

# Local Food Procurement Tendencies in Latvia

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**Abstract**— The OECD has emphasized that regions need to boost their growth by placing local resources and means in circulation in order to benefit from their competitive advantages. It encourages the search and analysis of those regional key factors that are driving development in the regions. Local authorities can boost their region with the use of territorial capital and the promotion of entrepreneurship. One of the ways how to do this is to buy food from local producers. Giving preference to local suppliers, even if it means spending a little more, can actually benefit a region's finances. When local governments spend their money on locally owned firms, those firms in turn rely on and generate local supply chains, creating an "economic multiplier" effect. Each additional dollar that circulates locally boosts local economic activity, employment and, ultimately, tax revenue. In Latvia, since 2014, attention has been focused on increasing the consumption of local food. Improvements in regulatory enactments have been made, which stipulate that green public procurement criteria should be used in food procurement, where one of the criteria, the supply distance, directly contributes to this aim by giving preference to the local producers. The research aim is to analyze the data of local government food procurements carried out in Latvia from 2010 to 2018 and to evaluate the share of local suppliers in these procurements. The food procurement winners were divided into four groups: agricultural producers, food processing companies, wholesale companies and retail companies. The study evaluates how each group's share in total food purchases varies over the years, and how procurement volumes vary depending on the winner's belonging to the one of the groups previously defined. Such an analysis shows the proportion of local producers in procurement, but does not fully reflect on the volume of local production, as it is not possible to obtain data on the share of production which producer purchased from others to provide the necessary volumes of food, and there is no data on the origin of products supplied by wholesalers. The following research methods were employed to carry out the present research: analysis and synthesis, induction and deduction, the monographic method, statistical analysis and the graphic method.

**Keywords**— *Local food, public procurement, regional development.*

## I. INTRODUCTION

Territorial and economic sustainability of the economic complex of the region is determined by its ability to maintain a continuous expanded reproduction, which is ensuring the stable increase of a given level of

output production and economic indicators. It means that the economic sustainability of the economic system of the region is the basis for sustainable development of the regional economy [1].

The OECD has emphasized that regions need to boost their growth by placing local resources and means in circulation in order to benefit from their competitive advantages [2]. It encourages the search and analysis of those regional key factors that are driving development in the regions. Local authorities can boost their region with the use of territorial capital and the promotion of entrepreneurship [3]. One of the ways how to do this is to buy food from local producers.

As McCrudden [4] admits, the spatial patterns of public expenditure and government procurement have a significant impact on contemporary economic and social development in localities and regions. Consequently, wider socio-economic benefits for communities and regions can be achieved through contracts concluded by municipalities.

Efficient public procurement is crucial for solving many key policy challenges that the EU is currently facing. This includes growth and jobs, fiscal discipline, modernising public administration, the fight against corruption and collusion, market access for SMEs, citizens' trust in public authorities and democracy [5]. The latest update to the EU public procurement rules resulted in renewed interest in using this instrument not only to achieve efficiency, but also to more actively support local growth and employment by linking procurement to broader policy objectives like sustainability, social inclusion and innovation [6] - [8].

But here the researchers [9] observe that transition to more sustainable procurement is very dependent on political will and leadership and an infrastructure that is able to balance the complexity of the inter-relationships between economic, environmental and social drivers to effect change. And that's one of the reasons why European public sector food procurement contracts tend to be awarded on the basis of 'best value' and 'the economically most advantageous tender' (i.e. low cost), with little or no consideration for the effects on human health and the environment of the entire agrifood cycle [10].

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Some studies on small businesses (SMEs) [11] show that their role as suppliers to public authorities has not only environmental benefits through provision of green products or technology, in particular for the procurement of organic food, but also contributes to local economic development, especially in low-income areas.

SMEs have difficulties in getting their products to the market. Their competitive position is, therefore, weak and the economic situation of the small producers is often insecure. Contracts with institutional customers are potentially important. They provide secure income, and the entrepreneurs can shift the focus from marketing to developing their core activities [12], which also directly contributes to the economic development of the region. Studies [13],[14] find that local businesses recirculate a greater share of every dollar in the local economy, as they create locally owned supply chains and invest in their employees.

The researchers [10] suggested that the EU reforms could improve access to markets for small food producers and SMEs through more opportunities for public sector food procurement contracts. Firstly, simplified rules and procedures should enable public authorities to use more contract 'lotting' where large contracts for food commodities are divided into more manageable lots that make tendering a possibility for SMEs. Secondly, by widening the range of criteria (including environmental, social and labor requirements) through life cycle costing that defines the object of procurement, the reforms could expand how public authorities make decisions for awarding contracts when assessing which tender is the most 'economically advantageous'.

These criteria may deal with overall impacts on regional economy, employment and entrepreneurial activity and on environment as well as various specific quality attributes such as nutritional requirements, packaging size and their recyclability, delivery times and frequency, freshness and eventually organic production thus balancing economic, social and environmental aspects of sustainable development [15],[16].

In the study, the author concludes that the most economically advantageous criterion in Latvia as a mandatory procurement condition was introduced only in 2017, so the impact of these legislative changes on public food procurement will be visible only after several years. Many municipalities in Latvia still believe they are most aware of their needs, so each municipality organizes the same purchases separately and maintains the necessary administrative equipment. Local municipalities who organize small, simpler procurements usually have relatively limited resources to carry out market feasibility studies, develop sophisticated technical specifications, and define and describe the criteria to be considered when assessing the most economically advantageous tender. Hence, it is hoped that the elimination of the lowest price could contribute to closer cooperation between procurers and centralization of procurement.

## II. MATERIALS AND METHODS

The first stage of this study includes a review of articles and a research conducted in areas of the impact of public procurement on regional development, and also of importance of using local food in municipal authorities.

In the second stage of the research, data of food procurements made in Latvia from 2010 to 2018 were collected, and all procurement winners were divided into 4 large categories: agricultural producers, food processing companies, wholesale companies and retail companies. Data analysis was then carried out to evaluate how each group's share in total food purchases varies over the years, and how procurement volumes vary depending on the winner's belonging to the one of the groups previously defined. It was also analyzed whether the structure of procurement winners differs in different NUTS 3 regions of Latvia.

The following research methods were employed to carry out the present research: analysis and synthesis, induction and deduction, the monographic method, statistical analysis and the graphic method.

## III. RESULTS AND DISCUSSION

### A. *The role of local food in regional development*

Food policy is moving fast. Food industry is increasingly being understood as a sector with great potential for regional economic development, if only supply chains linking farmers with customers can include local processors and traders.

Food purchasing and catering services, including those in hospitals, care homes, schools, prisons and state companies etc., represent a significant part of public sector procurement budgets. The dominant economic paradigm has led to a growing focus on market-based green growth strategies to pursue sustainability goals and it is argued that an ecological shift is required in order to create further understanding of how human health is interwoven with the health of eco-systems, and to enable policymakers and practitioners to move towards creating more sustainable food systems and better public health nutrition [9].

Researchers [17] explain that "Local food" refers to genuinely short supply chains, i.e. production, processing and consumption that are geographically close to each other. In addition, the focus is on basic food items of local origin. Supplementing, Finnish Government [18] has defined that local food is locally-produced food that promotes the local economy, employment and food culture of the region concerned, it has been produced and processed from raw materials from that region and is marketed and consumed in that region.

Considering that Latvia is a small country, in this research there is defined that "local food" is food produced and processed in Latvia.

Local food and organic products are increasingly valued by consumers. People are becoming more and

more interested in the origin and production methods of the food they eat. Day-to-day choices are seen as a way to influence the state of the environment and the future of our planet.

The use of local food can be justified for a number of reasons. In addition to the fact that local ingredients can be delivered to kitchens fresher than food produced further away, the use of local food is supported by many ecological, economic and social factors. To increase the use of local food, quality criteria have been defined for different product groups taking into account the principles of sustainable development. The themes can also function as a source of new criteria for the procurement of local food.

Preferences of local food [18]:

- Enhances well-being and the local economy in local municipality
  - generates tax revenues for the region
  - local procurements create jobs and promote entrepreneurship in rural areas
  - food production in the municipality is maintained, which improves the region's food self-sufficiency
- Is safe, clean and traceable
  - when food is bought nearby, you know what you are eating and where the food comes from
  - when transport distances are short, heavy use of additives is not necessary to ensure the storage life of food
- Is an environmentally responsible choice
  - environmentally responsible food includes plenty of locally produced seasonal vegetables, fish and berries etc.
- Promotes the local food culture
  - local flavours, ingredients and food traditions become familiar and are sustained when children learn where their food comes from and who makes it;
- Encourages the use of seasonal products
  - seasonal changes create variety in a diet
  - SMEs have better opportunities to offer their local products.

#### *B. Local food procurement tendencies in Latvia*

In Latvia, since 2014, attention has been focused on increasing the consumption of local food. Improvements in regulatory enactments have been made, which stipulate that green public procurement criteria should be used in food procurement, where one of the criteria, the supply distance, directly contributes to this aim by giving preference to local producers.

In Latvia, public procurement is regulated by the Public Procurement Law of 2017 [19]. On March 1, 2017, the new Public Procurement Law came into force, with significant improvements and amendments to include the requirements of Directives 2014/24 / EU and 2014/25 / EU.

The new Public Procurement Law defines the criterion of the most economically advantageous tender as the main criterion for evaluating bids. The contracting

authority determines it, taking into account the cost or price, the cost and quality criteria, or the price only. The Public Procurement Law states that the contracting authority is still entitled to use the price only as a benchmark for the comparison and evaluation of offers, in cases where the technical specifications are detailed and other criteria are not relevant to the selection of the offer. This does not apply to "small procurements" where the estimated procurement contract price is Euro 10 000 - Euro 41 999.99. In these types of procurement the procurer is still eligible for the lowest price criterion, and this procurement category includes a large part of public procurement by public authorities, in particular where procurement is carried out in decentralized way [20].

It should be emphasized that according to the delegation stipulated by the Public Procurement Law, the contracting authority is entitled not to use the full procurement procedure for food supply contracts, if the estimated contract price of food products is up to 42 thousand euros, which means that not all such food purchases are officially compiled by the Procurement Monitoring Bureau.

On June, 2017, the Cabinet Regulation No. 353 "Requirements for Green Public Procurement and Procedures for their Application" [21] entered into force, which, among other things, requires that food supplies are made in an environmentally friendly way, - by limiting distances which helps to give preference to locally produced or Latvian food.

In order to evaluate the impact of changes in regulatory enactments on local food procurement, the author compiled and analyzed the data of the Procurement Monitoring Bureau on public food purchases made for 2010-2018 [22].

The food procurement winners were divided into four groups: agricultural producers, food processing companies, wholesale companies and retail companies. The study evaluates how each group's share in total food purchases varies over the years, and how procurement volumes vary depending on the winner's belonging to the one of the groups previously defined.

Such an analysis shows the proportion of local producers in procurement, but does not fully reflect on the volume of local production, as it is not possible to obtain data on the share of production which producer purchased from others to provide the necessary volumes of food, and there is no data on the origin of products supplied by wholesalers.

As it can be seen in Fig. 1, the largest number of suppliers remains the wholesale companies that win about 63% of all food procurements. Considering that in most purchases the winner is selected on the basis of the lowest price, the wholesale companies are thus more competitive than other operators. This can be explained by the availability of a highly developed logistics system as well as the availability of warehouses and the fact that a wholesale company can purchase the cheapest product available on the market as needed to ensure order fulfillment.

Interestingly enough, in 2018, despite the various changes in legislation that encourage local producers to engage in procurement, the share of winning wholesale companies is the largest of all years - 70.7%. It is therefore necessary to think about other measures that would stimulate the involvement of local food producers in the public procurement and enable their ability to win. Starting from 2011, when data comparison is possible, it can be observed that the proportion of the winning retail companies decreases every year (from 6.8% in 2010 to 1.1% in 2018). Despite the growing role of supermarkets and hypermarkets, small, traditional stores still hold their own position in the retail market. However, as they are predominantly owned by private entrepreneurs, small stores cannot compete with large retail chains and the number of such stores is decreasing every year. [23], which reduces the number of these companies in food

procurements.

The positive trend also can be observed that the involvement of primary agricultural producers in purchases has slightly increased in recent years (from 3.8% in 2010 to 6.5% in 2018 or by 1.46 million euros). Although there is currently no study on what has contributed to this trend, the author assumes that it is related to educating the purchasers, as a result of which purchases were in most cases divided into lots, dividing the local vegetables and potatoes separately.

However, when analyzing whether there are differences in the structure of winners of public procurement in NUTS 3 regions (Fig. 2), one can conclude that the situation in Pierīga and Rīga region is significantly different from other regions.

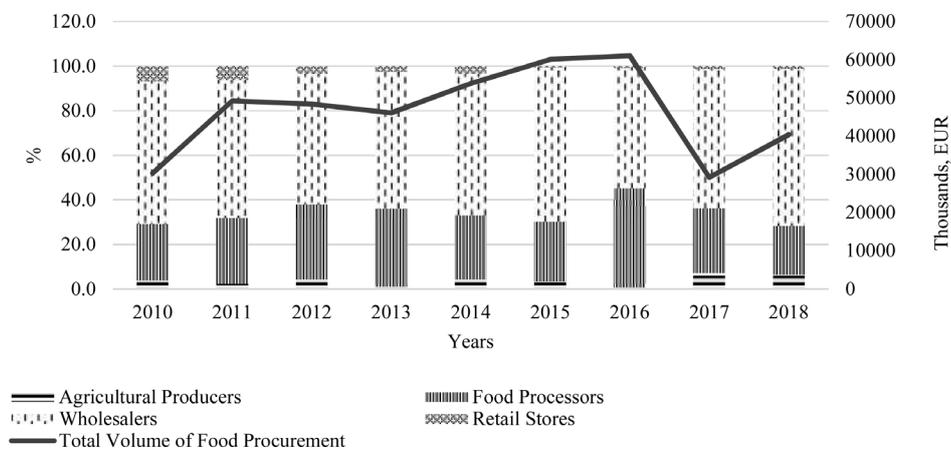


Fig. 1. Structure of local food procurement winners in Latvia in 2010-2018

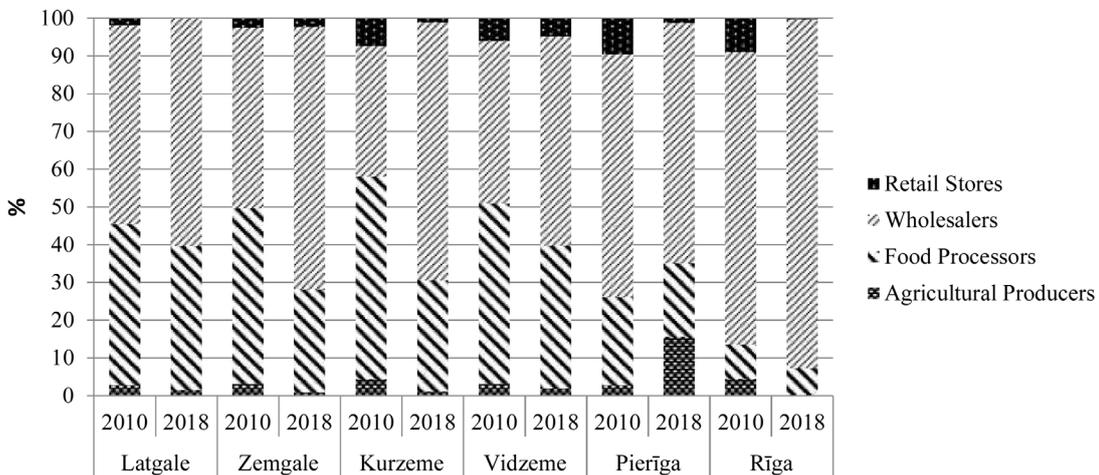


Fig. 2. Comparison of local food procurement winners' structure in Latvian regions in 2010 and 2018

Since Rīga region only includes the capital of the country and the area around it - region of Pierīga, it is only natural that in these regions there is a significant dominance of wholesale companies comparing with other regions.

share of primary agricultural production is significantly higher (on average by 12% higher than in other regions). This is due to the fact that in this region is located the largest chicken meat and egg production company in the country.

When assessing the differences between other regions, they are not overwhelming and can be explained by the concentration of food processing or food producing businesses in one region or another. Thus, there is an atypical situation in Pierīga region, where in 2018 the

In general, when evaluating the structure of the winners of food procurements in Latvia, it should be concluded that it reflects the tendency in the society - to buy food in supermarkets because of convenience and lower prices. Thus, SMEs which, according to the above-

mentioned studies, have a significant impact on regional growth, both through newly created jobs, tax increases and money circulation in the local economy, are also not preferred.

#### IV. CONCLUSIONS

Public expenditure and government procurement have a significant impact on contemporary economic and social development in localities and regions. Consequently, wider socio-economic benefits for communities and regions can be achieved through contracts concluded by municipalities. This includes growth and jobs, fiscal discipline, market access for SMEs and efficiency, also broader policy objectives like sustainability, social inclusion and innovation.

Local food is locally-produced food that promotes the local economy, employment and food culture of the region concerned. The use of local food is supported by many ecological, economic and social factors.

In Latvia, since 2014, attention has been focused on increasing the consumption of local food. Improvements in regulatory enactments have been made, which stipulate that green public procurement criteria should be used in food procurement, where one of the criteria, the supply distance, directly contributes to this aim by giving preference to local producers. Nevertheless the data analysis shows that in 2018, despite the various changes in legislation that encourage local producers to engage in procurement, the share of winning wholesale companies is still very big – 63-70.7%. It is therefore necessary to think about other measures that would stimulate the involvement of local food producers in the public procurement and enable their ability to win.

When analyzing differences in the structure of winners of public procurement in NUTS 3 regions, it can be concluded that the situation in Pierīga and Rīga region is significantly different from other regions, but among another regions, there are no significant differences.

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