THE IMPACT OF THE COVID-19 PANDEMIC ON
CHANGES IN COMPETITIVENESS
IN THE PUBLIC PROCUREMENT SYSTEM

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Abstract

The aim of the article/hypothesis: The impact of the pandemic on the European and global economy is unquestionable. The question is how the epidemiological situation has affected the European public procurement system. The study was limited to assessing the changes in the structure of the procedures used to award public contracts and the possible effects of a lack of dynamics in this respect. The aim of the work is to observe the effects of changes in the structure of tendering procedures and to identify other phenomena in the public procurement system, caused by the pandemic.

Methodology: Taking into account the diversity of national solutions in the field of public procurement, resulting both from the legal systems and national practice, an analysis of awarded public contracts was carried out, with particular emphasis on the domestic market. The research was conducted in the direction of determining the changes in preferences of selecting non-competitive procedures, new possibilities of awarding contracts and the analysis of changes in the preferences of the non-competitive procedure on the European Union market. The tools used for the analysis included basic statistical measures and the non-parametric Mann-Whitney test.

Results of the research: As a result of the analysis, it was found that there was a statistically significant increase in the share of the non-competitive procedure on the European market. The observation of individual national markets shows that in some Member States there has been a decrease or a very limited increase in the non-competitive mode. This may result from ad hoc legal changes and means that an unknown number of contracts of unknown value was awarded outside the control of the monitoring of the public procurement system.

Keywords: public procurement, competition, reporting, pandemic, statutory exclusions.

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INTRODUCTION

Public procurement in the European Union is a market with an average annual value of approx. EUR 2.3 trillion. In the national dimension, public procurement oscillates at the level of PLN 200 billion. The importance of such a large financial stream for the economies of the EU Member States was reflected in Community regulations, in particular in Directive 2014/24 / EU of the European Parliament and of the Council of February 26, 2014. One of the basic principles, covering the entire EU public procurement market, is the principle of competition, which stipulates equal and non-discriminatory treatment of economic operators. This principle has practical meaning from two different points of view. The first one, focusing only on the contract itself, where the competition provides the contracting authority with the most advantageous terms of the contract. The second one, no less important than the first, makes it easier for contracting authorities to stay on the market, especially in the conditions of a downturn in the private sector, limiting the risk of the entrepreneur’s bankruptcy resulting in a decrease in budget revenues and an increase in unemployment.

A disturbance in the system caused by the intentional exclusion of some entities from the public procurement market, may consequently lead to an increase in prices, unemployment and a decrease in public revenues. Maintaining the balance, by implementing the principle of competition, automatically regulates the market on which the contractor and the ordering party operate.

The aim of the paper is to observe the effects of changes in the structure of tender procedures and to identify other phenomena caused by the pandemic in the public procurement system.

Most of the theoretical assumptions in practice encounter barriers, which deform the expected effects to a varying degree. It is important that such a deformation has a negligible impact on the economic reality. Public procurement is not an exception in this respect, and the possibility of derogating from the rules, including competition, is defined in the EU directives and national legislation. This means that apart from pathological behaviors resulting from failure to respect applicable law, there are systemic solutions sanctioning the exclusion of the principle of competition when awarding public contracts. Summing up, it can be stated that in the practice of public procurement, deviation from the principle of competition may occur as a result of:

- occurrence of the premises for the application of the non-competitive procedure, specified exhaustively in the Public Procurement Law (Journal of Laws 2019.1843, i.e.) (PPL),
- an intentional decision of the contracting authority inconsistent with the applicable law,
– misinterpretation of the premises for the application of non-competitive procedures.

According to the EU and national institutions, the level of pathology in the public procurement system and corruption in the Member States remains at a constant level and the dynamics of changes in this respect is very limited. In the assessment presented in 2020, as in the previous years, the CPI in the countries assessed did not change significantly, Poland ranks 49 out of 183 in the surveyed countries, with a significantly better score than, for example, Italy, Greece, Spain, Hungary (www1).

The very limited and constant influence of pathology on the dynamics of changes in competitiveness, perceived through the participation of non-competitive modes, enables the observation of possible effects of legislative changes. The study attempts to identify those changes which were directly caused by the pandemic.

**1. PUBLIC CONTRACTING PARTY**

In a free market economy, there will be significant differences between public and private procurers. They result from the method of financing the entity and, perhaps most importantly, from the principles of remunerating their employees. A private entity, natural or legal person, operating in the free market, must maintain financial liquidity, and the earnings of their employees may be related to their financial result. They focus mainly on multiplying their assets in a free competitive game. Conducted scientific research concentrated on public procurement, adopting the dogma that practices in public procurement and private purchasing largely overlap (Kolchin, 1990: 30–31) and constitute a subset of purchases in the private sector (Wang and Bunn, 2004: 87–90), caused that the conducted analyzes did not bring the expected results (Rhode, 2019: 24).

The main difference is that public finances are inextricably linked to the administrative compulsion to raise funds and the administrative mechanism of their allocation. The elimination of market instruments, while spending public funds, in conditions of generating demand for widely understood supplies and services, introduces a threat in the form of abuses, embezzlement and corruption. Unlike a private entity, the public entity has guaranteed financing and the earnings of employees, including management, do not depend on its financial result. The assessment of the management of a public entity is conducted in terms of the implementation of public tasks rather than financial efficiency (Szymański, 2015: 309–310). When assessing public entities, it is common to ignore their economic effectiveness and focus only on achieving the goals for which the entity was established. A vivid example of such an approach was the concentration of media
attention and the interest of public institutions on the deadlines for completion of road investments related to the preparation for EURO 2012, and not the costs of project implementation. Social expectations related to the timely completion of the investment caused such great emotions that there was even a conflict in the interpretation of the PPL between the Public Procurement Office and the National Chamber of Appeal, i.e. the main institutions guarding the legal order in the area of public procurement. In the example cited, two public institutions interpreted the conditions for awarding a contract with the exception of the principle of competition, Resolution of the National Appeals Chamber at the President of the Public Procurement Office of 6 August 2010 (KIO/KD 58/10). Today, traces of this decision are absent on the PPO server, which allows access to the Resolutions from 2014 at the earliest.

Public awarding entities, defined in the EU Directives as classical awarding entities, from the point of view of their financing rules, can be divided into two groups. Employers who receive tranches of funds from the budget (state or municipalities) (public administration, army), i.e. funds guaranteed by law, and awarding entities financed on a quasi-free market, incidentally co-financed from the budget (e.g. public hospitals). It should be added that the obligations of both groups of Contracting Parties are borne by public finances.

Due to the way in which the tasks are performed, there are contracting entities that carry out the commissioned tasks independently, with very limited outsourcing (public administration, army, public hospitals), or which are only an intermediary between the budget and the contractor, commissioning external companies to perform public tasks (General Directorate for National Roads and Highways).

The very limited concentration of people responsible for the public entity, on its financial result, forced the introduction of administrative regulations. One of the most important is the Act of January 29, 2004, Public Procurement Law (Journal of Laws of 2004, No. 2019 item 1843 i.e.) (PPL) defining the rules of awarding public contracts, securing the public interest and at the same time ensuring transparency of decisions made by persons responsible for spending public funds. Detailed instructions, which can be defined as algorithms, including the definition of procurement procedures, together with the rationale for their use, facilitate the assessment of activities undertaken by public entities, eliminating the subjective approach to rational spending of public funds.

The administrative rules for the disbursement of public money are an inextricable reality of all market economies. In the European Union countries, national solutions are based on the guidelines set out in EU Directives. This means that the laws of the member states must comply with their provisions, which does not mean that they must be identical. Practice confirms a great variety of legal solutions of the EU member states. Despite this diversity, in all Member States,
procurement involves five different phases: planning, opening a tender, evaluating a bid/offer, awarding the contract, and contract administration (Koch, 2020: 14). These phases always occur, but their contribution to the overall process is variable and depends on the type of procurement, value and procedure chosen.

2. ADHERIVE SYSTEM CHANGES COUNTERACTING THE EFFECTS OF THE PANDEMIC

The PPL formulates three basic principles of awarding public contracts, the principle of competitiveness (Andala-Świękowska and Beresko, 2018: 44), transparency and proportionality (Pokrzywniak et al., 2006: 6). Despite the lack of direct articulation in the current legislation, practice shows that the principle of competition is the overriding principle. This is the case because disabling this rule automatically disables the other two. The principle of transparency or proportionality can be excluded individually or jointly without affecting competition.

The variety of the contracting authorities’ needs, the socio-economic conditions in which these needs arise, the originality of solutions needed by the contracting authority or the location of the real estate purchased, in certain circumstances exclude the principle of competition. Likewise, the need to award the contract without delay entails the exclusion of this rule. Taking into account the above circumstances, community regulations allow the use of procurement procedures in which the principle of competition is limited or completely excluded. By implementing the provisions of the directives, the national legislator introduced to the procurement system, in addition to the modes limiting the principle of competition, such as e.g. negotiation without publication, also the single-source procurement procedure, which completely excludes the above-mentioned rule.

The practice of applying competition-restricting procedures indicates that awarding entities, having the option to limit competition, do not choose intermediate solutions, but use the single-source procurement procedure, consisting in conducting negotiations with only one contractor of their choice (UZP, 2021: 34). This tendency results from the fact that the free-hand mode does not require the time-consuming preparation of tender documents, the Specification of Essential Terms of the Contract and the contract notice (Korporowicz and Nowak, 2013: 61). The activities of the contracting authority are limited to the preparation of the contract template and negotiations, and the deadlines for awarding the contract are determined by the contracting authority, which is not bound by anything. This procedure enables the immediate award of the contract. The popularity of the single-source ordering procedure is confirmed by many years of observation of the ordering system, as shown in Chart 1. The chart omits other modes, the total share of which does not exceed 5%.
The legal conditions for choosing a non-competitive procedure in the EU and national legislation have evolved many times. When assessing the introduced changes, it can be stated that over time, the legislator made the law more flexible by expanding and modifying the range of exclusions. Despite the introduced amendments (Journal of Laws 2021.1129), i.e. from the beginning of the entry into force of the PPL Act, there is a premise, which is an *objective situation that the Employer could not foresee*. The emergence of the pandemic in early 2020 was undoubtedly an unpredictable event. The unpredictability of the event and the necessity to conduct remedial actions in connection with the new reality indisputably fulfilled the premise that has been included in the PPL since 2004.

Pursuant to the letter of the Public Procurement Law, in connection with the pandemic, the contracting authority was entitled to depart from the principle of competition in order to award the contract immediately due to an exceptional situation not resulting from reasons attributable to it. The contracts could be awarded immediately, on the same day, and the only obligation of the Ordering Party was the reporting consisting in sending the contract award notice by filling in an interactive sheet on the internet platform. It can be stated that the act provided for emergency situations, in which immediate action could be taken in accordance with the law.

On March 8, 2020, the Act of March 2, 2020 on special solutions related to the prevention, prevention and combating of COVID-19, other infectious diseases

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![Chart 1. Share of the most popular modes of awarding contracts in 2015–2020](image-url)

*Source: own study based on: Report of the President of the Public Procurement Office on the functioning of the public procurement system in 2020.*
and the crisis situations caused by them was introduced into the national legal order (Journal of Laws 2020, item 374) (COVID Act).

In the original version of the legal act introduced in Art. 6, all orders for goods or services necessary to counteract COVID-19 were excluded. In this case, the legislator did not adjust to the nomenclature that they themselves introduced in the public procurement system. The EU nomenclature distinguishes three types of contracts: services, supplies and works. The introduced intention or not the concept of goods gives the possibility of a different interpretation of the subject of the contract. The exemption was introduced for a period of 180 days. In parallel with the introduced art. 6 act in Art. 25 (4) introduces Art. 46 c to the Act of 5 December 2008 on the prevention and combating of infections and infectious diseases in humans (Journal of Laws 2020.1845), i.e. (the OZZ Act), enabling the award of contracts without any object-related restrictions, de facto granting contracting authorities wider powers than the aforementioned Art. 6, which did not include construction works. The regulation is valid to this day (23.09.2021).

As a consequence, in the domestic legal system, the regulations contained in the PPL, due to a pandemic, could have been omitted pursuant to Art. 6 of the COVID Act or Art. 46c of the OZZ Act.

3. EFFECT OF THE STATUTORY EXCLUSIONS CAUSED BY THE PANDEMIC ON THE STRUCTURE OF THE ORDERS AWARDED

Economic efficiency, which, due to the multidimensionality of economic phenomena, can only be estimated, is also examined in public procurement. Taking into account the most important parameters, it can be determined whether the effect of conducting a public procurement procedure brings a financial benefit. By adopting the same methodological assumptions in different periods of time, it can be objectively verified whether there is an improvement in the effectiveness of public contracts in the market under investigation (Szymańska and Szymański, 2019: 320). A prerequisite for such an analysis is awarding contracts on competitive terms. In research practice, competitiveness is measured by the number of bids submitted for one order. At the same time, it does not mean that in procedures open to competition, in which only one offer has been submitted, efficiency cannot be tested. The only case in which the study of economic efficiency is not possible, is the award of the contract by single source, i.e. the choice of a non-competitive procedure. This is one of the most important reasons for using the mode only in exceptional situations. In the procurement procedure, the contractor has full knowledge of the procedure in which the contract, for which it is applying, will be awarded. In the case of open procedures, the bidder is forced to take into account the conditions offered by potential competitors, calculating
the offer in a way that allows the presentation of the most favorable terms of the contract. Such a procedure makes it possible to obtain prices lower than market prices because the condition of full knowledge of the quantities and prices offered by all contractors operating on the same market is not met.

Regardless of the procedure for awarding the contract, all expenses granted on the terms specified in the PPL Act are recognized by systemic monitoring. It allows to define, inter alia, value, quantity, modes and subject of the contract. It enables to analyze the expenses cross-sectionally, in various perspectives depending on the researcher. It is possible to define expenses in an aggregated manner, individually for a selected contractor or subject of the contract. The expenditures realized in this way are under strict systemic and social control. In general, the management of public institutions, due to the source of financing activities, is associated with a reduction focusing on the way of spending funds, which may lead to „waste of resources” (Brzozowska, 2011: 20). Procurement monitoring is to limit this phenomenon (OECD, 2019: 24).

The problem in monitoring public procurement appears when the PPL Act is systematically excluded. The public entity may be inspected in terms of the rationality of spending funds, but the analysis may only be carried out in relation to a selected unit. The possibility of carrying out a systemic assessment is lost. In particular, the opportunity for remote downloading information from the market, which, after analysis, may indicate entities that should be inspected, is missed.

In the practice of the system’s operation, each awarded contract leaves a trace in the monitoring system, which, among other things, enables a selection of contracts awarded through a single source. Such selection makes it easier to learn about the conditions for awarding the procedure, the value and the subject of the contract remotely, without the participation of the entity that awarded the contract. In the case of indications for control, it can be carried out by providing documentation to the controlling institution.

In the event of suspension of the law, the above analysis is not possible. Due to the number of contracting authorities, 32,958 in 2021, in practice it would be possible to conduct research only on the basis of mathematical statistics tools, which involves a need to take a random sample, time-consuming and costs related procedure to directly reach the controlled entities. Observation of phenomena through the prism of data obtained from statistical analysis may be difficult and costly, and the burden of error, which is an inherent feature of this method, may turn out to be useless with limited changes in the measured measures.

Summarizing the consequences of changes in the legal system in the era of a pandemic, three models of awarding contracts with immediate effect can be distinguished:
– statutory procedure, single-source order, covering the full range of orders,
– awarding a contract without the Public Procurement Law Act, using the six-month entitlement provided by the COVID Act in Art. 6, with the exception of construction works,
– awarding contracts without the Public Procurement Law Act, exercising the power provided by Article 46 c of the Collective Labor Agreement Act, covering the full scope of contracts.

Observations of the preferences of ordering parties described in system analyses and scientific publications can be related to the principle defined by the Copernicus-Gresham law (Dmochowski, 1923: 61). Regarding to money, it has been observed that inferior money (of the same denomination, but of inferior gold) displaces the better, which is thesaurized. With regard to public procurement, the following rule can be formulated: If the legal regulations allow for awarding the contract in an uncomplicated manner, then despite the possibility of choosing alternative, potentially more effective procedures, the simplest method will be chosen. The reluctance of awarding entities to undertake additional administrative activities, not enforced by law, is described very widely in the literature (Borowicz, 2011: 19–21).

The own research covering the period before and during the pandemic, using the data archived on the European Union website, shows that the different legal systems of the Member States affect the participation of the single-source procurement procedure in an emergency, such as a pandemic, in extremely different ways. The share of the single-source procurement was observed in two periods presented in Chart 2. The first research period covered contracts awarded under the single-source procurement from 01.01.2019 to 28.02.2020, the second from 01.03.2020 to 28.02.2021. The list of countries for which the analysis was presented was generated automatically by the European Commission website.

The collected data presented in Chart 2 was subjected to statistical analysis in order to identify changes that occurred on the European Union market. In order to show statistically significant differences in the shares of the non-competitive procedure in total procurement in the analyzed periods, the non-parametric Mann-Whitney test was performed. The parametric test was not performed due to the failure to meet the normality condition of the compared distributions. The analysis carried out on the basis of the IBM SPSS statistical package, at the significance level of 0.003, indicated that there was a significant change in the share of the non-competitive mode on the European market. The average share of the non-competitive mode in the period before the pandemic was 7% and 18% during it. This means a significant increase in the share of the non-competitive mode, amounting to 11 percentage points. In Poland, the increase was only 2.27 percentage points, which indicates a very limited impact of the pandemic on the degree of non-competitive mode use.
Chart 2. Share of single-source procurement in total procurement in European countries in the period before and during the pandemic.

Source: own research based on: data from Tender Electronic Daily (TED) (www2).
Own research conducted in the area of public procurement, despite the deteriorating availability of data, indicates a very large differentiation of the Member States in terms of preferences for choosing the non-competitive mode during the pandemic. The observation of the national system, in which the share of the single-source procurement procedure has not changed significantly, does not mean that the number of contracts awarded without the principle of competition has not increased. Perhaps, also in other markets, where changes are insignificant, ad hoc legal solutions only veiled the increase in the number of orders. A rapid increase in the share of the non-competitive mode in a pandemic would be a natural phenomenon.

**SUMMARY**

Social and institutional expectations regarding all kinds of facilitation, especially in times of crisis such as a pandemic, are obvious. They appear in various areas of economic and social life. In the case of public procurement, awarded by specialized units of public entities, undoubtedly such expectations also occurred. Broad social expectations become a social pressure directed towards the legislator. As a consequence, in the national legal system, with the possibilities offered by the single-source procurement procedure, additional regulations were introduced to limit the transparency of public expenditure. Their introduction is and will be debatable.

In the absence of measuring instruments and sometimes data, a change in the system can be observed indirectly. In the analyzed area, it can be assumed that if, under objective conditions, forcing additional contracts to be awarded urgently, there was no rapid increase in the share of the single-source procurement procedure, it means that the contract was awarded outside the public procurement system. The lack of a sharp increase in the structure index describing the share of single-source procurement indicates that contracts were awarded with the exception of the application of the PPL Act.

By law, the Public Procurement Office is obliged to monitor the national public procurement system. It presents the main aggregate market data in its annual reports. These data are presented on a year-to-year basis and do not contain or enable an analysis of orders, e.g. in terms of their economic efficiency or competitiveness on a selected market. Extended analyzes are carried out as part of own research of people interested in the functioning of the public procurement system. The condition for their conduct is access to data on awarded contracts. In terms of contracts awarded without the Public Procurement Law, it is impossible to conduct any research in terms of the entire market. This is due to the lack of accessibility not only to individual researchers, but also to institutions controlling
public expenditure. Control and analysis can only be carried out selectively, within the framework of public entities selected for control.

In the report for 2020, the President of PPO presented data on the public procurement market. He also presented data on orders in which the exclusions specified in the COVID Act were applied, for the total amount of 105 million zloty. As the PPO is the only administrator of data in the above scope, one can only acknowledge the information provided. According to the description, it appears that the data comes only from the database of subliminal orders (orders that, due to their low value, may not be published on the European Commission website in TED). Indication that the information was collected from contract notices means that they did not apply to contracts which omitted the provisions of the PPL Act. It is from the content of the act that the obligation to submit contract award notices arises. It cannot be ruled out that some contractors, out of fear of control, awarded the contract directly, justifying the procedure with the COVID Act. No quantitative data was provided regarding the exclusion of the application of the Act under Art. 46c of the OZZ Act.

The above considerations lead to two conclusions. Firstly, the structure of the awarded contracts has not changed despite objective indications leading to its change; secondly, outside the public procurement system, an unknown number of contracts of unknown value for an unknown material scope were awarded. It is a direct consequence of introducing facilitations, in a situation when system solutions did not require such facilitations. The effects of political actions always appear with a certain time delay, therefore it is difficult to say whether they were deliberate or accidental.

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