

Procurement of multilateral banks in Europe: Italian specificities and policy implications

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1 Introduction

International public procurement by multilateral banks has consistently been a competitive market for Italian companies. Procurement is defined as the acquisition of goods, works, or services by a procuring entity, generally using public funds (World Bank, 2020). Objectives involve providing aid to the public sector, funding the establishment of businesses to enhance the single market's functionality and financing projects of shared interest among multiple member states (Artige et al, 2013; Clifton, 2014).

In this sector, the World Bank stands out among the Multilateral Development Banks (MDBs) due to its extensive geographical reach, being the first of its kind, and serving as a model for best practices adopted by other MDBs. Winning World Bank procurement contracts holds significant potential for companies seeking to expand their business, internationalize their operations, and diversify their target market. Through them, firms gain access to new markets, clients, and revenue streams while reducing their vulnerability to localized economic challenges, achieving more stable growth and enhancing their reputation and credibility.

This brief presents an analysis of Italian firms' participation in tenders funded by the World Bank since 2001. We aim to identify their strengths in international public contracts to guide policymakers in supporting business internationalization and enhancing Italy's international competitiveness, which is the key objective of the National Recovery and Resilience Plan (NRRP). To understand the peculiar strengths and weaknesses of Italian firms, we conducted a comparative analysis of Italian firms and their peers in other EU countries, with a particular focus on French ones. Previous research indicates that the decline in Italian firms' contract value share was mainly due to larger contracts in the civil works sector in emerging countries where Italian firms already had a strong presence (Piga, 2007). In these countries, Dollar & Levin (2005) demonstrated a link between project success and institutional quality, an external factor that is not always controllable by firms.

To do so, we conducted a macro-level evaluation of contracts won and a micro-level examination of individual contracting firms. By utilizing various indices and metrics, we provide a comprehensive understanding of the procurement landscape for these countries.

Our study reveals that Italian companies are more concentrated in their participation in World Bank procurement contracts compared to their peers in other EU countries. In fact, while there are virtuous

cases of Italian firms winning projects with high economic value, they are few in number. To reduce concentration, policymakers should promote greater participation of Italian firms in World Bank (WB) projects because increased competition and diversion among Italian companies participating in these projects would maximize the benefits of international development opportunities for the Italian economy. This can be achieved through policies that focus on outreach, training, capacity-building initiatives, partnerships with educational institutions, and access to finance.

2 Comparative analysis of European Union firms

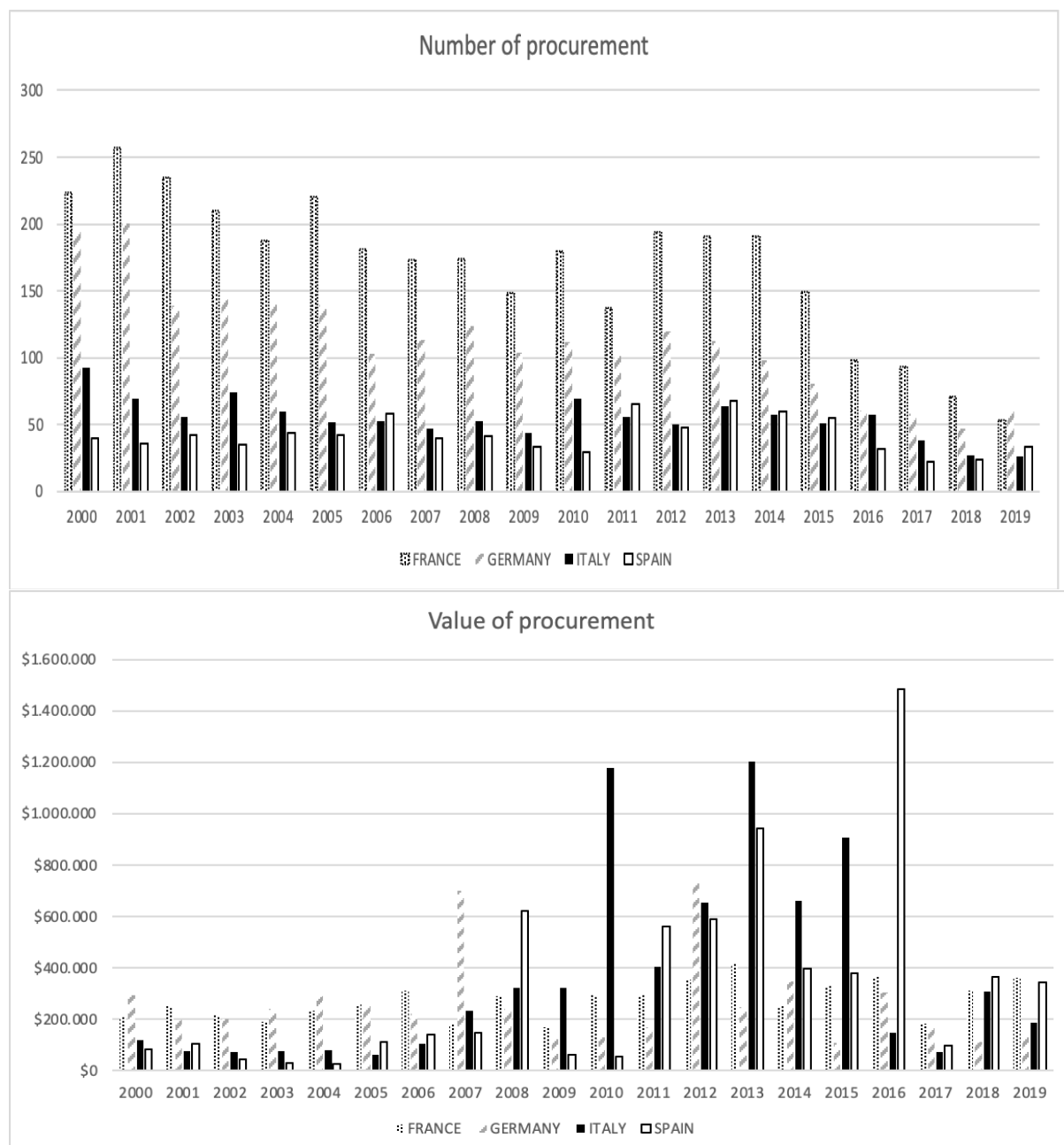
In the competitive landscape of international procurement, understanding the dynamics and characteristics of nations and firms winning contracts is essential for fostering economic growth and global collaboration. This section aims to provide a comprehensive analysis of the World Bank contracts awarded to Italian firms in comparison with other European countries. We then focus on Italian and French firms from 2001 to 2022, since they represent two distinctive models. By examining the number of contracts won, the total value of contracts awarded, and the market concentration, we will uncover the underlying trends and strategies of firms from these two European Union countries.

2.1 Macro-Level Evaluation: National Trends and Rankings in World Bank Contract Awards

Evaluating the number of contracts awarded to companies from each nation within the dataset results in a ranking based on the total number of contracts awarded and one based on the total value in U.S. dollars. Interestingly, Italy ranks 51st in terms of the number of contracts won but ranks in the top ten (4th position) in terms of the value of contracts obtained. France and Germany follow the opposite trend.

Analyzing the two distributions in more detail, the number of contracts won in the twenty-year period studied is almost always the same. It changes in some years for Italy and Spain, which alternate outperforming each other a few times from 2011 onward. Figure 3 plots the evolution of the number and value of procurement by country, revealing significant differences.

FIGURE 3. *Upper panel:* number of contracts awarded by the first four EU countries; *Lower panel:* Value of contracts awarded to the first four EU countries.

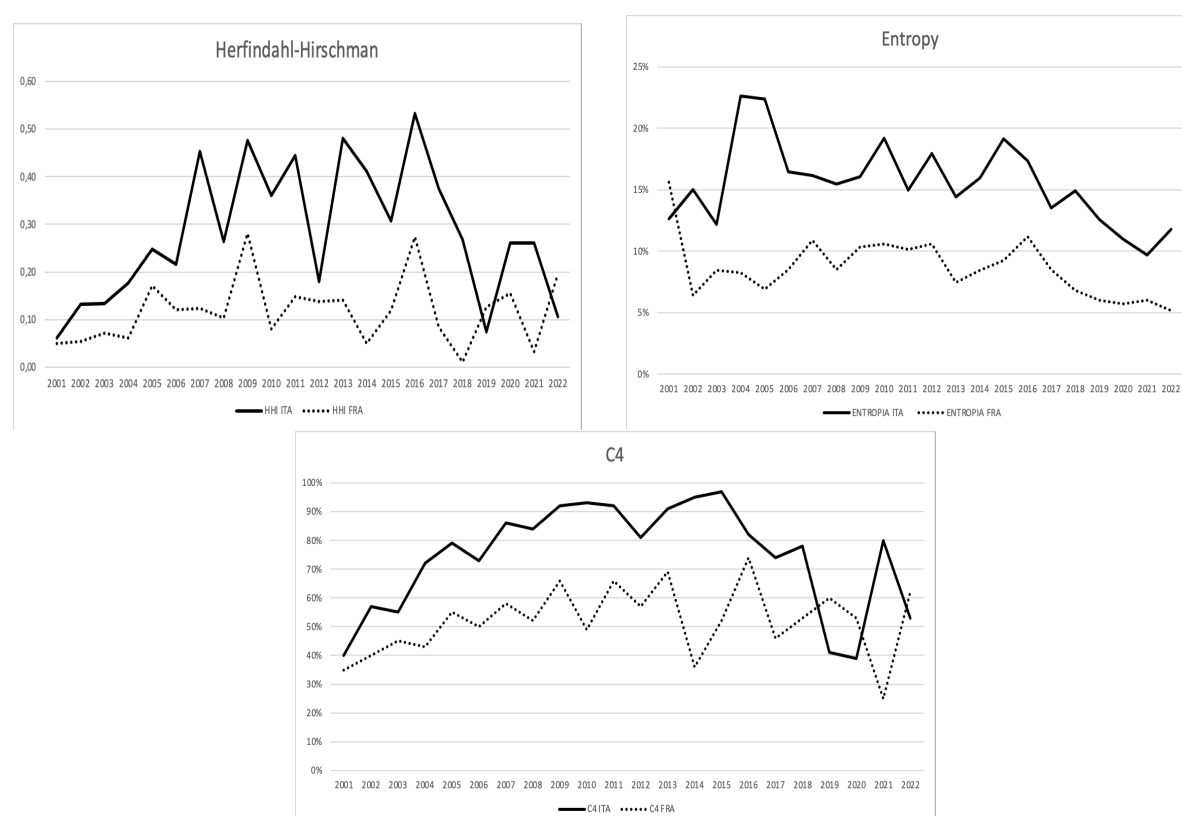


Source: Authors' calculation based on World Bank data

While Italian and Spanish companies secure a lower number of contracts but with high economic value, French and German companies follow the opposite trend, winning more contracts with a total economic value that is slightly lower. The Italian market is characterized by a high concentration of a few companies dominating both the number and value of contracts won. This concentration is supported by the Herfindahl-Hirschman Index, entropy index, and C4 index, which all indicate that Italy's market is more concentrated than France's (Figure 4).

FIGURE 4 Concentration indexes for France and Italy (2001-2022)

Note: The Herfindahl-Hirschman Index (HHI) measures market or economic sector concentration by calculating the sum of the squared market shares of individual. An HHI value of 1 represents high level of concentration, while a value of 0 represents low level. Entropy is a measure used to quantify the level of diversity or variety within a distribution of categories. The C4 index is a commonly used metric in economics to assess market concentration and competition, where a higher value indicates a greater dominance of the top four firms in the market. In the context of the presented data, entropy is calculated based on the frequency of appearance of different companies. It involves assessing the normalized probability of each company's appearance and combining it with the logarithm of that probability. This resultant entropy value indicates the contribution of each company to the overall diversity. A higher entropy value suggests a more diverse distribution, while a lower value indicates a more concentrated distribution.



Source: Authors' calculation based on World Bank data

Overall, these findings suggest that Italian companies may need to explore strategies to increase their participation and success in World Bank contracts, while also addressing the high concentration of a selected few dominating companies in the market. The next section addresses this issue by analyzing the characteristics of the winning companies.

2.2 Micro-Level Examination: Firm-Level Analysis and Market Concentration Dynamics

We conducted a micro-level analysis of Italian and French companies that won at least one World Bank procurement in the last two decades by looking at key variables, as well as regional and sectorial distribution.

The statistical analysis presented in Table 4 suggests that Italian companies are larger in size, generate higher sales and have lower investments in intangible assets than their French counterparts. The t-test,

calculated on the mean, confirms a statistically significant disparity between the two countries' employee numbers, indicating that this difference is unlikely due to chance. The sales figures also reveal a noteworthy distinction, with Italian companies demonstrating a higher mean and median, indicating a potentially stronger revenue generation capacity. However, it's essential to note the substantial standard deviation in Italian sales, signifying a broader range in revenue among these firms. In contrast, French companies display more consistent sales figures. The statistics related to publications highlight a higher mean for French companies, suggesting greater research activity. However, French companies exhibit a wider variation in these variables, which may reflect a more diverse business landscape. The Return on Capital Employed (ROCE) figures indicate that Italian companies tend to have lower efficiency in generating profits from their capital investments when compared to French companies, as evidenced by the lower mean and the significant standard deviation in Italian ROCE.

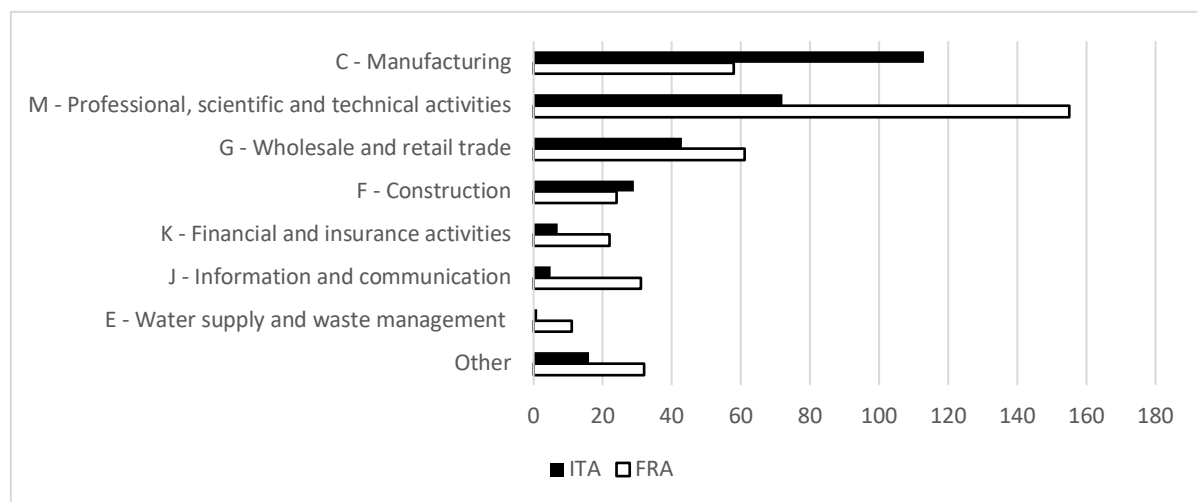
TABLE 4. Key statistics of selected variables of Italian and French companies

Notes: Sales values are expressed in millions of USD. We employ a two-sample t-test with a two-tailed distribution considering unequal variance heteroscedasticity assumptions. Intensity refers to the ratio between intangible assets and turnover. Publications data are obtained from Orbis Patent.

	ITA	FRA	ITA	FRA	ITA	FRA	ITA	FRA	ITA	FRA
	Employees		Sales		Publications		Intangible Intensity		ROCE	
Mean	1158	225	326	44,4	0,2	0,5	0,2	0,5	8	30
T-Test	0,007***		0,099*		0,069*		0,060*		0,017*	
Median	34	95	9,9	9,7	0	0	0	0	8	14
Standard Dev	6762	345	1565,6	85,1	0,3	0,4	0,3	0,4	37	128
Min	1	1	0	4	0	0	0	0	-286	-137
Max	81365	2132	15692,8	507,4	0,81	1,53	0,81	1,53	137	15

Source: Authors' calculation based on Orbis Bureau Van Dijk data

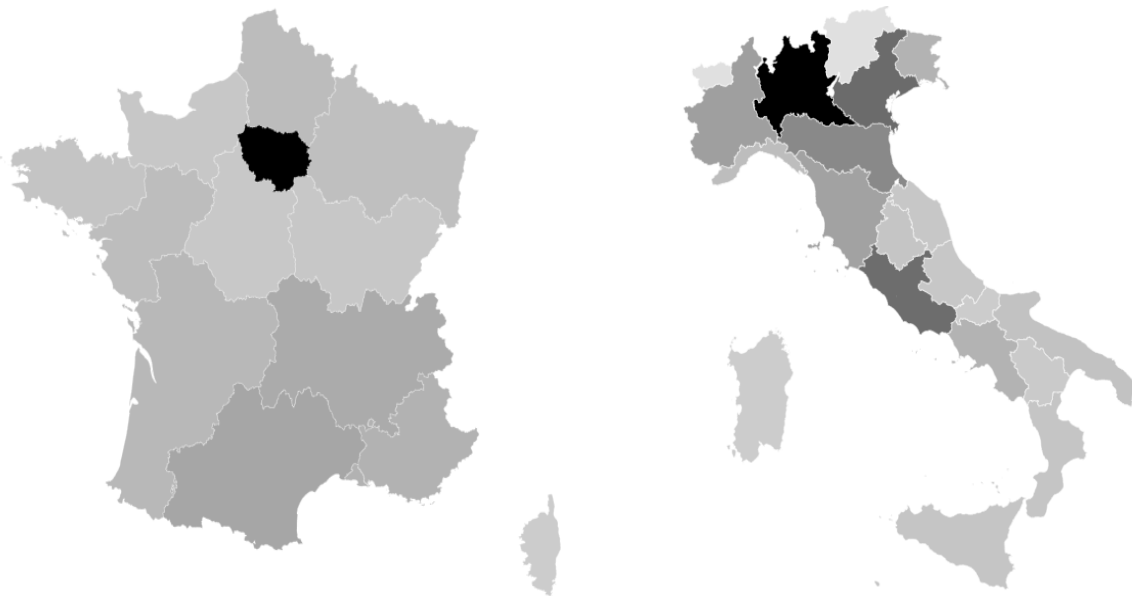
According to Figure 5, both countries present a similar level of industry concentration across sectors, with an HHI index of 0,22 for Italy and 0,25 for France. However, disaggregating data by sectors (according to NACE codes) unveil distinct sectoral strengths and weaknesses between the two nations concerning their participation in World Bank procurements. French companies prominently demonstrate their expertise in consulting, commerce, and manufacturing sectors, showcasing a diverse skill set across these domains. In contrast, the Italian data reveal a pronounced strength in the manufacturing sector, underscoring the nation's robust manufacturing capabilities, as well as its pivotal role in significantly contributing to development projects (F-Construction). It's important to note that while these sectors represent strongholds for both countries, the analysis also highlights relative weaknesses in other sectors, emphasizing the need for tailored strategies and targeted policy interventions to optimize contributions across a broader spectrum of industries within the context of World Bank projects.

FIGURE 5. Number of Italian and French winning companies' distribution across NACE Rev. 2 main sections

Source: Authors' calculation based on Orbis Bureau Van Dijk data

Lastly, Figure 6 explores the companies' geographical distribution and a notable distinction emerges between the two nations. Italian companies exhibit a concentrated presence, primarily centered in a few regions, including Lombardy, Veneto, and Lazio. In contrast, the French landscape boasts the significant prominence of "Île-de-France." This "capital city effect" is evident in France's notably higher HHI index (0.30) compared to Italy's (0.14), signifying a more centralized distribution of international development project participants. In Italy's case, despite the concentration in certain regions, there is no equivalent capital city effect. This is because Lombardy, for instance, has a greater number of procurement companies compared to Lazio. This divergence highlights the regional dynamics at play within each country. While Italy's concentration implies specialization in specific areas, France's dispersed presence underscores the need for strategic collaboration and knowledge sharing among regions.

FIGURE 6. Number of companies awarded a WB procurement. Distribution by regions where the darker color represents a high presence of companies.



Source: Authors' calculation based on Orbis Bureau Van Dijk data

3 Discussion and policy implications

This research provides valuable insights into the dynamics of Italian participation in World Bank-funded projects and offers potential avenues for future investigation to optimize the performance of Italian firms in the global market.

The comparative analysis of World Bank contracts awarded to Italian and French firms from 2001 to 2022 reveals distinct differences in their performance and market dynamics. Italian and Spanish firms secure fewer contracts with higher economic value, whereas French and German firms win more contracts with slightly lower total value. The Italian market exhibits a high concentration of a few dominant companies in terms of both contract quantity and value. Our findings suggest that Italian companies should consider adopting strategies to increase their participation and success in World Bank contracts while addressing market concentration among a few dominating firms.

The concentration of Italian companies in World Bank contracts suggests that policymakers should prioritize expanding the number of Italian companies applying for these contracts. To achieve this, it is crucial to invest in outreach, training, and capacity-building initiatives through government agencies such as the Ministry of Economic Development, chambers of commerce, and trade associations. Some proposals that we present in an indicative and non-binding form are:

- Fostering business networks is paramount to enhancing Italian companies' participation in World Bank projects. These networks can take the form of collaborative endeavors such as network contracts, which encourage multiple companies to collaborate on a single procurement bid. This not only reduces the risk but also combines the expertise of various firms, increasing the overall competitiveness of Italian businesses. To complement these network contracts, informative campaigns can be launched to promote their benefits and educate

companies on how to establish and engage in such networks effectively. By encouraging collaborative efforts and facilitating knowledge exchange among businesses, policymakers can create an environment where Italian companies can collectively strengthen their position in World Bank procurement tenders and seize global development opportunities more effectively.

- Information sessions and workshops:¹ organize informational sessions and workshops across different regions in Italy to create awareness about World Bank projects, the application process, and the requirements for participation. These sessions can be held in collaboration with local chambers of commerce and trade associations to reach a broader audience.
- Online training courses: develop a series of online training courses that focus on various aspects of World Bank procurement, such as project bidding, financial management, and compliance with environmental and social standards. These courses can be made available to Italian companies through a dedicated online platform.
- Mentorship programs: establish mentorship programs that pair experienced companies that have successfully participated in World Bank projects with new or less-experienced firms. This initiative can facilitate knowledge transfer and help newer companies navigate the complexities of the procurement process. This can be organized and managed at the regional or provincial level in cooperation with trade associations and chambers of commerce.
- Partnerships with educational institutions: collaborate with universities, technical schools, and research institutions to incorporate courses on World Bank procurement and international development into their curricula. This will help build a pipeline of skilled professionals who are knowledgeable about the procurement process and can contribute to the success of Italian companies in this arena. A similar example is the list of Innovation Managers established at the Italian Ministry of Economic Development.
- Networking of companies: SMEs can benefit from networking and collaborating with other companies. The government can facilitate the formation of consortia or clusters of companies that can work together to participate in procurement tenders, sharing resources and expertise.
- Access to finance: work with financial institutions to develop specialized loan products or guarantee schemes that can help Italian companies access the necessary financing to participate in World Bank projects. This will enable more firms to bid for contracts and increase their chances of success.

By fostering a more competitive and diverse landscape among Italian companies participating in World Bank projects, policymakers can promote a more equitable distribution of awarded contracts and maximize the benefits of international development opportunities for small and medium enterprises and for the whole Italian economy.

¹ The only training activities conducted in recent years are the following two, as listed on the Ministry of Foreign Affairs' website:

The first seminar, "Tender Lab," held in 2018. [Link to Seminar](#)

The second seminar, "Tender Lab," conducted in 2023. This was a hybrid training activity, which, while commendable, may not be sufficient. [Link to Seminar](#)

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