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# Assessing the Potential for Local Procurement as an Economic Engine

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*An Analysis of Public Anchor  
Institutional Spending in  
Atlantic Canada*



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CENTRE FOR LOCAL PROSPERITY  
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The Centre for Local Prosperity supports public sector and other anchor institutions through the process of mapping out and exploring the potential for re-localising a portion of its non-local spend, including the specifics of spending analysis, supplier matching, compliant tendering language and building dense local supply chain infrastructure.

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## Executive Summary

In 2018, the Centre for Local Prosperity (CLP) released a report entitled ***Import Replacement: Local Prosperity for Rural Atlantic Canada***, which documented a 40% overall economic leakage rate for Atlantic Canada. As one outcome from this study, CLP studied the potential economic effects of localizing a portion of the annual procurement spending of large public-sector anchor institutions in the Atlantic Canada region. During the course of this subsequent study (conducted from 2019 through 2020), CLP engaged with five public-sector institutions in Atlantic Canada and analyzed their current spending practices to gauge the potential for reducing economic leakage through greater local procurement.

An institution's possible role as an economic engine for their local economies has been validated by current success stories in the UK and USA such as the "Preston and Cleveland Models". Not only can a greater portion of public-sector local spending provide a direct economic stimulus, but spending with locally-owned businesses provides proven higher multiplier effects on local re-spending.

Historically, centralized procurement services focused on cost savings, time efficiency, group or bulk purchasing and aggregating procurement into fewer but larger contracts. Trade agreements, internal policies and complex tendering processes have tended to favour larger non-local suppliers that can bid successfully on larger aggregated contracts. This evolution has made it difficult to find and engage smaller local suppliers.

In addition, the perception that local procurement is not possible due to trade agreements is giving way to the realization that there is considerable flexibility in these agreements. Procuring institutions can revise evaluation and scoring criteria to require community outcomes from all bidders. Purchasing can occur below threshold limits or can utilize criteria that are exempt from these agreements, such as spending for non-urban economic development, local food or from social enterprises. These strategies create long-term taxpayer value by increasing in local economic activity and social benefits. Through a spending analysis, prudent institutions can identify their "influenceable spending" that can shift to local suppliers.

The names of the five institutions that were studied, as well as their specific spending information, are not detailed herein due to confidentiality. Nevertheless, non-confidential aggregated results are presented for four of the five institutions. Two mid-sized post-secondary educational institutions reported a leakage rate (i.e. spending occurring outside of their province) of 59% and two mid-sized municipalities reported a leakage rate of 25%. A 10% shift to local procurement represented an average of \$2.8 million per year for each of the

*Every institution is an economic engine. The only question is for who and where.*

Nate Stephens,  
Democracy  
Collaborative

educational institutions and \$1.8 million per year for each of the municipalities, representing potential new economic stimulus into their local economies.

There could be a significant economic impact to our regional economies if many educational institutions, municipalities and other public sector anchors within the region adopted a strategy for a small local shift in their procurement practices.

There are a number of types of local suppliers that can serve the needs of an institution. These suppliers are either capable 'as is', they may need to scale or upgrade to capacity, or they could cooperate with other similar suppliers to quickly gain needed capacity. It may require a multi-year effort on the part of an institution to build responsive, local supply chains, related infrastructure and internal mechanisms for tracking their local spending progress.

In a more integrated context, 'Community Wealth Building' is a global trend that reorganises local economies so that wealth is not extracted but redirected back into communities through locally productive forms of business. These "generative" businesses are firms in which the wealth created is shared between owners, workers and consumers, allowing wealth to flow to local people and places. An integrated Community Wealth Building strategy includes: utilising public sector procurement to develop local supply chains; increasing flows of investment within local economies by harnessing the wealth that exists; deepening the function of local assets held by anchor institutions; exercising fair employment practices; and growing locally owned enterprises which are more generative for the local economy - in effect locking wealth into place.

The results of this study identify the potential for re-localizing procurement which can form a basis for the development of new innovative procurement strategies by regional institutions. Greater public sector reliance on local production of goods and services could not only be a vital response to uncertain changes in global markets, but also represents an innovative, yet obvious strategy for local economic and social development. When placed in the context of Community Wealth Building, public-sector institutions can act as a potent engine for generative and resilient local economies.

## Study Overview

In January 2018, the Centre for Local Prosperity (CLP) released the study *Import Replacement: Local Prosperity for Rural Atlantic Canada*.<sup>1</sup> The study identified an economic leakage rate of 40% overall for the Atlantic Canadian provinces -- that is, four out of every ten dollars spent leaves the economy. This leakage rate represents both the trade-deficit based economic fragility of the region, as well as the significant opportunities that can be obtained from import-replacing developments in most sectors of the economy.

As an outcome of this study, two things became apparent. The first was that the fastest gains for 'plugging leaks' in the regional economy can be obtained from localizing more of the procurement buying done by public sector institutions, such as health care systems, universities, colleges, municipalities and other public entities. The second was that there are already well documented success stories for this strategy in both the USA and the United Kingdom. These successes show the way for adopting progressive procurement practices in Atlantic Canada.

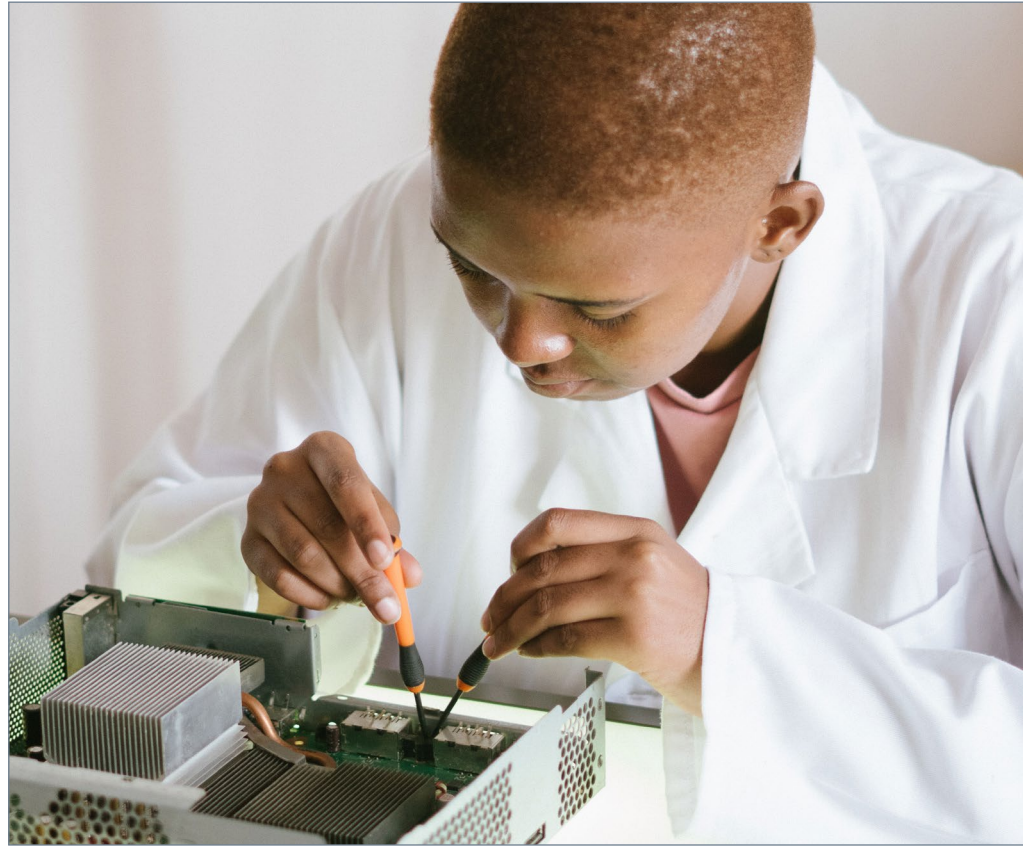
Each public sector institution in Atlantic Canada is spending tens or hundreds of millions of dollars annually for their procurement needs. In actuality, they are acting as robust economic engines - the only question is for whom and where. Unfortunately, the majority of this procurement spending occurs outside of the region. Localizing even a portion of this institutional procurement spending could provide an actionable basis for making rapid gains in local economic stimulus, without having to allocate any new funds for this purpose.

Recent global supply chain disruptions caused by COVID-19 have dramatically underscored the strategic importance of locally-buffered and self reliant economies. Due to the exposed fragilities of just-in-time long-distance supply chains, globalization would appear to be giving way to strong interest in localized sourcing for local needs as a means to buffering business activity against global shocks.

For these reasons, the Centre for Local Prosperity continued its important research work on the re-localization of community economies through this current study. During the course of this study (conducted from late 2019 through 2020), CLP engaged with five institutions in Atlantic Canada and analyzed their current spending practices. Specific results, and the names of the institutions are not detailed herein due to confidentiality agreements with them. Nevertheless, non-confidential aggregated results are presented. The results of this study identify the potential for re-localizing procurement which can form a basis for the

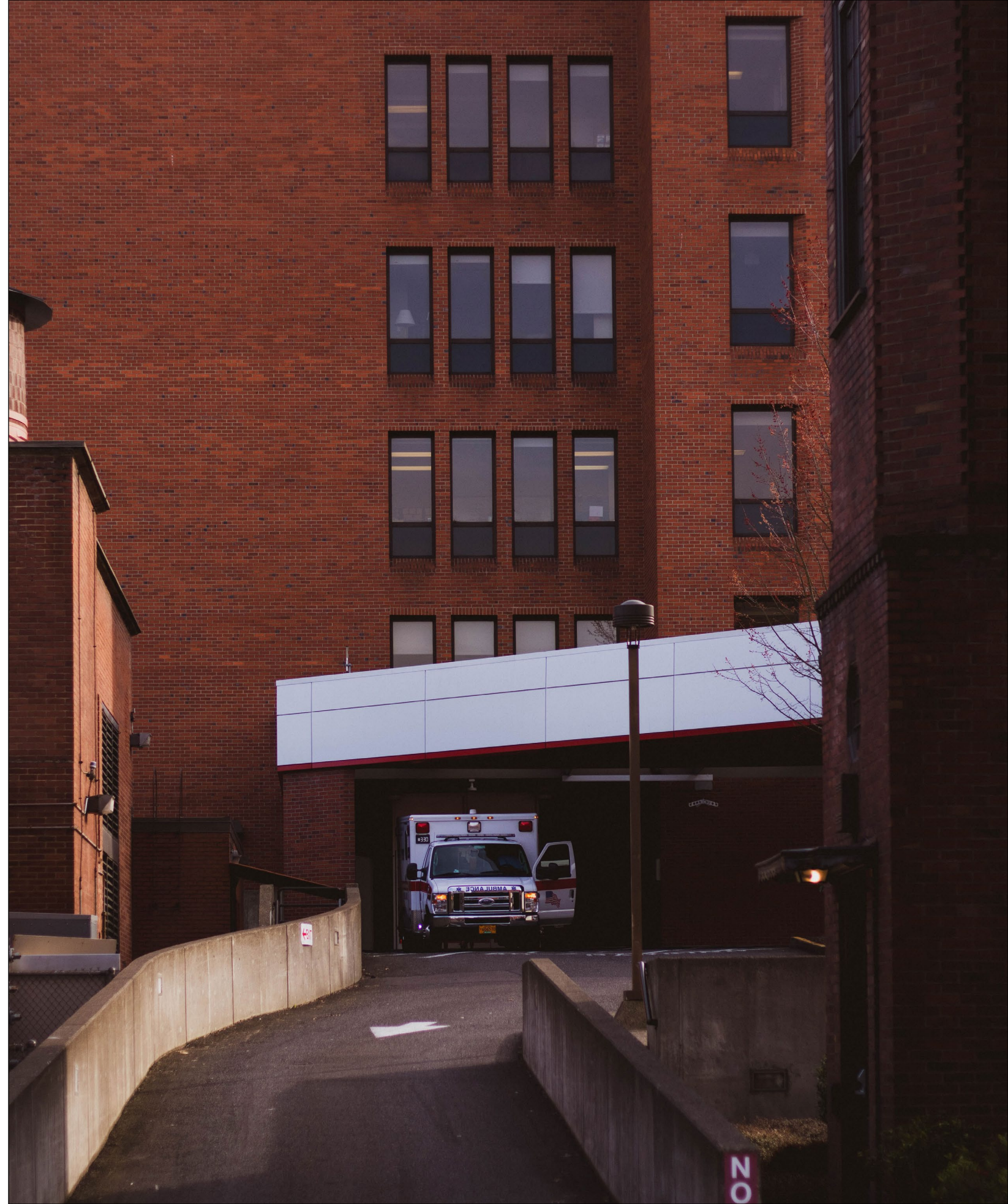
<sup>1</sup> <http://centreforlocalprosperity.ca/import-replacement/>

*Is it time to switch from “just in time” to “just in case” supply chains?*



development of new innovative procurement strategies by regional institutions.

This study shows the tremendous value in localizing procurement for the Atlantic region, while providing excellent examples from the US and UK, as well as lessons from COVID-19. The study examines the shifting procurement culture which recognizes the flexibility within trade agreements. Finally, this study provides lessons from Atlantic Canada institutional spending patterns and the large potential effects of small 5-10% shifts in spending. Greater public sector reliance on local production of goods and services could not only be a vital response to uncertain changes in global markets, but also represents an innovative, yet obvious strategy for local economic development.





# Value of Localizing Procurement

## *Local Business Equals Higher Multiplier Effects*

Governments and the “anchor institutions” they fund (e.g. education, health, corrections facilities, etc.) spend billions of taxpayer-funded dollars each year on every kind of good and service. Notable procurement (i.e. non-payroll) categories include: construction, transportation, food, energy and professional services. Traditionally, procurement officers have focused on three factors — quality, risk, and price — to make their purchasing decisions. In more recent years, environmental concerns such as efficiency, waste reduction, and carbon footprint have entered into the mix.

It has only been fairly recent that concerns around local economic impact have come into play, inspired by the experience of the Cleveland University Hospital System and the City of Preston (UK), and the leadership of the Atkinson Foundation. Where anchor institutions spend their money can have a dramatic impact on local employment and business growth, such that even a 10% shift to local suppliers can be very meaningful. Indeed, when six anchor institutions<sup>2</sup> in the City of Preston, UK (population: 140,000) shifted just 13% of their combined annual procurement to local vendors, the result was the retention of £75 million (\$130 million CAD) per year within the City’s economy, contributing to Preston being named the “most improved city in the UK” by PricewaterhouseCoopers in 2018<sup>3</sup>. Consider the possibilities for Atlantic Canada, a region with combined annual provincial economic spending of over \$32 billion.

When an institution imports a good or service that it could have cost-effectively sourced locally, it “leaks” dollars out of the community that could have gone to local businesses. A large body of evidence shows that because locally owned businesses tend to purchase their goods and services locally, they can generate higher multiplier effects than non-local businesses. Non-local procurement represents a loss not only for a local business, but also the loss of the associated “multiplier” benefits that local businesses bring to an economy such as knowledge, skills, tax payments, charitable giving, revitalized downtowns, more tourists, stronger civil society, and more political participation.

More than a dozen studies have documented that, because of the “multiplier

<sup>2</sup> The six institutions that have participated in Preston’s re-localization initiative include: Preston City Council and Lancashire County Council, the Lancashire Constabulary, Preston’s largest social housing association (Community Gateway), Preston’s College, and Cardinal Newman College. (Source: <https://thenextsystem.org/the-preston-model>)

<sup>3</sup> Source: <https://www.theguardian.com/politics/2018/nov/01/preston-named-as-most-most-improved-city-in-uk>

effects,” every dollar spent on a locally owned business creates 2-4 times more jobs and other economic benefits than a dollar spent in a similar non-locally owned business<sup>4</sup>. Over reliance on imports also makes it harder to create the diversified base of local businesses and skills as a procurement option for an institution.

As a generalization from multiplier effect studies done to date across North America, every \$1.00 spent in a community generates the equivalent of \$1.20 to \$2.00 of economic activity, or a multiplier of 1.20 to 2.0 times. Locally owned businesses will score on the higher end of this range, nonlocal businesses on the lower end of the range. A local business could potentially generate four times the impact of a nonlocal business. For example, a local spend (\$0.80 out of \$1.00) is four times greater than the nonlocal spend (\$0.20 out of \$1.00).

During this study, the Centre for Local Prosperity administered surveys to vendors used by several institutions within Atlantic Canada. From the responses of vendors local to that region, it was determined that a total proportion of \$0.40 out of every contract dollar was re-spent within that county on their local payroll and supply chain. An additional \$0.38, (a combined total of \$0.78) out of every contract dollar was re-spent within that Province. This is equivalent to a multiplier rate of 1.78 times for every local contract dollar. A comparison to non-local multipliers was not available from this data.

## *Success Stories from Our Neighbours*

In conducting this current study, the Centre for Local Prosperity has had the opportunity to partner with and learn from two organizations managing some of the most significant local procurement experiments in the world - the Centre for Local Economic Strategies, UK and the Democracy Collaborative, USA.

The Centre for Local Economic Strategies, or CLES, ([cles.org.uk](http://cles.org.uk)) works to develop local ownership and local supply chains, with key public, commercial and social anchor institutions to facilitate these outcomes. Under their Community Wealth Building Initiative, they seek to provide resilience where there is risk and local economic security where there is precarity. They also undertake work that ensures that social value and well-being is embedded into their strategies to shape how decisions are made.

This work includes ten years of collaborative activity with [Manchester City Council](http://manchester.gov.uk) where they have continuously measured the impact of procurement spend upon the Manchester and wider Greater Manchester economies and monitored the extent to which suppliers contribute to wider outcomes.

It has also included work undertaken with the Association of Greater Manchester Authorities where they have developed and monitored against a [Social Value Procurement Framework](http://socialvalueprocurementframework.org) which outlines the types of wider outcomes which are being considered in commissioning procurement and wider delivery.

<sup>4</sup> Local Dollars, Local Sense, 2012, by Michael Shuman, pages 17-25

Finally, it has included work in [Preston, UK](#) which has sought to understand and harness the existing wealth of 6 anchor institutions to develop more effective anchor institution-to-business relationships.

The Democracy Collaborative ([democracycollaborative.org](http://democracycollaborative.org)) works to carry out a vision of a new economic system where shared ownership and control creates more equitable and inclusive outcomes, fosters ecological sustainability, and promotes flourishing democratic and community life. The Democracy Collaborative has been instrumental in designing and implementing the groundbreaking ‘Cleveland Model.’

In the Cleveland model, the University Hospitals Health System that drove the project announced a USD \$1.2 billion facilities expansion in their Vision 2010 initiative. There were three core commitments which shaped the implementation of the initiative:

1. Including as many local minority- and female-owned businesses as possible;
2. Achieving an economic multiplier effect by directing as much spending as possible toward businesses based in the City of Cleveland and the greater Northeast Ohio region; and
3. Producing lasting change in Northeast Ohio by pioneering a “new normal” for how business should be conducted by the region’s large institutions.

The Health System was pleased to announce in their [report](#) the following key outcomes:

- Contracts awarded to women-owned enterprises – target 5%, result 7%
- Contracts awarded to minority-owned enterprises – target 15%, result 17%
- Good and services procured from local and regional firms – target 80%, result 92%
- Construction workers who are city residents – target 20%, result 18%

A key component of CLP’s relationship with the Democracy Collaborative is CLP’s opportunity to learn about adopting best practices for working with health care systems, anchor networks and in determining local suppliers.

The Democracy Collaborative is a national leader in the Community Wealth Building Initiative, sustaining a wide range of advisory, research and field building activities designed to transform the practice of community/economic development in the United States. They are known for their research and advisory services, as well as informing public policy, promoting new models, driving strategies, and establishing metrics to advance the field.



Photo courtesy of Democracy Collaborative

*Institutions in Atlantic Canada are now recognizing the enormous monetary power in their purchasing decisions*

# Trade Agreements and Tendering Protocols

## *Procurement Culture and Myth Busting*

As institutions have grown in size, complexity and centralized organization over the past decades, the procurement profession has had to adapt to these changes. With a tendency towards centralizing procurement services, there has been a focus by procurement staff on cost savings, time efficiency, group or bulk purchasing and aggregating procurement into fewer but larger contracts. Also during this time, the advent of trade agreements, internal policies and increasingly complex tendering processes have tended to favour larger non-local suppliers with the resources required to navigate the tendering process and bid successfully on larger aggregated contracts. This evolution has left many institutions with a procurement system that makes it difficult to find, attract and engage smaller local suppliers.

Institutions in Atlantic Canada are now recognizing the enormous economic development power in their purchasing decisions, and that an institution can and should also have a mandate to act as an economic engine to serve a local benefit. They recognize that a shift requires building an internal culture of progressive procurement focused on building local supplier capacity and the long-term health of local economies.

From there, more effort can be made in understanding what the economic and social benefits are in their procurement spending, and how each purchase can be optimized toward best results - both for local community economics and an institution's stakeholders (i.e. tax payers or stakeholders). Re-localization efforts have been described as 'high engagement procurement' with case-by-case, hands-on, high-touch work between the public and private sectors, which shifts procurement from a supplier relationship to an individualized vendor relationship.

In addition, the perception that local procurement is not possible due to trade agreements is giving way to the realization that there is considerable flexibility in these agreements.

## *Trade Agreement Flexibilities*

Generally, it appears that there is significant flexibility in procurement for anchor institutions under the current national and international trade agreements. While thresholds vary between agreements, procuring institutions can utilize ways to revise evaluation criteria and weighting to redefine the value proposition when awarding contracts. It is possible to require community outcomes from all

bidders regardless of their location. These can include using community benefit agreements (CBA's), including local benefit criteria, or requesting a statement on how local benefit will accrue to the community from a bidder. In some cases, it is possible to procure through social enterprises and non-profits, which are generally exempt from all agreements.

There are numerous existing examples in Canada of anchor institutions and municipalities using these methods to build greater local procurement. These include the [Coastal Communities Social Procurement Initiative](#) in British Columbia, [Anchor TO](#) (Toronto Anchor Network), the [New Brunswick First Procurement Strategy](#) and others. For institutions like these, the procurement culture is now moving from 'risk aversion' to 'risk innovation,' through learning best practices from each other, and other jurisdictions and networks.

## *Exemptions, Exceptions and Exclusions*

The Canada Free Trade Agreement (CFTA), originally drafted in 2017, was amended and updated in December 2019. The CFTA contains procurement exceptions from philanthropic institutions, non-profit organizations, prison labour, or natural persons with disabilities. These exceptions include all social enterprises. These exceptions include all social enterprises, which are defined in a wide spectrum to include "non-profit organizations" or "registered charities" who operate revenue generating related businesses, and include organizations or business corporations that operate as "for-profit" businesses with a social goal<sup>5</sup>.

Each of the four Atlantic Provinces has a list of specific exceptions from the CFTA. Generally, they all are except for regional economic development by supporting small firms or employment opportunities in non-urban areas for contracts less than \$1 million, limited to ten times per calendar year. Also, Prince Edward Island and New Brunswick are exempt for purchases of local food.

## *Thresholds and Below Threshold Tenders*

The December 2019 amendment to the CFTA included updates to the threshold levels. Purchases above thresholds levels require a public competitive tendering process, whereas purchases below threshold levels could be sole-sourced. The Atlantic Procurement Agreement was amended to follow the threshold levels of the CFTA.

<b>CANADA FREE TRADE AGREEMENT</b>	<b>Gov't Ministries</b>	<b>Public Sector</b>	<b>Crown Corps</b>
Goods	\$26,400	\$105,700	\$528,300
Services	\$105,700	\$105,700	\$528,300
Construction	\$105,700	\$264,200	\$5,283,200

<sup>5</sup> [http://www.ic.gc.ca/eic/site/053.nsf/eng/h\\_00006.html](http://www.ic.gc.ca/eic/site/053.nsf/eng/h_00006.html)





International trade agreements, such as the Canada-EU Trade Agreement and the Canada-United States-Mexico Agreement (CUSMA) have higher thresholds.

Institutions are able to purchase below threshold levels as direct award contracts, but generally endeavour to use an open, transparent and competitive process for many of these contracts as well.

### *Local Benefit Criteria and Pre-Qualifying Vendors*

Many Canadian public sector institutions are adopting progressive practices in their procurement work which incorporates the inclusion of social and economic criteria at a 10-20% weighting of total points in a scoring system of a Request for Proposals / Request for Qualifications (RFP/RFQ). With these, the geographic locality of the vendor is of no concern but there are added criteria in the selection process for the degree of local community, social, environmental and economic benefit that they could provide.

An example for the inclusion of social and economic criteria in the total points system for an RFP/RFQ:

Criteria	Max. Pts.
Company Profile and Experience	20
Social and Economic Value Initiatives, Policies or Practices	15
Methodology	45
Technical Qualifications and Experience	20
<b>Total</b>	<b>100</b>

Social and economic criteria could include any or all of the following:

- Number jobs in the local area;
- Payment of fair and or living wages;
- Supporting gender equity;
- Employment of people facing barriers;
- Participation in apprenticeships or other forms of employee training and development programs;
- Involvement of social enterprises in any portion of the work;
- Supply chain practices which could be inclusive of local sourcing for labour and / or materials;
- Commitments to a diverse supply chain;
- Work with employment support services within the community;

- Ability to monitor and measure social and community value commitments; and
- Having an environmental and social governance policy.

Including social and economic criteria in RFP/RFQ's can be a viable progressive practice for contracts that are above trade agreement thresholds. In addition, sourcing to local suppliers can be practiced with contracts below threshold values, or by breaking larger contracts down into individual components where appropriate.

In some cases, a draft RFP can be issued seeking input from local vendors. The final RFP is then issued and local vendors are encouraged and assisted in submitting a bid. A final RF Quotations is then sent only to those vendors who have qualified. This creates a fair, open and competitive process at the local level.

### *Taxpayer Value*

“Taxpayer Value” is a term used frequently as a measure of the fiduciary responsibility for an institution’s spending practices. When examined in the broader context, taxpayer value is closely related to the multiplier effects previously discussed. Traditionally, taxpayer value is usually measured as the lowest price. The lowest price, however, often does not translate into the best value for the taxpayer if one is also measuring the local economic and social benefits which may or may not accrue to spending where the taxpayers actually live.

A progressive definition of taxpayer value focuses on the term ‘value,’ as opposed to cost, and necessitates changing the way we calculate cost and value. Best taxpayer value can be a trade compliant philosophy that allows for local multiplier effects and other factors that bring value beyond just price into play. The best value strikes a balance between assuring trade compliance, while also having more flexibility to award contracts locally.

Progressive procurement practices create long-term taxpayer value by generating more employment in the local region, expansion of locally-owned businesses meeting local needs (which can lead to exporting), a greater tax base, and the related growth of the volunteer sector and other social benefits.

### *Influenceable Spend*

For many institutions, an initial goal could be to bring an additional 10% of their spending back to the local economy. The 10% figure is a modest goal, yet experience with other regions has shown that this amount can have an out-sized effect on the local economy. Dramatic success has been achieved in regional economies with a 10-15% spending shift from a handful of institutions<sup>6</sup>. The process to achieve this would start with identifying the most “influenceable”

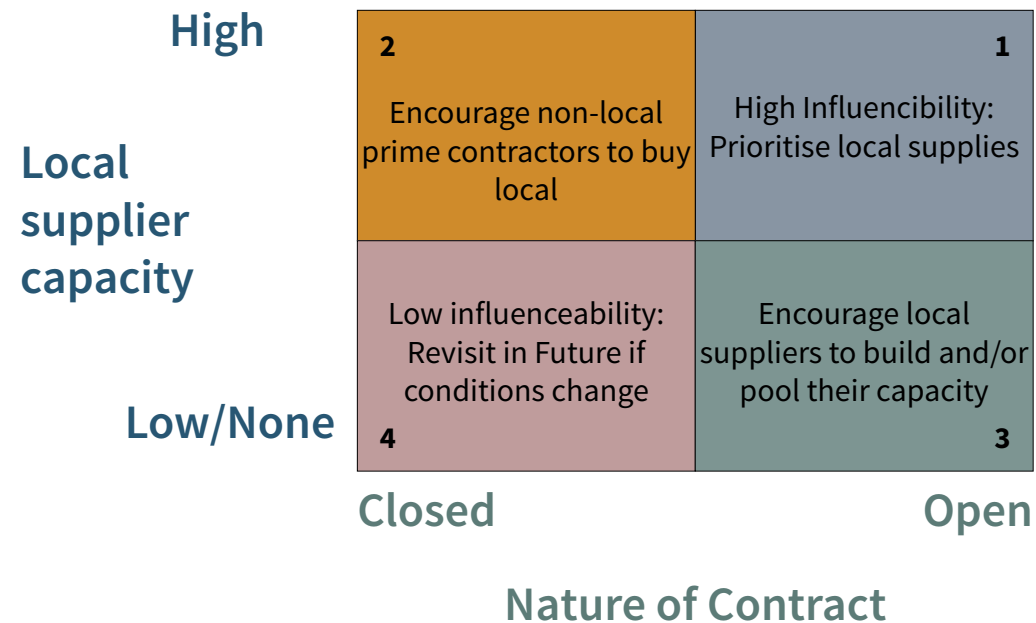
<sup>6</sup> See <http://bit.ly/PrestonModel> for an overview of how Preston has adapted the Cleveland Model to its local context.

*The lowest price often does not translate into the best taxpayer value for local economic and social benefits*

spend (i.e. that spend which could most easily be re-localised) within the organisation's overall budget.

Figure 1 below presents two key factors impacting the influenceability of a given portion of spend. Those two factors are: local supplier capacity to meet the buyer's full requirements, and the openness to contract with another supplier (either because there is no contract in place, or the term of the existing contract is ending imminently).

Figure 1: Identifying Influenceable Spend



The four quadrants of Figure 1 are explained below:

#### QUADRANT 1: Start Here Now...

Highly influenceable spend (quadrant 1) exists where there are one or more suppliers that have the capacity to meet the requirements for a given spend, and where the institution is open to switch suppliers. These situations are where an institution is advised to start in re-localising their spend. The institution's procurement staff would need to review its accounts to identify no-contract spending or contracts whose terms are ending soon. Then local suppliers would need to be identified and invited to submit a proposal.

#### QUADRANT 2: Go Here Next...

In situations where an institution is bound by contract commitments with a non-local supplier, but local supplier capacity is nonetheless high (quadrant 2), the institution could encourage the non-local supplier to shift a portion of its supply chain to the local economy, thus indirectly re-localising the institution's procurement. Moreover, the institution could make this a requirement for contract renewals with non-local suppliers with whom the institution was reluctant to abandon entirely.

#### QUADRANT 3: Then Go Here...

Where local supplier capacity is low but the spending is unbound by contract commitments (quadrant 3), the institution could engage those local suppliers in a conversation about building their individual capacity and/or pooling their collective capacity to respond. Under this scenario, the institution would need to give the local suppliers sufficient notice to enable them to mobilise. The institution might also look for opportunities to disaggregate this spending into small contracts, to make it more accessible to the local suppliers. In any event, this scenario would require more time to implement than in either quadrant 1 or 2.

#### QUADRANT 4: Not Soon, But Maybe in the Future

Situations where both local supplier capacity is low and spending is bound by contract commitments to non-local suppliers may nonetheless offer longer-term opportunities to re-localise spending. Perhaps a new, multi-year contract with a non-local supplier might give one or more local suppliers the time they need to prepare for the next RFP. Alternatively, local procurement targets within the contract of a non-local supplier may achieve the same results.





## Lessons from Atlantic Canadian Institutions

Between 2019 and 2020, CLP conducted a spending analysis of the procurement budgets from five public sector anchor institutions located in Atlantic Canada. Non-confidential aggregated results are presented for four of the five institutions. Of these four, two institutions were mid-sized post-secondary level educational institutions and two were municipalities in the 17,000 to 22,000 population range. CLP studied the top 300 vendors (by dollar value during the last fiscal year) used by each of these institutions for vendor location, industrial class and approximate vendor size. In some cases, a survey was sent to an institution's vendors asking about the nature and number of local jobs, as well as supply chain, employment, social and environmental practices.

This analysis provided an estimate of the amount of spending 'leakage' outside of the county, province and Atlantic region in which the institution is located. The analysis also brought early opportunities to light for potential procurement localization. The vendor survey data provided an estimate of the amount of vendor contracts that were re-spent within the local area for their own supply chain or by their employees, providing an estimate of the economic multiplier effect for a local vs. non-local contract.

It became apparent from these spending analyses that both educational institutions and municipalities highest levels of spending are in construction related activities. Educational institutions have higher levels of spending in the industrial classifications of finance, information, education, professional and accommodations, while the municipalities spend more in administration and transportation classes. Further, educational institutions appear to have a higher economic 'leakage rate' (i.e. spending occurring outside of their province) than municipalities, but much of this out-of-province leakage is captured within Atlantic Canada.

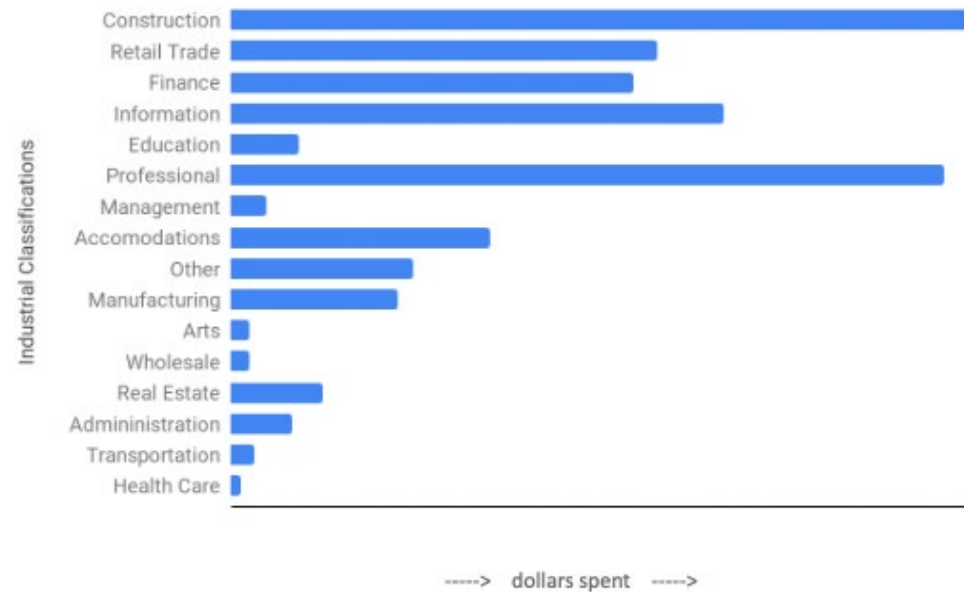
### *Post-Secondary Educational Institutions*

Spending patterns from two mid-sized post-secondary educational institutions (located in different Provinces) were analyzed. The average student enrollment between these two institutions is 6,486. The average annual procurement budget between these two institutions was \$27.8 million.

These two educational institutions reported an average provincial leakage rate of 59%, which means that for every dollar spent, 0.59 cents is spent (leaked) outside of their Province. And, a total of 22% was leaked outside of Atlantic Canada, or 0.22 cents for every dollar spent.

Vendors are organized under Industrial Classification (NAICS<sup>7</sup> codes) classes. For the two post-secondary institutions, the average spend between the two institutions for each class was determined.

Industrial Classifications Average Spend in Higher Education



Over all classes of spending, a 10% shift to local procurement for each of these institutions represents an additional \$2.8 million per year coming into their local economies. The choice of 10% is a conservatism that accounts for the fact that procurement localization may not be effective in every industrial class. Of course, higher degrees of localization would generate proportionally higher economic impacts.

Using a conservative range of 1.25 to 1.70x for a multiplier effect<sup>8</sup>, a 10% shift represents \$3.5 million to \$4.8 million of potential new annual localized spending by each institution. These amounts would represent a significant new annual local economic stimulus from an educational institution, simply by redirecting 10% of their existing spending.

There are an estimated 90,000 students enrolled at the university level in Atlantic Canada<sup>9</sup> and an estimated 51,692 at the college level for a total of 141,692 post-secondary students in Atlantic Canada. If two mid-sized post-secondary institutions that were studied (with an average enrollment of about 6,500 students) could have a 10% local procurement multiplier effect in the range of \$3.5 million to \$4.8 million, a region wide effect from all post-secondary institutions could be close to ten times these amounts.

<sup>7</sup> <https://www.naics.com/search/>

<sup>8</sup> See section above on multiplier effects.

<sup>9</sup> <https://www.univcan.ca/universities/facts-and-stats/enrolment-by-university/>

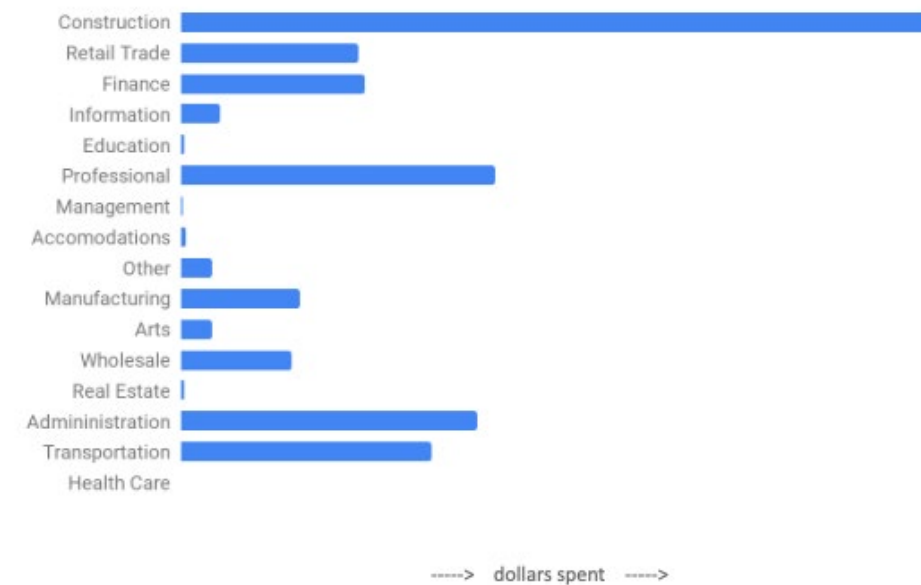
## Municipalities

Procurement spending patterns from two mid-sized municipalities (located in different Provinces), with populations between 17,000 and 23,000, were analyzed during this study. The average annual procurement budget between these two municipalities spent on their top 244 to 300 suppliers was \$18 million dollars.

These municipalities reported an average leakage rate of 25% which means that for every dollar spent, 0.25 cents is spent (leaked) outside of their Province. Regionally, 21% is leaked outside of Atlantic Canada, or 0.21 cents for every dollar spent.

For the analysis, vendors are organized under Industrial Classification (NAICS codes) classes, and the study determined the average spend between the two Municipalities for each class. Spending by class represents somewhat typical spending patterns by municipalities, with higher levels of spending occurring for construction, administration, professional services and transportation.

Average Spend by Industrial Classification for Municipalities



Over all classes of spending, a 10% shift to local procurement for these municipalities represents an additional \$1.8 million per year coming into each of their local economies. Using a conservative range of 1.25 to 1.70x for a multiplier effect, this represents \$2.2 million to \$3.1 million of new annual localized spending. These amounts would represent a significant new annual economic stimulus for a municipality, simply by redirecting 10% of their existing spending.

There are nine municipalities in Atlantic Canada with populations between 17,000 and 23,000, representing mid-sized cities or counties in our region. By extrapolation, a 10% shift to local procurement for all nine mid-sized municipalities represents between \$19.8 million to \$27.9 million in new annual



Local procurement strategies from all public-sector anchor institutions could have one of the best solutions for local economic development available today

economic stimulus for all these municipalities when multiplier effects are included.

There are several hundred municipalities across Atlantic Canada, comprising large urban centres to small rural communities. It becomes apparent that there could be a significant economic impact if most municipalities adopted a strategy for a small appropriate local shift in their procurement practices. It is up to each municipality (or other anchor institutions) to define what “local” means to them, within the context of how their economy functions in that area. Generally, the closer the spend, the greater the impact, whether its within their municipal boundaries, their county, province or Atlantic region.

It is worth noting that this study provides data only for the post-secondary educational and municipal sectors. These amounts do not include procurement budgets for public elementary and high schools, health care systems, provincial departments such as transportation, federal facilities and other public services such as public housing and long term care facilities. Concerted local procurement strategies from all public-sector anchor institutions, perhaps led by provincial governments, could have one of the best solutions for local economic development available today.

One criticism often raised about localizing a greater portion of a procurement budget is that, like other acts of protectionism, it will increase prices and reduce the value of public contracts. It is actually about creating open markets for local goods and services, in which local suppliers can compete more fairly. More bids, both local and nonlocal, can reduce the price and increase the value of public contracts.

Globalization has wrecked havoc on free markets with massive subsidies, monopolies, and trade distortions. It has encouraged communities to become dangerously dependent on the importation of many goods and services they could easily make for themselves, and thereby undermine their local economic health.

Through contracts with local anchor institutions, local businesses can strategically substitute for imported goods and services with innovative local expansions as the great regional economist Jane Jacobs argued, import-substitution is how the world's most successful regions grow. Moreover, many of the new or expanded local firms themselves become exporters. The strongest local economy is one that is as self-reliant as possible and maximizes its exports. Some imports will always be necessary, but every unnecessary import is a drag on the local economy. A strong local economy wants to engage with the global economy, but from a position of strength.



*A multi-year effort is required to rebuild local supply chain infrastructure*

# Building Local Supplier Capacity

## *Signaling Intent to Go Local*

A fully progressive procurement program realizes that a multi-year effort is required to rebuild local supply chain infrastructure which may have been lost over past decades as procurement practices began migrating to nonlocal sources. These efforts will require coordination with industry and non-profit partners, once the institution signals its long-term intent to assist with building local supply chain capacity. Eventually, this signaling also filters into the suppliers themselves, whereby they begin to also look for local sourcing for their needs, thereby increasing the multiplier effects further.

Progressive procurement can become a highly-visible, front-line economic development strategy for an institution, which may require additional procurement staff and related HR support. Effective re-localization of procurement then becomes 'high-engagement' procurement based on building local relationships and not just transactions.

Effective local supplier matching quickly becomes a budget line-by-line and opportunity-by-opportunity exercise with more effort required to understand overall local capacity and a willingness to work with building that capacity, as opposed to simply waiting for suppliers to answer a RFP/RFQ tendering process.

Creative supplier matching can recognize the following types of vendors in the local landscape, some of which may not be readily apparent (i.e. not already members of the local Chamber, business directories, etc.):

## *Existing Suppliers*

- **Available 'as is'.**
  - ▷ Suppliers with the capacity, pricing, quality and willingness to take on a contract, but may need to be informed about a tender or RFP/RFQ, as they may not have sought work in that way before. Some education about the process may be required.
- **Requires capacity & capital upgrade for a larger job.**
  - ▷ As above, but the supplier may need to first increase their capacity to take on a required job. This may necessitate a capital investment and facility upgrade, which can be a wise business decision if a contract is certain.

- **Is too small - needs to partner or form a cooperative with others.**
  - ▷ As above, but rather than increase their own capacity, they are willing to cooperate with other suppliers to achieve required volumes. Many food items fall into this category.
- **May need to pivot to new products or services.**
  - ▷ This is a case where a supplier is currently manufacturing related items but not the required types of items in a tender or RFP/RFQ, but they could take on the work with a retooling or shift in manufacturing process and skill set.
- **Is a larger player with a multi-year contract & will accept requirements for a degree of local sourcing.**
  - ▷ Most larger suppliers recognize the trend towards local sourcing and may be willing to accept targets for their sourcing of certain items in the local area during the life of the existing contract. Contract renewal could also carry local targets to be met at various time points during the life of the contract, but careful definitions of 'local' are required.

## *Non-existing Suppliers*

- **Entrepreneurial start-up opportunity with a large contract.**
  - ▷ If no suppliers currently exist as shown above, it may be possible to approach local entrepreneurial hubs, groups or incubators, and associated government programs with a request to fill a contract opportunity. Many start-ups want to 'get to revenue' quickly, and an existing contract can reduce start-up risk substantially, assuming this risk is also acceptable to the institution providing the contract.
- **Demonstration project with a small contract.**
  - ▷ On a smaller, less formal scale, many educational institutions are looking for real-world opportunities for students to provide a needed good or service. If planned properly and cooperatively coordinated, they can lead to niche start-up businesses.
- **Non-local supplier opens local production facility.**
  - ▷ It may be possible to convince a non-local supplier to open a local facility if the contract value is sufficient to justify the capital and other new facility start-up costs.

## *Distribution Cornerstones*

When considering local supply of goods, especially when related to food, there are four cornerstone elements to building local and regional capacity. These are:

1. **Aggregation** - Aggregation refers to the need to obtain a certain volume of a

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specific good from a number of small, disbursed suppliers.

2. **Storage** - These aggregated goods then need to be stored in a central location under proper storage conditions. For example, many food items may need refrigeration or freezing.
3. **Processing** - Then, goods may need to be processed into a value-added format for use by the institution's facilities.
4. **Distribution** - Finally, these goods need to be distributed to the institution's relevant facilities on their optimal delivery schedule.

Carrots provide a good example for these four cornerstones. Assume an institution wishes to source carrots for the cafeterias within its many, disbursed facilities. These must be sourced from various growers during harvest time, and then stored in one or more central locations under refrigerated conditions. The cafeterias may then require prior processing of the carrots into carrot sticks and packaged in 1 pound bags before delivery. This work must be done in a licensed food processing facility. Finally, the processed carrots need to be delivered on an agreed schedule to each facility.

Typically, growers associations and related non-profit organizations would be pleased to assist in the development of this infrastructure under the assurance from an institution that contract revenues will be forthcoming under agreed specifications and time frames.

### *Local Suppliers Supplying Local Facilities*

As an alternative to the scenario above which requires more extensive regional aggregation through a distribution hub, it may be possible for an institution to source a number of local suppliers which are each close to an institution's various facilities. Under this scenario, the complexities of aggregation and distribution can be avoided. It would allow procurement decision making at the local facility level, where each facility could source directly with a local supplier.

An example of this scenario could be baked goods. There are local artisanal bakeries located in most cities, towns and villages in Atlantic Canada. Many of these are in close proximity to anchor institutions. With a suitable arrangement, the local facility of an institution could source local bread and other baked goods from these bakeries. The 'optics' and local pride that this could create would add significantly to the social benefits within the region. With increasing concerns about food security in Canada, there are many other institutional incentives and opportunities to source from local farmers and growers.

### *Benchmarking and Tracking progress*

An effective progressive procurement strategy requires a multi-year coordinated effort across the institution, from the senior management through to the procurement professionals and related staff. Key to this effort is knowing the starting place by conducting a thorough initial analysis of current spending patterns - the beginning benchmark. From there, literally every dollar that moves

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from non-local to local suppliers can be tracked. Like most strategies, dollar results can be slow in the beginning as the groundwork for local procurement processes are laid down, but momentum gathers and builds on itself.

Unlike one-time economic stimulus programs or grants to business, local procurement requires no new money to be spent, and represents repeat spending every year as procurement dollars keep getting spent into a local economy.





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## A Final Word - Community Wealth Building

Community Wealth Building<sup>10</sup> is a response in part to the failure of traditional approaches to economic development – namely, the assumption that as the economy grows, wealth for all will flow. Far too often, this fails to materialise. Traditional approaches facilitate a system where wealth generated through local economic activity is extracted from the locality by large companies who are increasingly based offshore.

As a response, Community Wealth Building is an approach to economic development that aims to reorganise local economies so that wealth is not extracted but redirected back into communities. This strategy seeks to replace large national or multinational businesses – which focus on maximising profits to distant shareholders – with locally productive forms of business. These “generative” businesses share the wealth broadly between owners, workers and consumers, allowing wealth to flow to local people and places - small to medium sized businesses, co-operatives and social enterprises.

Community Wealth Building is also partly focussed on the economic power of local institutions to support their communities. The way in which these large, locally-rooted, anchor organisations such as municipalities, hospitals and educational institutions spend their money, employ people and use their land, property and financial assets can make a huge difference to a local area.

The five pillars of an integrated Community Wealth Building strategy include:

- **Spending:** Utilize public sector procurement to develop local supply chains of businesses likely to support good employment and retain work locally.
- **Finance:** Increase flows of investment within local economies by harnessing and recirculating the wealth that exists, as opposed to attracting capital.
- **Land and Property:** Deepen the function and ownership of local assets held by anchor institutions, so that financial and social gain is harnessed by citizens.
- **Workforce:** Exercise fair employment practices and work to develop a more just labour market to improve the prospects and wellbeing of local people.
- **Building the Generative Economy:** Develop and grow small, locally owned enterprises which are financially generative for the local economy - locking wealth into place.

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<sup>10</sup> This section courtesy of the Centre for Local Economic Solutions. Visit: <https://cles.org.uk/the-community-wealth-building-centre-of-excellence/>. Several Community Wealth Building initiatives are underway in the UK and EU.





## Conclusions

### *Lessons Learned*

During the course of this study, much was learned and is presented about the flexibilities within the trade agreements, and best practices available to institutions for localizing a portion of their procurement budgets for local benefit.

An aggregated spending analysis for procurement budgets is presented for four Atlantic Canada public-sector institutions. Two mid-sized post-secondary educational institutions reported an out-of-province leakage rate of 59% and two mid-sized municipalities reported a leakage rate of 25%.

A 10% shift to local procurement represented an average of \$2.8 million per year for each of the educational institutions and \$1.8 million per year for each of the municipalities, representing potential new economic stimulus into their local economies. It quickly becomes apparent that there could be a significant economic impact to our regional economies if many educational institutions, municipalities and other public sector anchors within the region adopted a strategy for a small local shift in their procurement practices.

Even small 5% to 10% shifts to local spending can have outsized effects in economic stimulus, since this new local spending tends to occur year after year (as compared to some one-time economic stimulus programs). In addition, studies have indicated higher multiplier effects through local spending vs. non-local. Multipliers in the range of x1.25 to x1.70 were used in this study. Through efforts to rebuild local supply chains, local economies can capture and circulate local spending for long-term taxpayer value.

### *Moving Towards Progressive Procurement*

There is a shift happening in Atlantic Canada on how public sector institutions view their procurement function. They are beginning to see the enormous potential to act as an economic engine for local economies through their purchasing decisions, thus moving the procurement offices from a back room function to become a public-facing integral part of their economic development platform. Flexibilities in the trade agreements and a procurement culture that is moving towards risk innovation in tendering methodology are providing leading institutions with the ability to deploy a greater portion of their purchasing power to locally-owned business, with the resulting higher multiplier effects into the local economies. Examples in the UK, USA and other parts of Canada confirm the success of these strategies, providing excellent learning opportunities for institutions in our region as they bring out progressive procurement strategies.



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The Centre for Local Prosperity supports public sector and other anchor institutions through the process of mapping out and exploring the potential for re-localising a portion of its non-local spend, including the specifics of spending analysis, supplier matching, compliant tendering language and building dense local supply chain infrastructure.

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This study was made possible through the generous support of the Atlantic Canada Opportunities Agency.



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Opportunities  
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promotion économique  
du Canada atlantique**

**Canada**

Disclaimer: This report is funded by the Atlantic Canada Opportunities Agency (ACOA) under the Atlantic Policy Research Initiative, which provides a vehicle for the analysis of key socioeconomic policy issues in Atlantic Canada. The views expressed in this study do not reflect the views of ACOA or of the Government of Canada. The authors are responsible for the accuracy, reliability and currency of the information.



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