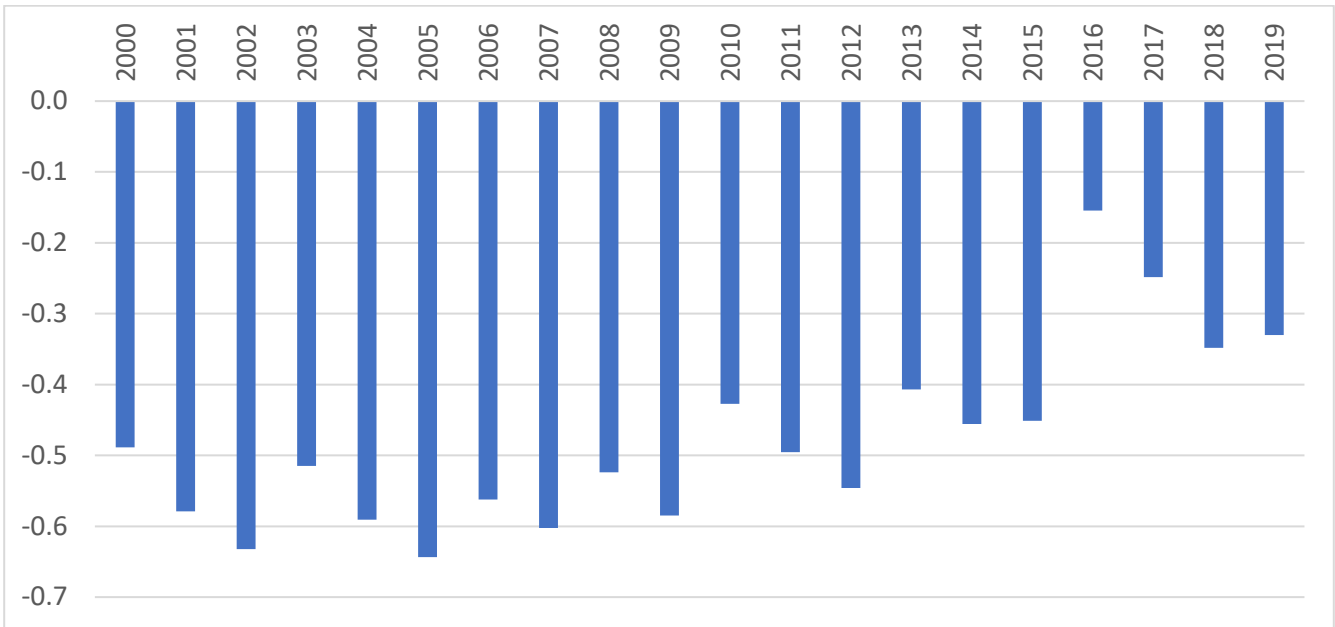


Figure 12. Yearly percentage difference between total number of contracts awarded to Italian firms and the yearly average total number of contracts awarded to G7 firms.

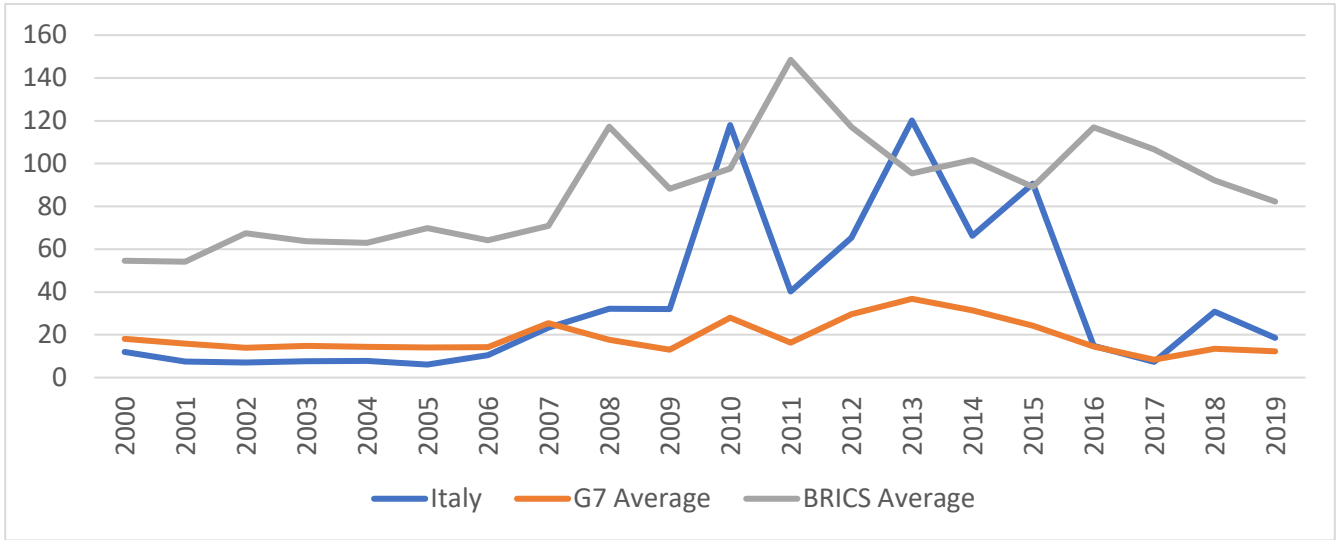


Figure 13. Yearly values of contract awarded (10 million).

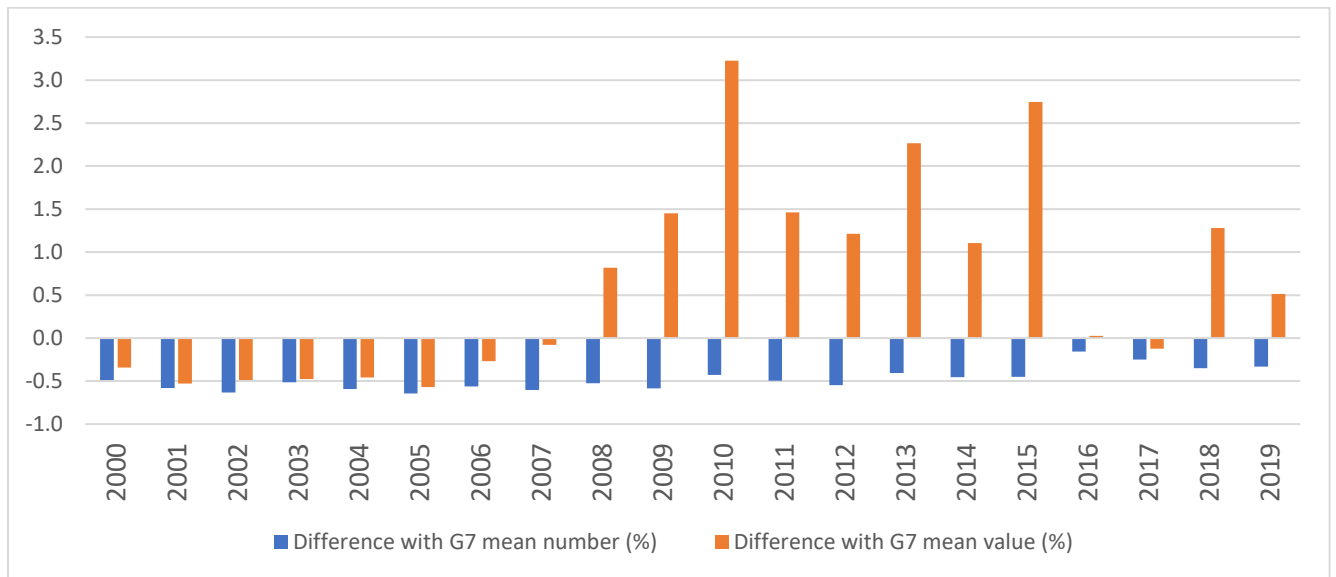


Figure 14. Percentage difference between yearly total number and values of contracts awarded to Italian firms and the yearly mean of the total number and value of contracts awarded to firms from G7 countries.

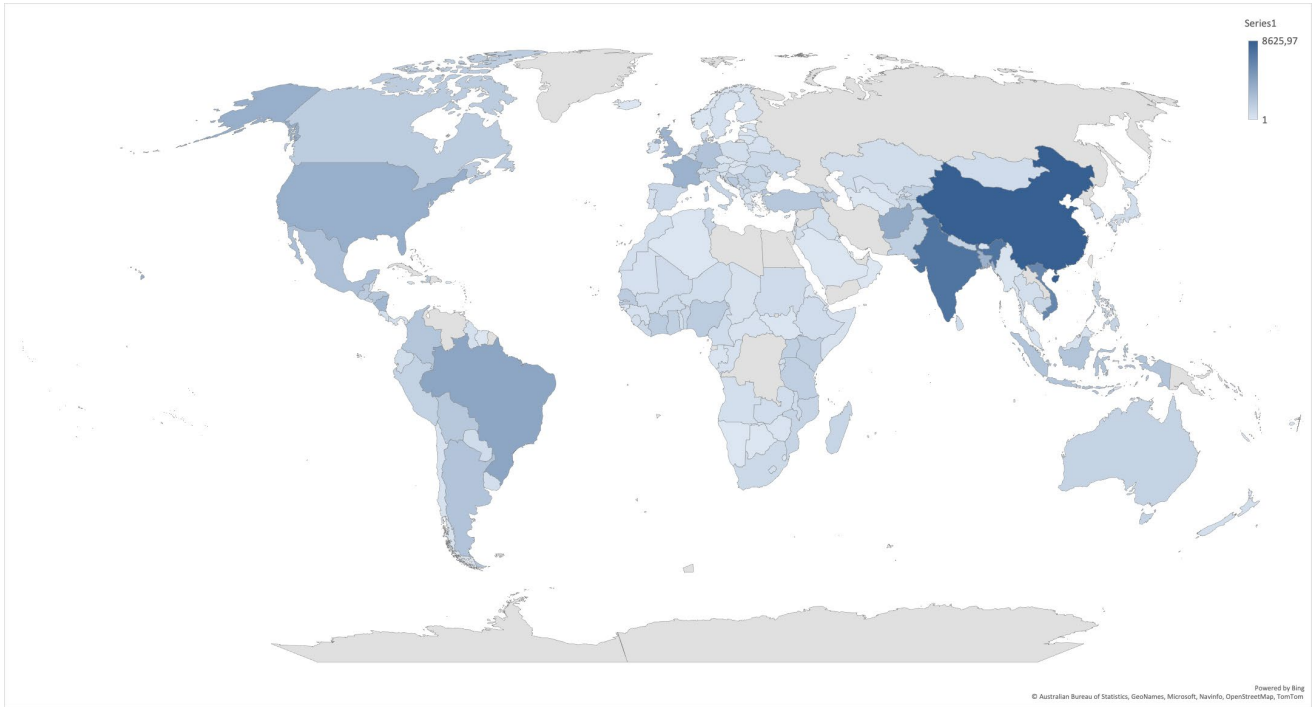


Figure 15. Graphical distribution of procurement by number of awards

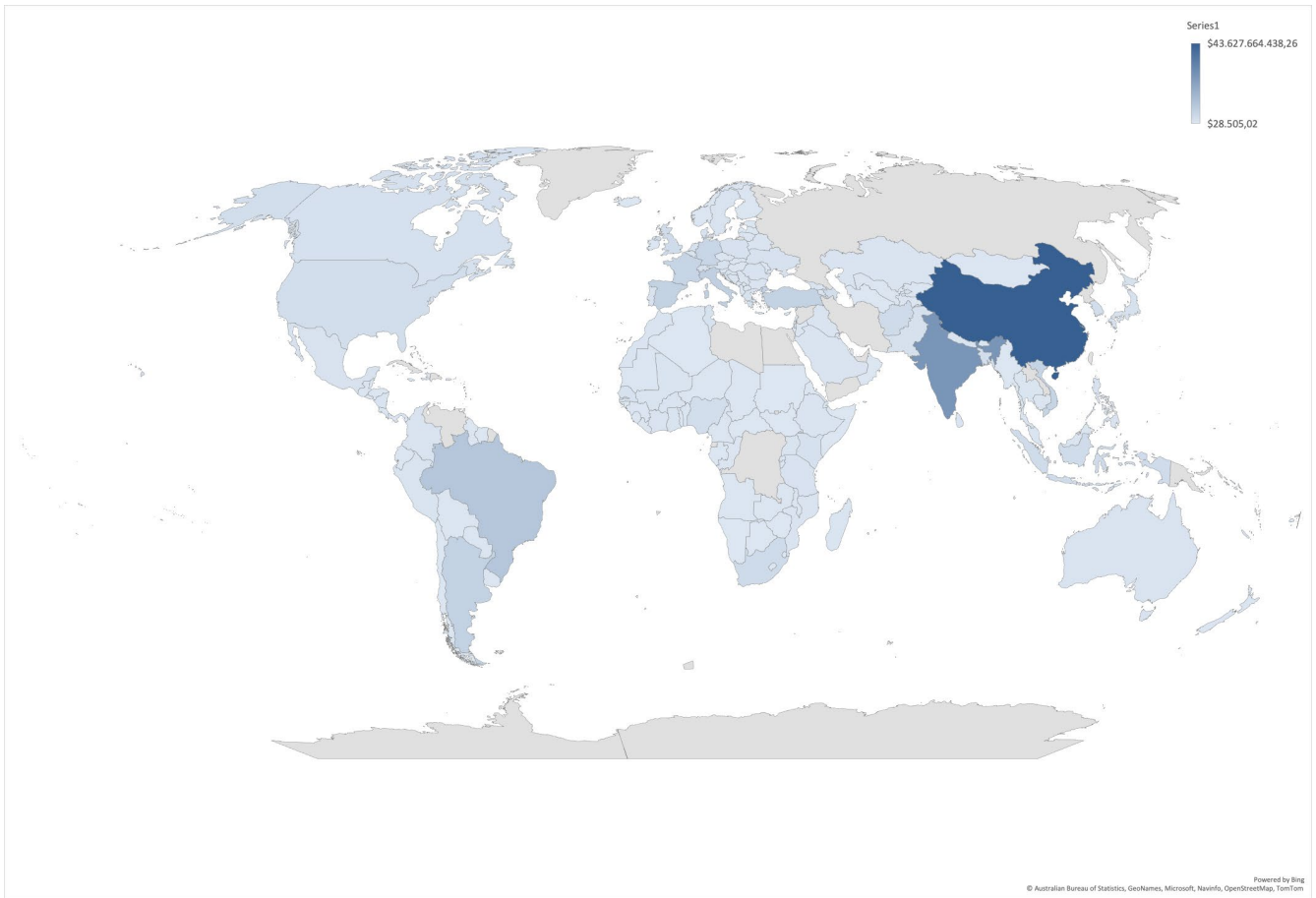


Figure 16. Graphical distribution of procurement by value of awards