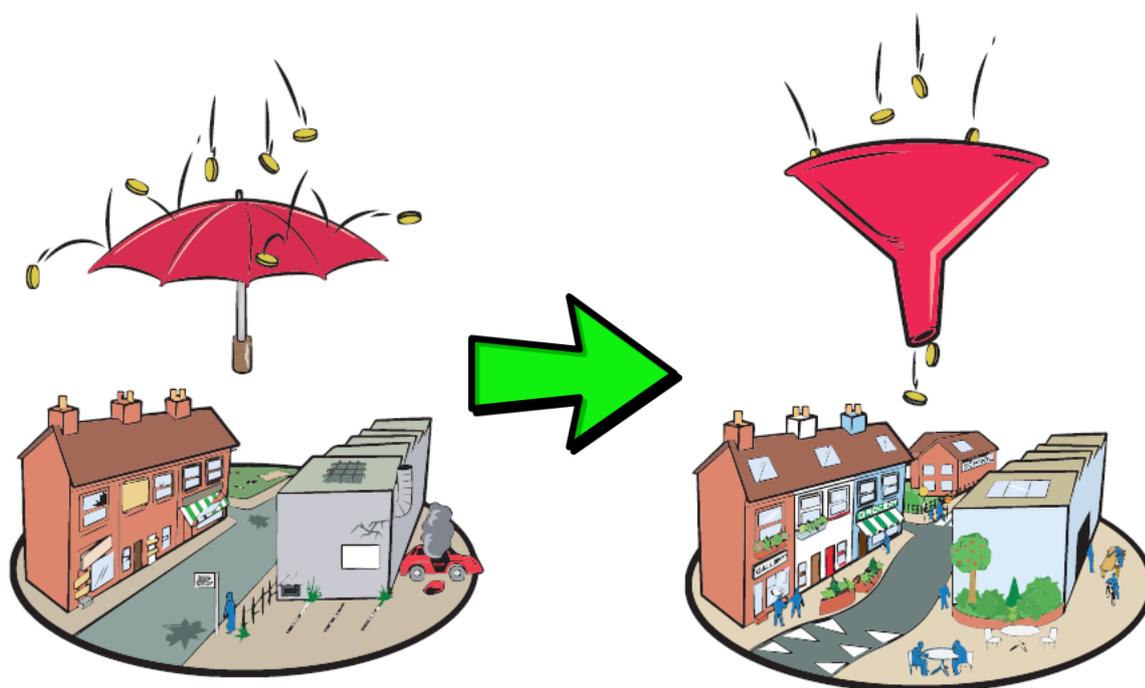


# Municipality of Nagykálló

## URBACT III Procure

### Integrated Action Plan



Prepared by: *URBACT*Local Group of Nagykálló

**CLOSED:**

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# 1 Background

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## 1.1 Introduction

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This Integrated Action Plan (IAP) for Nagykálló has been developed as part of the activities of ‘creating a good local economy through procurement’ (Procure) network.

[Procure](#)<sup>1</sup> is a network of [11 partners](#)<sup>2</sup>, led by Preston City Council and funded through the [URBACT III Programme](#)<sup>3</sup> which seeks to enable transnational exchange and learning between cities around a particular theme. The Procure network seeks to connect cities and build success around the theme of procurement, which is the process used by public authorities and commercial business to purchase goods and services.

The network was initially funded in September 2015 (see the [baseline study](#)<sup>4</sup>) and lasts until May 2018.

Over the course of the two years (from May 2016), Procure partners have met together (both at a transnational - European level and at a local level – through [local stakeholder groups](#)<sup>5</sup>) to discuss and explore a number of topics; with a core purpose of developing an IAP.

Procure partners agreed that the focus of the project at transnational and local level would be upon the following themes:

- *Responding to European and National level law;*
- *Spend analysis and developing a procurement strategy;*
- *Innovation in procurement: social and environmental criteria;*
- *Engaging and raising awareness with local businesses and SMEs;*
- *Monitoring impact;*

The IAP for Nagykálló reflects on the knowledge and learning gleaned from transnational and local levels around the above themes and sets out our plan of actions for progressing procurement activities moving forward. It is shaped by: the challenges we identified in the baseline study, our existing processes and practices around procurement, what we have learnt through the network, and what we want to do and achieve moving forward.

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<sup>1</sup><http://urbact.eu/procure>

<sup>2</sup><http://urbact.eu/interactive-map?network=7450>

<sup>3</sup><http://urbact.eu/>

<sup>4</sup>[http://urbact.eu/library?f%5B0%5D=field\\_network\\_reference\\_multiple%3A7450](http://urbact.eu/library?f%5B0%5D=field_network_reference_multiple%3A7450)

<sup>5</sup><http://urbact.eu/urbact-local-groups>

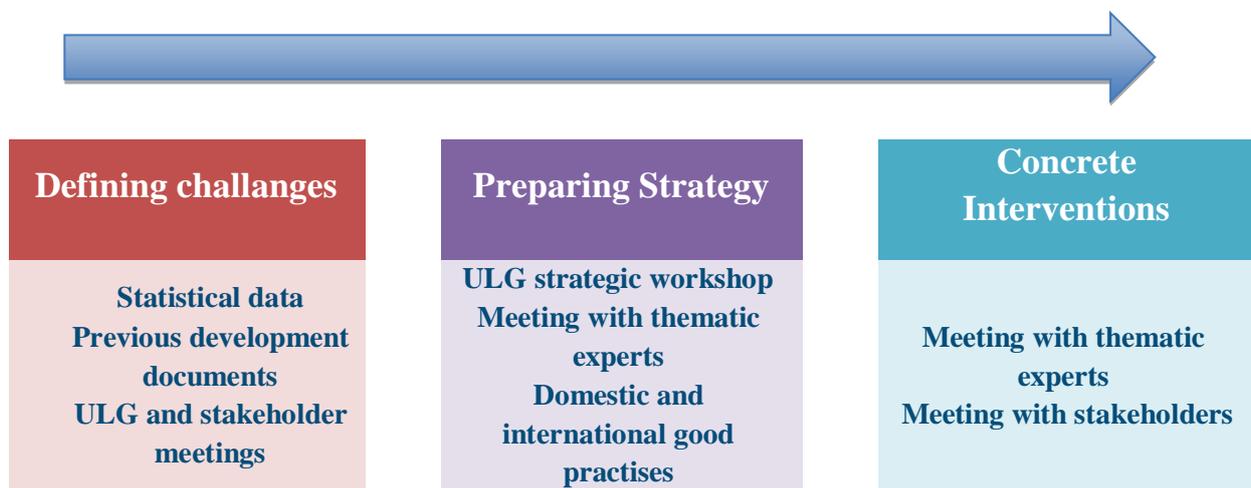
## 1.2 Methodology used

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The Integrated Action Plan of the Local Support Group is a living document - open to future changes and potential amendments - which ensures that the IAP is flexible enough to respond to new challenges or major changes in the programme's environment.

This plan was prepared as a result of an extensive consultation process, centred mainly around local stakeholders (Municipality, NGOs, Representatives of certain institutions, town-development and procurement experts) and around the Urbact Local Group (ULG). In drawing up the plan, ideas, best practices and innovative approaches from numerous international workshops, partner meetings have also been widely applied. In fact, the support and experience of the international partners have constantly provided useful guidelines and orientation for our IAP development process.

The following table is an overview related to the preparing process of the Integrated Action Plan.



## 1.3 URBACT Local Group

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The Municipality of Nagykálló charged Sándor Végheő with the coordination tasks of Local Support Group who earlier participated in the implementation of numerous URBACT

projects (Op-Act, RomaNet I-II, JobTown I). He lives in Nagykálló and has strong bonding to the municipality and the town itself. Before setting up the ULG, the most important aspect was to involve every important actor. In the beginning we planned to involve as many anchor institutions as possible (local psychiatry, schools, government office) however principally because of the centralised system in Hungary, involving them was not an option for us. This is also why we focused on the Municipality, its institutions and businesses owned by the Municipality. Moreover we wanted every sector to be represented and invite thematic experts as well.

Members of the ULG, the organisations they represent and their roles are as follows:

Name	Organisation	Role
<b>Véghseő Sándor</b> (koordinátor)	Advisor	coordinator
<b>Baloghné Juhász Adrienn</b>	Municipality of Nagykálló	project coordinator
<b>Papp Bence</b>	Municipality of Nagykálló	Procure project Local Coordinator
<b>dr. Kirilla Szilvia</b>	dr. Kirilla Law Office	Procurement expert
<b>dr. Serfőző Andrea</b>	Advisor	Procurement expert
<b>dr. Nagy Dóra</b>	dr. Kirilla Law Office	apprentice
<b>Puskás László</b>	Urbs Novum Ltd.	general manager
<b>Teremi István</b>	Teszovál Ltd.	general manager
<b>Juhász Zoltán</b>	Municipality of Nagykálló	mayor
	Association of Municipalities in the Southern Nyírség Area	president
<b>Lendvai Nikoletta</b>	N And N Individual Ltd.	director
<b>Bereczki Mária</b>	Municipality of Nagykálló	notary, economical expert
<b>Dr. Török László</b>	Create City Foundation	president

## 1.4 Key learning points

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Project Procure has made a number of key changes and impacts upon the procurement approach of the Municipality of Nagykálló and of course employees have also benefited a lot individually. All the themes and inputs from project partners were useful in relation to learning about the process of procurement and implementing it in our city, however in this section we have drawn out three individual examples and their sources that relate specifically to Nagykálló's situation and challenges. These are as follows:

### **Centre for Local Economic Strategies (CLES)**

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#### Spend analysis

CLES is the UK's leading, independent think and do tank realising progressive economics for people and place. Their work among others in Manchester or Preston and their publications, such as „*The Power of Procurement II - The policy and practice of Manchester City Council – 10 years on*” have been a great inspiration for us. By undertaking similar spend analysis, now we have a more effective understanding of our procurement spends, we know exactly where are these going geographically and what is the distribution between local and non-local businesses. Furthermore, in the future, with the help of annual analysis and annual reports we will be able to monitor our progress and if our objectives and plans are materialized or not.

### **Preston City Council**

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#### Procurement Strategy

This adopted strategy document of Nagykálló is intended to inform the procurement decisions of the town and to provide assurance as to the most appropriate route to market for all types of goods and services. This strategy has been written by taking into consideration current competition and procurement rules and will be updated in line with any changes to either Hungarian or EU legislation. The main objectives of this strategy are to make real and positive contributions to the strategic direction of the Municipality in the following areas such as:

- Streamlining procurement processes
- Supporting collaborative procurement
- Enabling the organisation to support government initiatives in public procurement
- Effective use of resources

- Setting up an innovative scoring system which takes into consideration environmental and social criterias.

## **CEEI Albacete**

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### **Incubation – Start up businesses**

This learning point is not directly linked to project Procure but building an incubator house for start up businesses is one of the key priorities of the Municipality. During transnational meeting 4, in the framework of a walk-and-talk session the representatives of the town (and by that the town itself) gained numerous good practices from the representatives of CEEI of Albacete on how to operate such house and how to help young entrepreneurs and start up businesses.

## **2 Current Situation and challenges**

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### **2.1 Key facts about Nagykálló**

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- Population of the town: 9737 inhabitants;
- Area: 69 km<sup>2</sup>
- Nagykálló functions as a center of the Microregion, consisting of 7 neighbouring settlements.
- The town is located in the immediate neighbourhood of the county seat, Nyíregyháza (with its nearly 120.000 inhabitants, surely is an economic and administrative centre)
- Economy is mainly dominated by agriculture, food processing and light industry
- The quality of public services is high, public infrastructure is also well-developed;
- The proportion of low status people is relatively high, improving their life quality and living condition is a key priority
- There's a large supply of quality workforce both in town and in surrounding settlements;
- The town has gone through dynamic development in the recent years: over 40 development projects (town rehabilitation projects and projects related to aligning the lagging behind part of the population) have been carried out, with a total value exceeding EUR 18 Million;

- There is an industrial park at the border of the town with an excellent and unique location, with full infrastructure.
- The activity of Nagykálló in terms of International projects is eminent in the region. Since 2008 numerous EU projects have been carried out and their good practices are frequently applied in local strategies and actions.

## 2.2 Location and Accesability

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Nagykálló is located in the North-Eastern corner of Hungary, in Szabolcs-Szatmár-Bereg county, in the immediate neighbourhood of the county seat, Nyíregyháza, the distance between the two settlements is not more than 15 km, which is not considerable at all. Furthermore the distance of the Hungarian-Romanian border is 47 km, while that of the Ukrainian-Hungarian border is 70 km. Nagykálló is also one of four urban areas which make up the previously mentioned County of Szabolcs-Szatmár-Bereg County. The others are Nyíregyháza which is the County Seat, Nyírbátor and Tiszavasvári. The combination of the four urban areas is deemed the Functional Urban Area (FUA).

The most important road connection of Nagykálló is definitely motorway M3, linking the settlement with Budapest and also with other major European transport routes. Further sections of the motorway are currently being built, planned to reach the Hungarian-Ukrainian

border by 2017. In the outskirts of Nagykálló road 403 - passing by Nyíregyháza and establishing the linkage with the main road No.3 - reaches the motorway. This road conveys major transport traffic mainly towards Ukraine.

## 2.3 Demography

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The number of inhabitants in Nagykálló is slightly under 10.000, out of which app. 6900 people are in their working ages. While there are negative demographic tendencies (principally selective migration and aging), the town has successfully avoided population decline until recently.

Furthermore there are also clear signs that once the labour market offers attractive possibilities and the Municipality is able to attract the youth back before they start a family, these negative tendencies can be easily counterbalanced, also in the long run. During the last 10 years, a gradual aging can be perceived in Nagykálló, as a result of the relatively high rate of those under 14 (14,4 %) and those over 60 (20,9%) the proportion of dependents is high, placing increased burden on active employees.

## 2.4 Human resources and employment

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The employment rate in the town has reached 63% recently, which is quite the same as the national average (66%). Most of the people (around 60%) are employed in the tertiary sector, although the weight of agricultural employment is also relatively high.

At the end of 2015 the unemployment rate was above 18%, however this figure shows significant seasonal fluctuation because of chars, by-works. The number of registered unemployed (1174 at the end of 2015) shows an increasing tendency; fortunately, the proportion of long-term unemployed is relatively low (20,7 %). This is important, because the reintegration of short-term unemployed people to the labour market can take place rapidly.

However this doesn't change the fact that there's a large supply of quality workforce both in town and in surrounding settlements as Nagykálló is also an important school town within the microregion. In the topic of education we can highlight 3 key institutions in the town.

First of all Korányi Frigyes Secondary Grammar School provides specialised training in English and Information Technology or drama, and it also offers bilingual (Hungarian-German) general education.

The next institution is Budai Nagy Antal Technical School where one can be specialized in economics, pedagogy or law enforcement. This institution is rather popular in the area because this is the only one in the whole Eastern part of Hungary which provides trainings in law enforcement.

Furthermore, another important educational institution is Kállay Rudolf Vocational School which provides education in a wide range of vocations, such as tailor, baker or hairdresser and is ready to flexibly adapt its training structure to the actual labour market needs - or even to the needs of individual businesses.

Last but not least, the School of Business Nagykálló offers special courses in a variety of professions, including IT system administrator, financial administrator, marketing administrator.

## 2.5 Social situation and services

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The social situation of inhabitants is indirectly indicates the income status; based on personal income tax data, the average income is low even in comparison with the average of the cities in Szabolcs-Szatmár-Bereg county. (Source: KSH (2012): Statistical Yearbook of Szabolcs-Szatmár-Bereg County)

	Nagykálló	Average of the cities in Szabolcs-Szatmár-Bereg County
Taxpayer/1000 inhabitants	426	427
Gross Income serving as basis of the personal income tax per permanent population (1000 Ft – app. 3€)	1399	1647
Personal income tax per permanent population (1000 Ft – app. 3€)	168	248

Similarly to the national situation, the rate of people in need of social care has gradually increased in recent decades. In response to this situation, an advanced social care system has been developed in Nagykálló, which, in addition to providing quality social services, lays

emphasis on social integration and reintegration. Social services are provided by the South-Nyírség Social and Child-welfare Centre in another 6 settlements in the proximity of Nagykálló. Its major tasks are as follows:

- Child welfare service,
- Provision of temporary home for families;
- Family support services;
- Daytime shelter for homeless;
- Health education;
- Warning system based home assistance;
- Social catering;
- Support service;
- Services for addicted people;

In addition to the services to low status people, the Municipality provides a wide range of financial and in-kind subsidies, transfers; as a matter of fact, for many families these are the only sources of income. The rate of those receiving social subsidies on a regular basis (4,2 /1000 inhabitants) is significantly higher than the average of cities in Szabolcs-Szatmár-Bereg county (3,5 / 1000 inhabitants).

## 2.6 Microregional role

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In addition to serving its own citizens, Nagykálló also functions as the centre of the microregion with the identical name, consisting of 7 neighbouring settlements (Balkány, Biri, Bököny, Érpatak, Geszteréd, Kállósemjén, Szakoly), which of course gives an important impetus to its development.

Among other activities Nagykálló is coordinating development activities with its neighbouring settlements.

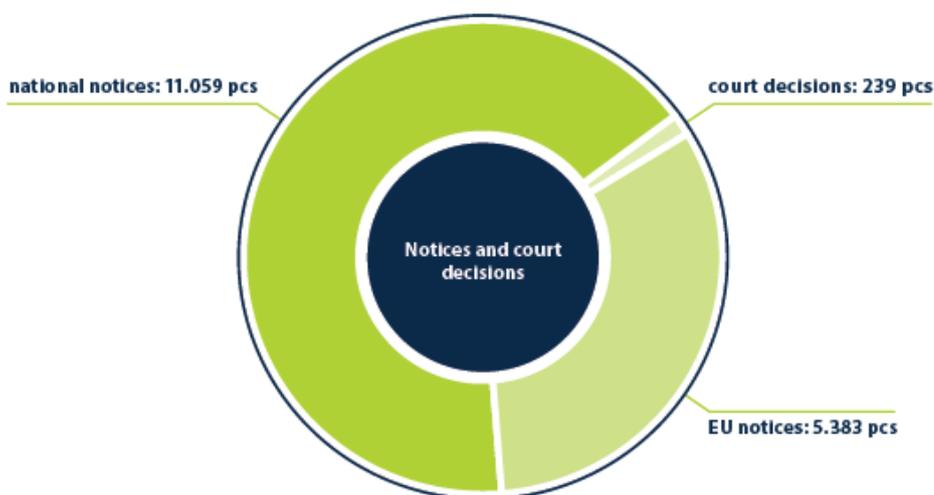
The public administration structure has been massively redesigned in Hungary in recent years to make it more cost efficient and user-friendly and as part of this process so-called district centres have been established to act as the first level of state administration, closest to the citizens.

As a result of this, the public administration functions of many small settlements have been significantly reduced, while the importance of settlements which became district administration centres increased. These settlements provide high quality public administration services also beyond their boundaries, on microregional level. Nagykálló will be the district centre of a microregion consisting of 7 neighbouring settlements (Balkány, Biri, Bököny, Érpatak, Geszteréd, Kállósemjén, Szakoly), which will give an important impetus to its development.

## 2.7 Statistics: numbers and value

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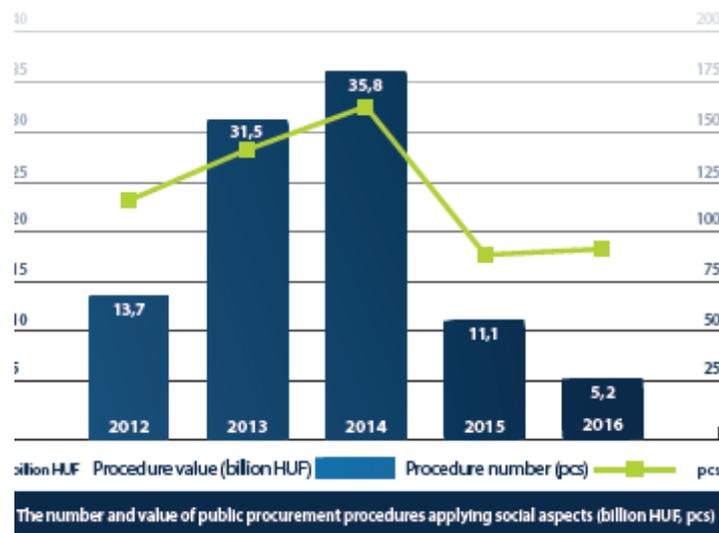
In 2016, a total of **16.442 notices** and **239 court decisions** were registered and processed in Hungary. Nagykálló submitted **.....national notices**, **..... EU notices** and had no court decision.



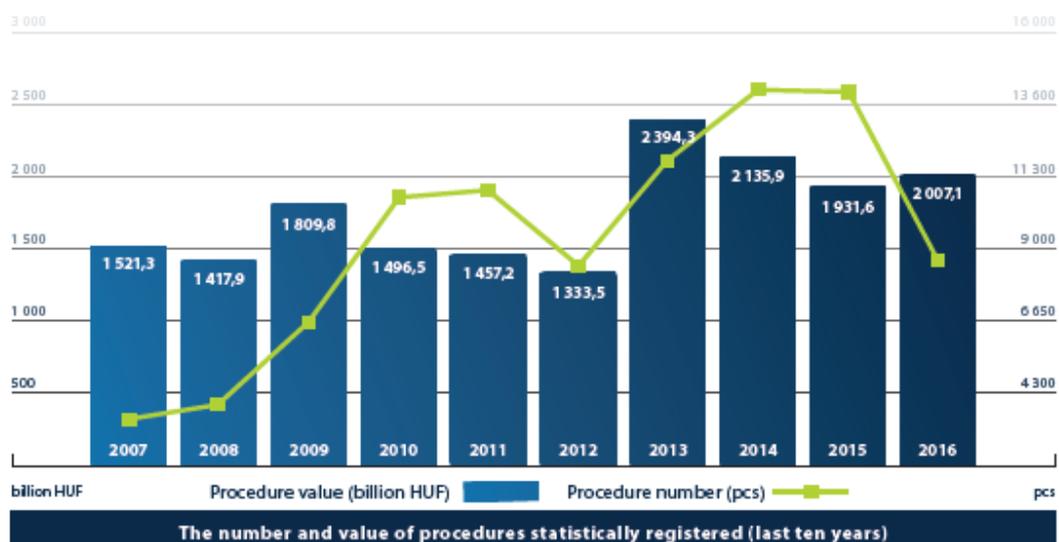
One of the major statistical goals in the creation of the new Public Procurement Directives was to support social objectives (employment, job creation, social integration). According to the definition of the European Union, social (socially responsible) procurement is a public procurement activity, in the course of which at least one of the following social

aspects is considered: job opportunity, decent work, respect for social and labour rights, social inclusion (including people living with disability), equal opportunities, accessibility for all users; furthermore, sustainability criteria are also assessed, including ethical trade and voluntarily corporate social responsibility (CSR), in line with the basic principles of the Treaty of the Functioning of the European Union (TFEU) and the public procurement directives.

Contracting authorities are obliged to indicate in the information summarising the results of a national procurement procedure, whether they have considered social aspects.

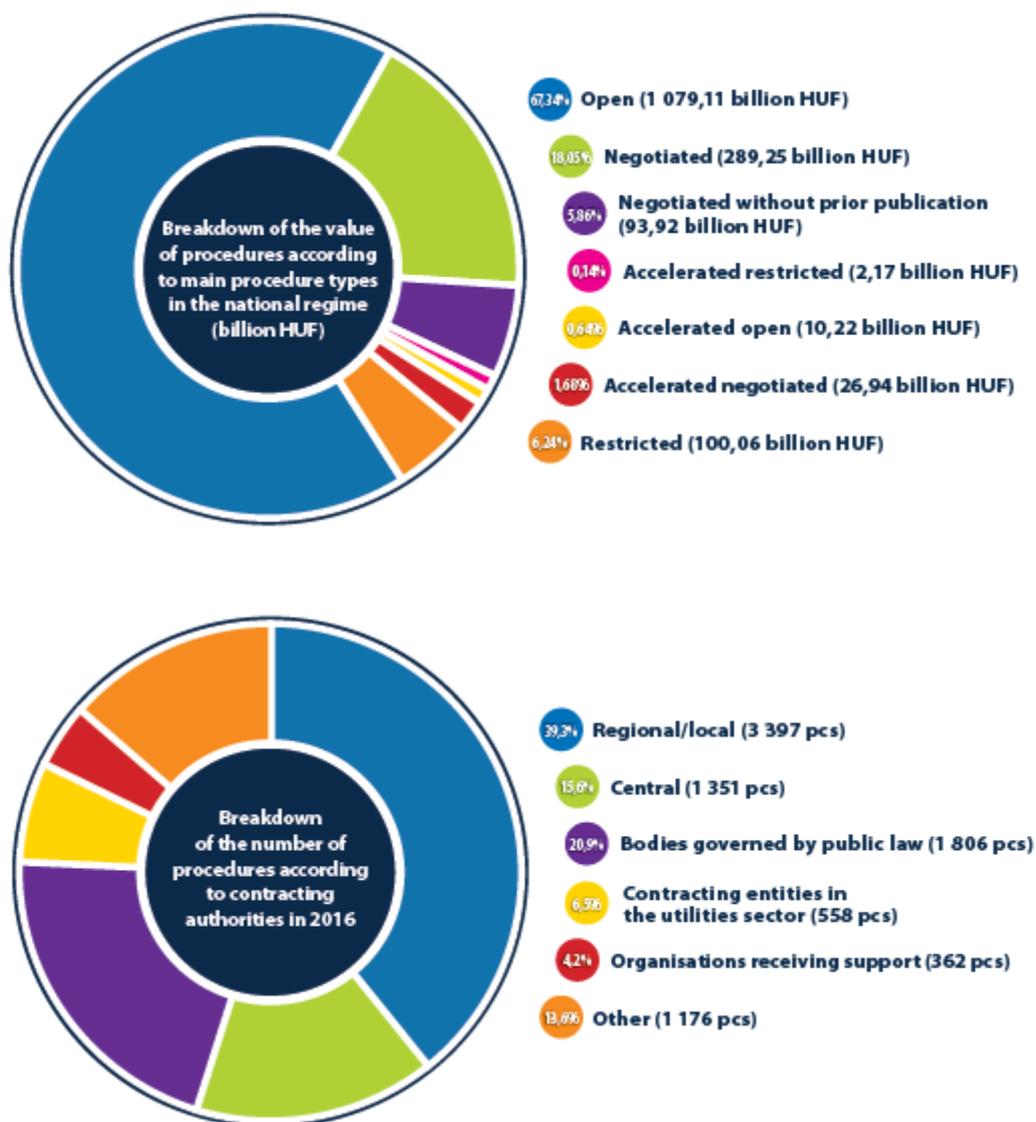


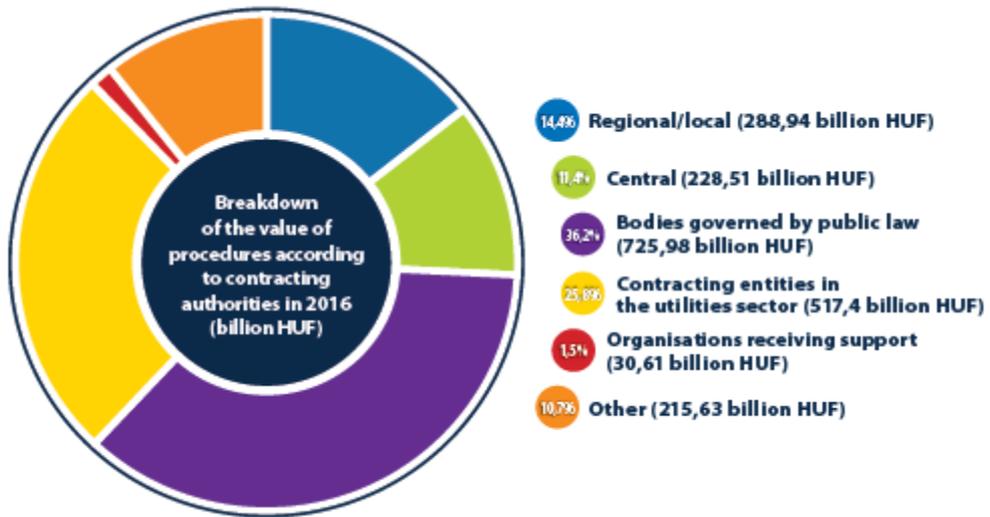
According to Article 187 (4) of PPA, the annual report submitted to the National Assembly on the Public Procurement Authority's activity must make statements regarding the trends in the number and value of the procedures and the financial situation of national tenderers including micro, small and medium size enterprises.



The statistical data collection in Hungary is carried out in the IT system called the Electronic Notice Handling System, which was developed for this purpose. The data entered into this system are based on the information and data included in the notices on the result of procedures that were published in the Public Procurement Bulletin.

The query of detailed statistical data and the elaboration of reports can be carried out according to various aspects. The features of the reports are in compliance with the legal requirements or individual requests.





### 3 Local economy

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Based on available data from the financial year of 2016, there are 763 registered and operating businesses in Nagykálló. This figures shows a significant improvment compered to 2010, when only 421 businesses were present.

In the local economic structure, agriculture plays a crucial role, the main agricultural products include maize, wheat and sunflower, but apple growing is decisive as well. There are a number of companiesinvolved in the agribusiness, processing local and/or microregional agricultural products and sometimes involved inrelated trade. Furthermore, in recent years, cold store capacities have also increased in Nagykálló. Most of the companies are micro-, small- and medium sized enterprises.

Processing industry is also crucial in town, which is principally related to agriculture and light-industry.

In addition, retail is also a rather important part of the local economy: most of the retail units sell foodstuff; several retail chains are present in Nagykálló with a wide selection. Unfortunately there's no large shoppingcentre in the town, however a wide range of shopping centres and specialised large retail units offer their services in the nearby city of Nyíregyháza, so this proximity is as much of a blessing, as a disadvantage.

As a result of the developments of recent years, and thanks to its favourable geographic positionNagykálló has the potential to become an important regional logistical, trade and service hub within the next few years.

Another rather significant segment of the local economy are services. The number of service-related businesses in town are 368 which is 48% of the previously mentioned 763. However, the empolymnt in this field is not that auspicious, and the main reason of this can be traced back to the proximity of the county-capital, Nyíregyháza.

Unfortunately, vast majority of local SMEs are not involved, and actually have never been involved in procurement processes of the Municipality. One of the main objectives of the administration is to cooperate with and help local businesses, in order to make them competent – or at least encourage consortia development - so they can undertake these processes. However, for the time being now, we must admit that when it comes to large-value contracts most of the SMEs are precluded due to the fact that they are lack of capacity and experience. One of the fields where cooperation is present is the field of construction, where small businesses try to cooperate in order to be able to compete with huge national companies. There are already two ongoing projects which can support local businesses, one of them is the Employment Pact with the budget of 130M Ft (app. 405.000 EUR). The project itself is about better cooperation between the Municipality, the local Work Centre and Educational institutions and of course about job creation in general. Another significant project of the Municipality is related to the implementation of business incubation houses.

Last but not least, in the framework of project Procure we wish to stress the importance of cooperations and its possible opportunities among others with the help of our online capacity database and entrepreneurial forums.

### 3.1 Procurement Act in Hungary

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The Act CXLIII. of 2015 on public procurement - commonly known as the Act on Public Procurement (hereinafter the Act). The new act entered into force on 1 November 2015. This area of Hungarian law consists of numerous Governmental Decrees, Ministry of National Development Decree.

On 20 June 2011 Act no. CVIII was passed to replace the previous procurement act, in effect since 2003. We used to this act. The new act entered into force on 1 January 2012. The main reasons for launching a new regulatory package were to increase transparency and enhance stability and simplicity of the public procurement system in Hungary. The new directives of the European legislation were built in the new Act.

Actual wording: „respect the fairness, the transparency and the public nature of competition”.

The new Act refers to core principles:

- i) to make the PP procedures more flexible and simpler,
- ii) to fight back corruption,
- iii) to facilitate the participation of small and medium enterprises in the PP system and
- iv) to harmonize national legislation with the EU norms.

According to the Act on PP, the aim of the legislation is to provide „a reasonable and effective use of public funds,” to guarantee the public control of public funds, and to ensure "fair competition in public procurement." In addition, the purpose of this Act and the legislation based on its execution is to enhance access of small and medium-sized enterprises to contract award procedures, to promote sustainable development, social considerations of the State and lawful employment. There is a possibility to maintain the smaller contracts for small and medium-sized enterprises.

**II.) Specification the relevant thresholds by types and relevance of Procurement in Nagykallo**

	National procedure with notification (HUF)	
	Min	Max.
<b>Goods</b>	15.000.000 Ft	209 000 EURO
<b>Services</b>	15.000.000 Ft	209 000 EURO
<b>Constructions</b>	25.000.000 Ft	5 225 000 EURO

Those public procurements which reach EU thresholds have similar rules in European Union. In Hungary the procedures may be:

- a) open procedures,
- b) restricted procedures,
- c) innovation partnerships,
- d) negotiated procedures,
- e) competitive dialogues,
- f) negotiated procedures without prior publication of a contract notice

Negotiated procedure, competitive dialogue and negotiated procedure without prior publication of a contract notice may only be conducted under the conditions laid down by the Act. According to

the rules on each type of procurement procedure, notices launching the procurement procedure shall be the contract notice, the invitation to participate, the invitation to tender, or the direct invitation to participate.

Beyond the rules of EU, in Hungary we apply more requirements related to the tenderers and appliers, for example those economic operators will be excluded from participating in the procedure as a tenderer who committed an infringement of the law established by the employment authority. In these procurements the participants have to use the European Single Procurement Document.

**Open procedure:**35 days, which can be reduced to 30 days from the day of appearance of the notice, in urgent cases can be reduced to 15 days. (Procedures of Nagykálló:- project of the sewage farm in Nagykálló co-financed by the EU (wastewater treatment plant- Major office, )

**By invitation and negotiation procedure (with or without prequalification):** At least 30 days, even in urgent cases can not be less than 15 days. The deadline for tender proposals can be agreed upon by the qualified tenderers and the contracting authority. If they do not agree, the contracting authority decides on the deadline, which should be within the consequent 24 days. The authority can shorten this deadline by 5 days if the documentation for tendering was made available online from the day of the publishing of the procurement notice.

**Negotiation procedure without notification:** Must contact at least 5 tenderers (instead of the former 3 tenderes) and establish the deadline as considered to be sufficient for formulating their offers. We used to apply this method until 1 January 2017. when it was restricted to constructions.

The rules of the procedures below the EU thresholds are more simple. We distinguish two more thresholds. In case of those PPs which contain works with smaller amount the contracting authorities may avoid launching notices. In case of public supply, public services launching notices are always compulsory. We may apply less requirements related to the tenderers and appliers, the usage of ESDP is not necessary below the EU thresholds. The contracting authorities may specify the time limit for submission of tenders free.

Following strict rules of public procurements especially the basic rules such as fair competition, equal opportunities, Nagykálló faces the problems that cannot or hardly influence who will be the winner of the procedure sometimes companies from the county-seat or other enterprises from the country and our municipality cannot contract with local firms. Local firms can submit bids only in small value public procurement procedures. Besides local

firms are those who pay local taxes and ensure local employment, employ local residents. Local business owners think they have no perspectives in their own town (home town) so they decide to move their firm seats to the county seat. But that means not only the lack of contracting with local firms but losing working places, local taxes coming from local firms. Few start ups decide to settle in Nagykálló because the closeness of the county seat is very attractive for them.

Other problem we have to face the lack of practice and experience of the new rules of the brand new public procurement act of Hungary. For example new evaluation criteria are real challenges for us. No one knows and can apply life-cycle evaluation criteria because there is no executive background which could explain how to use it or what it is. Using it could be a new possibility but how if we do not know what the legislation want with it. And that is not the only new rule which we need to discover...

A completely new Public Procurement Act (“PPA” or “PP Act”) came into effect on 1 November 2015 in Hungary which incorporates all new EU directives (EU Directives 2014/23, 24, 25) related to public procurement procedures and aims to implement of EU rules regarding concessions and procurement by classic contracting authorities as well as in the utilities sector. The new PP Act based on EU regulations (legislation) which came into effect after 1 Nov 2015 such as ESPD regulation (European Single Procurement Document) which came into effect in the spring of 2016 [http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=OJ:JOL\\_2016\\_003\\_R\\_0004](http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=OJ:JOL_2016_003_R_0004).

Main changes in PPA are:

**Mandatory electronic procedure:** the rules on mandatory electronic procedure will be applicable later - for centralized purchasing activities from the beginning of 2018 and for all public procurement procedures from the end of 2018.

**Certification:** the PPA is aimed at simplification in the administration. E.g. in a tender above the EU threshold, the certification of non-existence of exclusion grounds, as well as compliance with the selection criteria, shall be certified by the European Single Procurement Document (“**ESPD**”).

**Exclusion grounds:**

- as a new rule, the possibility of self-cleaning is available, in the case of most of the exclusion grounds. In such cases, the economic operator needs to prove its reliability sufficiently before the Public Procurement Authority or court.
- exclusion grounds will affect the legal successor as well, i.e. in the event that a company falls under an exclusion ground, demerger from the “bad” company will not serve as a remedy anymore.
- the absence of exclusion grounds needs to be certified for the executive officers, including any member of the management or supervisory board of the economic operator, or any other person that has decision-making power. The certification may require the submission of criminal records, which may raise data privacy concerns.

**Reliance on the capacities of other entities:** reliance on the capacities of other entities becomes more difficult. E.g. a contract needs to be submitted as part of the bid (tender) in which the capacities provider undertakes that all resources necessary for the fulfillment of the contract shall be at disposal during the performance of the contract.

**Technical capacity requirements:** the contracting authority cannot require the submission of references of past supplies or financial annual income in a value of more than 75% of the estimated value of the relevant procurement.

**Subcontractors:** The indication of the 10% plus subcontractors in the bid is no longer mandatory, although the contracting authority may prescribe in the contract notice that the bidder needs to indicate the part of the procurement for which it wishes to use a subcontractor together with the subcontractors known at time of the submission of the bid. The unique and burdensome Hungarian rule, according to which a subcontractor involved in the contractual performance in more than 25 % needs to be indicated mandatory as joint bidder, disappeared from the new PPA. In the case of certain works and services, the contracting authority may prescribe that significant tasks must be performed exclusively by the bidder, and it is not possible to involve subcontractors.

**Business secrets:** Fewer documents may be treated as confidential and together with such a submission, the bidder needs to make a declaration explaining in advance why the document qualifies as a business secret. The rules of the accessibility of documents become

stricter as the full inspection of the bid of another economic operator is not possible anymore. Access will be limited to the documents necessary for the enforcement of the rights related to the alleged violation.

**Conflict of interest:** Besides the already existing conflict of interest rules, the new PPA excludes several specific persons from participating in public procurements e.g. President of the Public Procurement Authority, President of the Competition Authority, President of the Tax Authority, ministers, President of the Parliament etc. and their family members.

**Contract award criteria:** The best price-quality ratio and the lowest cost becomes the main contract awarding criteria, not the lowest price criteria as was the case. The lowest price criteria may be applied in limited cases only. The Lifecycle cost will have more importance, but we have no experiences in it.

**Remedies:** Challenging the resolution of the Public Procurement Dispute Board will be possible only before 2 courts (not in Budapest anymore), which are the Administrative and Employment Tribunal of Kecskemét and the Administrative and Employment Tribunal of Székesfehérvár, depending on the seat of the contracting authority.

**Modification of contracts:** More flexibility:

- the price increase may be 10% in the case of supply and services contracts and 15 % in the case of work and concession contracts.
- Modification is possible in case additional works, supplies or services are needed and a separate procurement procedure is not economically or technically feasible – in this case the price increase may be 50 %.
- Modification is possible only if the modification does not entail a substantial change of the contract.

The detailed rules are set out in secondary legislation. Government decrees regulate, among others, the certification of exclusion grounds, electronic auctions, technical specifications, applications used for e-procurement, details of procurement of public service providers, procurement of works and centralized purchasing activities.

The introduction of the new Public Procurement Act in Hungary in November 2015 is assisting with the City of Nagykálló's objective around procurement, as it is closely aligned to the new European Directives. However, there is a lack of experience of utilising its principles

in Nagykallo. The City of Nagykálló does have a procurement strategy, but it contains guidelines around policy rather than practical linkages to the priorities of the City. The City of Nagykálló also publishes a plan of upcoming opportunities on an annual basis for above threshold opportunities.

The City of Nagykálló has a relatively small procurement budget at around Euro 8 million. However, it is seeking to engage local and small businesses, particularly in below threshold tender opportunities. Procurement in Nagykálló is the responsibility of the Department of Economy. The City of Nagykálló has undertaken some work already to raise the importance of its procurement function. They have: sought to link procurement to the priorities of the city; broken contracts into smaller lots to make them more accessible; simplified documentation; and engaged with businesses pre-procurement. They have however not yet undertaken work around the impact of spend.

Public procurements of bigger value have bad reputation in Hungary, summarized in one word: corruption. According to the recently issued European Anti-Corruption Report's section pertaining to Hungary, the practices related to public procurement in the country raise a wide array of problems: certain companies are winning a tellingly high number of public procurements on tenders co-financed by the European Union, and there is a practice of using inappropriate selection and evaluation methods to favor some bidders above others. According to the EU report, such problems are accentuated in the case of large-scale infrastructural investments.

Nagykálló would like to show that especially bigger procurements of Nagykálló are „clean” anti-corrupt, no local enterprises win them but big firms (although it would be better if they won them to remain the money in the city). We have our own local PP Regulation to regulate the details of our PPs.

The solution to make public procurements more transparent in Hungary is offered by Transparency International Hungary (TIH). TIH offers a solution, an effective civil control mechanism, the so-called Integrity Pact (IP). The Integrity Pact is a contract signed by the contracting authority, the bidders and an independent monitoring organization. The monitor assesses all data and documents related to the public procurement, as well as the actual implementation of the contract. The monitor represents the warranty that both bidders and contracting authorities pledge to behave in a transparent, fair way, without using unlawful

means. Transparency International Hungary takes part in the Hungarian IP-s as monitor or consultant.

What is the IP good for?

- It assures real competition in those public procurements where it is used.
- It assures that the tender is really won by the bidder who made the best offer.
- It assures that corruption does not make prices skyrocket.

Spending public money always stands high on local political agenda. Local firms pay a huge amount of local taxes but we pay out this money for non-local tender winners. We need to stop the firms to migrate into the count-seat, we need to keep local businesses in Nagykálló as these firm employ most of the inhabitants and pay taxes.

Local government system has changed significantly in recent years. Central government took away a huge part of local government duties during 2010-2014 such as public education, registration offices, several public task. A new administration system was set up based on a so called “járás”, district. (Járás literally means “a walking distance”). As the municipalities have had relatively few tasks remained it is a highlighted expectation from central government that municipalities develop their economies from the capacities unutilized.

Social and environmental tasks remained in municipality power. New PP Act requires the strengthening of the social and environmental aspects in our public procurement processes.

## 3.2 Spend analysis

The table below shows the procurement spends of the Municipality of Nagykálló in the financial year of 2014 and 2015.

Total Spend	2014		2015	
	HUF	EUR	HUF	EUR
Personal expenses	716 310 000 Ft	2 310 677 EUR	767 519 000 Ft	2 475 868 EUR
Materials	40 603 000 Ft	130 977 EUR	42 948 000 Ft	138 542 EUR
Communicational services	7 835 000 Ft	25 274 EUR	7 776 000 Ft	25 084 EUR
Services (Public utility, maintenance, catering, etc.)	304 805 000 Ft	983 242 EUR	299 402 000 Ft	965 813 EUR
Marketing, advertising	6 012 000 Ft	19 394 EUR	3 663 000 Ft	11 816 EUR
Taxes	252 942 000 Ft	815 942 EUR	400 041 000 Ft	1 290 455 EUR
Social care	214 415 000 Ft	691 661 EUR	76 652 000 Ft	247 265 EUR
Additional operational expenses	428 024 000 Ft	1 380 723 EUR	433 188 000 Ft	1 397 381 EUR
Estates	704 237 000 Ft	2 271 732 EUR	576 655 000 Ft	1 860 177 EUR
Goods	53 236 000 Ft	171 729 EUR	28 513 000 Ft	91 977 EUR
Renovation	10 974 000 Ft	35 400 EUR	0 Ft	0 EUR
Banking	28 367 000 Ft	91 506 EUR	109 825 000 Ft	354 274 EUR
Overall	2 767 760 000 Ft	8 928 258 EUR	2 746 182 000 Ft	8 858 652 EUR

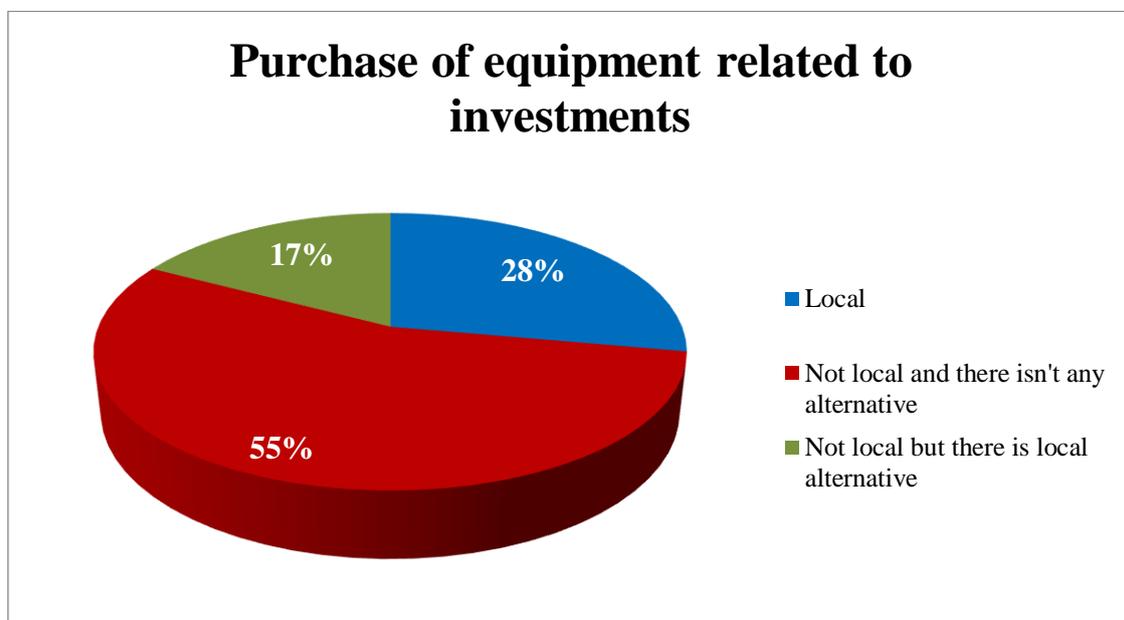
As for investments and operation related purchases, in terms of procurement, Nagyálló strives and has always strived to offer opportunities to local actors. Historically, based on previous regulations and practices, public procurement in Hungary has been undertaken on a lowest price basis, social and environmental criterias have been used only in some cases. By analyzing the procurement processes of 2014 and 2015 it is perceivable that in 2014 the ratio of local primary spends was 20,13 % of the overall spends and this figure became 57,25% in the year of 2015. This significant growth is principally resulted by the increased involvment of local actors in terms of construction works.

During the preparation of spend analysis we identified three categories:

- local actor,
- not local but has a local alternative,
- not local and right now there isn't any local alternative,

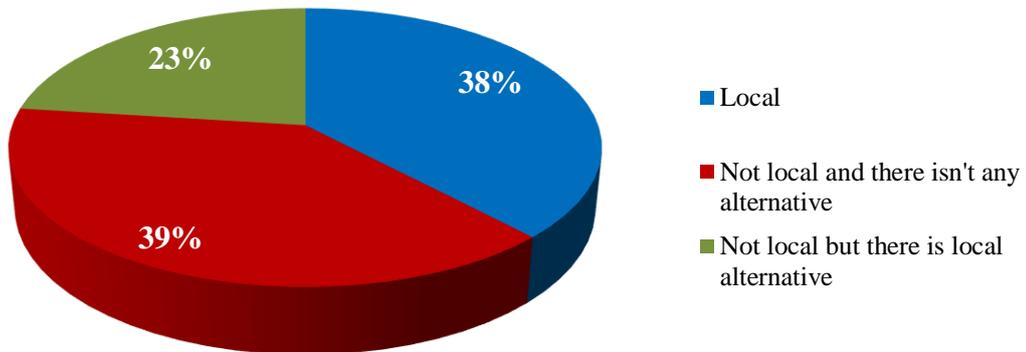
Before undertaking this analysis it was crucial to identify and determine the term „not local with a local alternative”. Nagyálló has the so-called advantage that it is a small town with a small market which consist of some 70 potential local suppliers, so competent town-development experts know pretty much all of them. With the help of these experts it wasn't difficult to identify those contracts and spends which would have been undertaken or spent with local suppliers.

The diagrams below show the proportion of procurement spends categorized by the subject of these processes from the financial year of 2015.



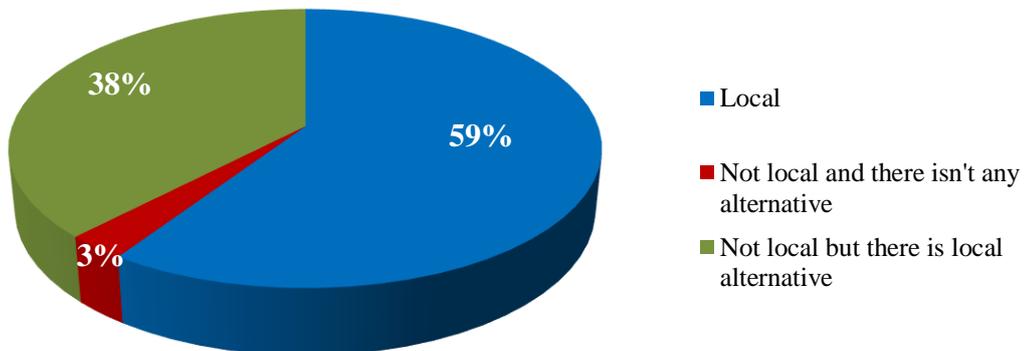
Local:	6 908 366.- Ft - ~22.260€
Not Local and there isn't any alternative:	13 619 878.- Ft - ~43.870€
Not Local but there is local alternative:	4 281 555.- Ft - ~13.550€

## Services related to investments

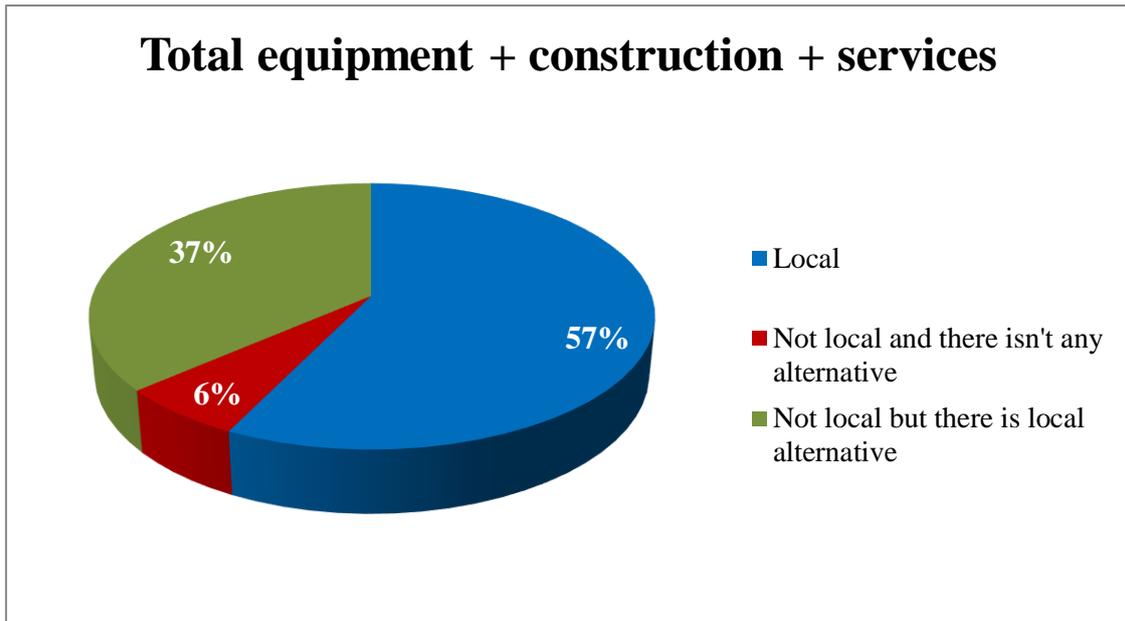


Local:	9 891 287.- Ft – ~32.250€
Not Local and there isn't alternative:	9 964 564.- Ft – ~32.450€
Not Local but there is alternative:	5 994 220.- Ft - ~19.350€

## Construction works related to investments



Local:	345 179 089.- Ft – ~1.112.900€
Not local and there isn't alternative:	16 682 690.- Ft - ~54.500€
Not local but there is alternative:	219 786 443.- Ft - ~710.700€



Local:	361 978 742.- Ft - ~1.170.000€
Not Local and there isn't alternative:	40 267 132.- Ft - ~129.000€
Not Local but there is alternative:	230 062 218.- Ft - ~742.000€

### 3.3 Previous actions

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Procurement processes of the Municipality are predetermined by two documents. One of them is the Procurement Regulation, the other is the Procurement Plan, however the latter one often needs to be amended due to different project related complements. For the time being now, the Municipality of Nagykálló does not have a mid-term Procurement Strategy. The Local Board of Representatives has already contributed to the preparation of the Strategy which hopefully will include institutions and businesses owned by the Municipality itself.

The Municipality of Nagykálló has two more local regulations (2009) concerning in-house procurements. Our municipality has its own ltd which has professional employees to help the municipality in its compulsory duties. As the firm is owned by the municipality in 100 % its professionals work for the municipality almost such as “direct” employees, but all implementations and developments are more effective in this way. One of the regulations is about exclusive rights between the municipality and its firm, the other regulates town rehabilitation. So, special (not too big) local procurements are not contracted by outsiders (sometimes far away located firms) but with our own firm. This method can help the development of the city. Regulations are in line with PP Act.

We already have a Public Procurement Policy but it contains only administrative rules how to continue public procurement procedures but no methods.

During URBACT II Job Town project we developed a local action plan which contains a section which analyses how youngsters can start up businesses. We would like to position them as tenderers in public procurement processes but have no strategies and experiences how to do that to avoid the slightest suspicion of corruption.

Involving local firms into public procurement processes then contracting with them would reduce PP costs as local companies do not have to calculate for their employees with travel costs, accommodation in their tender prices.

During INTERREG IV C Labour Plus project we elaborated a feasibility study how we can transfer good practices from international project partners concerning the employment of young adults and Romas then build it into our local demands and legislation.

Between 2009 and 2015 the Municipality of Nagykálló frequently had procurement processes with total value over 500 million or 1 billion Forint (~1.613.000€ and ~3.200.000€). However the situation and these figures have changed a lot in recent past. Principally because of the transition between EU programming periods, we are talking about procurement processes with the value of 30-70 million Ft (~96.800€ - ~225.800€) or sometimes even lower. Furthermore the subject of the processes has also changed. Previously seen, construction related, high-value, opened tenders have been replaced by supply related processes or by refurbishment, reconstruction, improvement works with significantly lower value. This entails changes in evaluation as well. The earlier used long and strict criterias (which covered all technical, financial, professional competence) have been replaced by quick, flexible and not so strict evaluations. Apart from the public lighting improvement projects, all of the procurement processes are connected to the EU sources which come with really strict preliminary, subsequent and intermediate monitoring. During these projects, tenderers (wastewater treatment, drinking water improvement, town development and rehabilitation projects) were expected to set up social, environmental, work-safety criterias during procurement processes. Like for example in these cases it was ground for refusal if said supplier did not have environmental protection and/or quality management system.

Moreover, employing disadvantaged, „lagging-behind” or unemployed persons were also really important criterias. And last but not least the provided warranty services after the procurement processes were also taken into consideration.

In the last 3 or 4 years the Municipality of Nagykálló has been unable to implement such large-scale project from its own sources and some institutions (elementary school, secondary grammar school, technical school, sports hall) have been centralised, nationalised and controlled by the government which means maintaining and improving these institutions, buildings are no longer the competence of the Municipality so procurement opportunities narrowed. Only the refurbishment of the roof of the local kindergarten has been implemented in August 2016 with the value of 30 million Ft (~97.000€) which meant only 3 supplier was involved and the criterias were not that strict as well (financial stability and reference of at 25 million Ft construction works). The Municipality involved businesses which proved themselves earlier during large-scale project so it was enough to set up the lowest price and delivery period as main criterias.

The Municipality of Nagykálló is dedicated to improve local economy. It tries to support local businesses with its own tools and methodologies which most of the times means help in administration processes. Even though the Municipality tried to favour local SMEs with the help of different criterias, in terms of investments, procurement regulations and acts did not allow the to directly prefer SMEs as – in case of open tenders - tightening the market is against the law.

In case of closed tenders the Municipality invites local SMEs as tenderers. Most of the times construction industry and services act as a perfect example because in other fields there is no 3 local businesses to compete.

One of the previous actions and practices of the Municipality was that it provided exclusive right of public services based on in-house regulation which has beend modified several times. Regulation no. 1/2008 (I. 07.) provides exclusive right to the implementation of the following public services to the institutions owned or controlled by the Municipality:

- Maintaining public spaces,
- Drinking water supply
- Wastewater treatment
- Drainage system management,
- Maintaining the institutions of the Municipality
- Maintaining and repairing the vehicles and tools of the Municipality
- Waste management
- Operating local cemetery
- Operating local beach
- Town development activities
- Protecting the natural characteristic of the town
- Maintaining roads
- Contributing to the local employment
- Local public transport – like for example school buses
- Providing community services
- Insuring management and communication activities in town development processes.

In-house businesses which are responsible for the aforementioned activities employ local people and pay local taxes.

# 4 Integrated Action Plan

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## 4.1 Strategy

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### 4.1.1 Challenges defined by the Local Group

The procurement related challenges, which were defined by our Urbact Local Support Group are two-folded:

- **Challenges perceived by local stakeholders:**
  - Spending too much time on administration
  - Lack of capacity
  - Low financial support for SMEs
  - Lack of practical cooperation
  - Lack of incubation
  
- **Challenges perceived by the Municipality:**
  - Lack of available data and database related to local businesses,
  - Lack of knowledge about procurement spends,
  - Lack of trust – shadow of corruption
  - Lack of SME involvement
  - Procurement processes are long processes.

### 4.1.2 Overarching objective

The overarching objective of the Municipality is to improve local economy by improving the role of local SMEs in public procurement processes.

### 4.1.3 Specific objectives

The Municipality of Nagykálló wishes to:

- Decrease the unemployment rate;
- Increase the number of local services;
- Increase local tax incomes by increasing the competitiveness of local businesses;
- Keep procurement spendings/money in the town.

## 4.2 Key elements of the proposed strategy

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Taking into consideration that the problem we are facing is rather extended and comprehensive the main objective of our proposed strategy is much rather to provide a long-term, sustainable solution than simply carry out a project. At the same time, we firmly believe that in order to achieve real success in this field, establishing long-term interventions, mechanisms, is not sufficient. Furthermore to keep the motivation and commitment of various stakeholders strong, short-term actions which bring quick results - quick wins - are also needed. That is where our two-stage approach comes into notion: while stage two focuses on launching long-term, sustainable processes, stage one involves the implementation of quick win actions, delivering specific palpable results early on in the implementation process.

The proposed strategy focuses on the fields of:

- information and communication
- coordination
- innovation

Main problems and challenges:

1) Shadow of corruption in procurements in Hungary: we need to show that all of our public procurements are transparent and legal

2) Lack of a data base with well qualified local and near-by firms (how to qualify them to be put on a pp list)

3) Lack of practice in “best price-quality” and “life –cycle” evaluation criteria (ratio) especially how to evaluate unquantified offers such as quality, technical merit, aesthetic and functional characteristics

4) How to maintain money of local taxpayers in the city, how to utilize it for local enterprises in open procedures (tenders)

5) How to build-in green and social conditions into tenders

According to Hungarian legislation and legal background there are no other ways to spend public funds (money) only by public procurement or procurement procedures. Above public procurement thresholds rules are elaborated in strict details (acts, decrees) below public procurement thresholds contracting authorities have rights to elaborate the details in policies. So, only procurement procedures let our municipality to address economic and social challenges. Without these procedures there is neither possibility to contract nor using economic and social requirements.

Beyond the fact that the Action Plan focuses on solving the previously mentioned problems, it also contains both national and international good practices which can help in local development projects. Furthermore it outlines involvable stakeholders and financial opportunities as well. The specific fields of focuses are detailed in the following subsections.

## 4.2.1 Information and communication

**Communication** is a pervasive issue. A major challenge as perceived by local stakeholders is the lack of communication and connection between actors. Undoubtedly the most important condition of an effective cooperation and partnership is improve communication between these actors which in this case is the Municipality and local businesses. Furthermore it is really important to involve SMEs even in preparatory phases. Businesses can be more prepared if they have to map all the resources they need. For local public bodies it is necessary to have an exact and up-to-date database about local resources as most of the time the lack of this database is the main reason why businesses from other areas are contracted.

Proposed actions in this field:

- Involvement – preliminary negotiations on a regular basis in different procurement processes

- Creating an annual procurement analysis by 31st December and publishing it
- Creating the „Local Online Capacity Database”

### 4.2.2 Coordination

The succes of local businesses depends on how they utilize their resources, however there are some external factors which they are unable to influence. One of these factors is definitely the presence of skilled workforce or administration. The former one can be influenced by the local Work Centre and Pact Office, while the latter one is the competence of the Municipality. With the help of effective cooperation local SMEs could be more succesful in tenders where they would fail individually.

Proposed actions in this field:

- Creating a cluster model (construction industry)
- Creating an entrepreneurial forum – a meeting takes place where representatives of the work centre, pact office, municipality and local SMEs can meet and discuss issues, challanges, possible solutions.
- Conducting the procurement processes of at least 3 businesses (like a pilot project)

### 4.2.3 Innovation

Innovation is really important in every field of our life so it is in procurement processes as well because with the help of it we are able to use new methodologies and able to see issues from a different perspective and sometimes these can help us all to improve.

Proposed actions in this field:

- Creating a Procurement Strategy for the procurement processes of the Municipality and its institutions
- Introducing local money

<b>Local actions</b>		
Information and communication	Coordination	Innovation
Involvement	Cluster model	Procurement strategy
Procurement analysis	Entrepreneurial forum	Local money
Local Online Capacity Database	Pilot project (common procurement)	

## 4.3 Local actions and their financial background

To tackle the previously mentioned issues and challenges the Administration developed its proposed actions which they wish to implement over the course of the next couple of years. The table above details which actions is supposed to address specific challenges/issues:

Challenge	Action to tackle the challenge
Lack of database related to local businesses	Creating the Online Capacity Database
Lack of knowledge around spends	Spend analysis
Lack of trust – shadow of corruption	Creating the Online Capacity Database Organising entrepreneurial forums Creating the Procurement Strategy
Lack of SME involvement	Creating the methodological guide
Procurement processes are long processes	Creating the methodological guide

## 4.4 Roadmap of actions

Action	Intended result	Resources	Lead Agency	Key partners	Timescale
<b>Methodological guide</b>	A document	Project budget	Local government	Experts	June 2018
<b>Spend analysis</b>	„Keep the money in town”	Municipality budget – employees	Local government	Experts	May 2018
<b>Online database</b>	Online capacity database	Project budget	Local government	Local companies	May 2018
<b>Entrepreneurial forum</b>	Bidders can be prepared for PP procedures	Project budget	Local government	Experts	March 2018
<b>Joint procurement</b>	Discount prices	Municipality budget	Local government	Leaders of the in-house company	Continuous
<b>Procurement strategy</b>	Increase the number of involved local businesses/ increase income from local tax	Municipality budget	Local government and its institutions	Suppliers, experts	November 2017
<b>Cluster model</b>	More competitive	External funds	Employment Pact, Town-	GOs, constructions	2019

	small busnisses	(ERDF)	development Ltd.	companies	
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## 4.5 Elements of risk

However, during the implementation of our proposed actions there are some factors which we need to take into consideration, identify and understand the risks that we could face as these can hinder our progress. In the following table we listed specific risks, their probability, impact and possible means of risk management in order to minimize their impact on our plans:

Specific risk	Likelihood (very likely; likely; unlikely)	Scale of impact (high; medium; low)	Means of risk-management
Lack of skilled human resources	unlikely	high	Providing appropriate professional background
Indicators can not be materialized	unlikely	high	Identifying realistic indicators which can be monitored
Lack of national and international subsidies	unlikely / likely	high	Preparing for the lack of support Liaising with relevant organisations
Implementation of the actions require more money than it was anticipated	unlikely/likely	medium	Preparing thorough financial and professional plans Defining financial reserve
Delays during the implementation	likely	medium	Setting up a realistic schedule
Adverse micro-economic processes	likely	high	Using alternative actions, methods Intensive investment-promotion
Unfavorable changes in legal framework	likely	high	Keeping tabs on legislation and regulations Resilient and quick reactions to the possible amendments
Lack of own financial resources	likely	high	Looking for alternative sources/resources

Lack of support from local businesses and entrepreneurs and residents	likely	high	Using appropriate marketing and communication tools Encouraging inhabitants to participate in forums and in community planning
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## 4.6 Quantifiable results of the Strategy

Another really important component of the strategy is defining indicators. With the help of these indicators objectives can be quantified and it is easy to identify which objectives need to be materialized to make the action plan successful.

Indicators defined in this action plan can be divided into two groups:

- output indicators – prepared documents, intangible assets, intellectual property or events.
- result indicators – which measure direct impacts of the actions.

Specific Objective	Result Indicator	Output Indicator
<b>Reduce unemployment with the help of procurement processes</b>	Increasing the number of employees hired by local businesses  – increasing by 10% from 2022 onwards	Number of registered local businesses to the Online capacity database  Baseline: 0 Target: At least 100 until 2022
	Increase the contribution of procurement to internship opportunities  - 4 internship opportunities in each year	Number of young people (under the age 25) involved  - At least 16 persons from 2022 onwards
<b>Increasing income from local taxes by increasing the viability of local businesses cooperating in procurement processes</b>	Increasing the amount of business tax.  - by 2% each year until 2022.	Number of cluster collaboration(s)  - at least 1 until 2022
<b>Improve the transparency of procurement processes in order to build/gain the trust of local inhabitants</b>	Increasing the number businesses which collaborate  Target: Increasing by 10 in each year until 2022	Number of entrepreneurial forum  Baseline: 0 Target: 4 forums/year until 2022

<p><b>“Keep the money in town”</b></p>	<p>Volume of the contracts with local businesses</p> <p>- Increasing by 10% from 2022 onwards</p>	<p>Number of contracts with local businesses</p> <p>- Increasing by 10% from 2022 onwards</p>
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## 5 Summary

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The aim of URBACT’s project called Procure is to explore how to harness the spending power through the procurement processes of public/anchor institutions in each of the partner cities to bring about economic, social and environmental benefits for businesses and people which in turn will have a positive impact on the city and its local economy.

The Municipality of Nagykálló was instigated by several factors to join this network, factors such as unflattering demographic changes; Nagykálló is strongly affected by unfavorable demographic changes. The population, particularly in its outskirts, is shrinking and aging since especially young people are migrating away from the area and start their family in bigger cities or abroad. Furthermore, the Administrations were lack of knowledge and experience related to new national and EU procurement related regulations most notably around qualitative evaluation, monitoring, effective use of environmental and social criteria. Last but not least the Municipality were also lack of available data and database in connection with procurement spends - where are these going geographically and what is their distribution between local and non-local businesses – and local suppliers.

In the framework of the project, Nagykálló undertook the elaboration of a comprehensive Integrated Action Plan (IAP) related to the development of local economy with the help of procurement processes. The main focus and proposed actions of this plan correspond with the objectives of Procure and were outlined through an array of URBACT Local Group (ULG) meetings. Said actions are all considering the local characteristics and challenges perceived by stakeholders and the Municipality, like for example spending too much time on administration, lack of capacity or lack of SME involvement.

Both the IAP and the town of Nagykálló have benefited a lot from the transnational meetings during the lifetime of the project and all the themes and inputs from the partners were useful and most of them were used in relation to the elaboration of the action plan and the implementation of proposed actions. Which are, for instance creating an online capacity database and organizing a series of entrepreneurial forums which serve the purpose of informing relevant stakeholders about imminent procurement processes and providing them a better understanding of what the Municipality is trying to achieve out of its procurement processes and can pave the way for future cooperations between local businesses. Further actions of the town are creating a procurement strategy and annual spend analysis when former seek to encourage procurers of the town to consider other issues beyond price and quality when it comes to the design of procurement processes and contribute to the strategic direction of the Municipality and latter help to track procurement spends geographically and to analyse the distribution between locals and non-locals.

The overarching objective of the Municipality which it seeks to achieve with the help of implementing these actions is to improve local economy by enhancing the role of local SMEs in public procurement processes. Moreover, with the help of progressive procurement processes the administration pursues to achieve specific objectives as well, such as reducing unemployment rate, increasing local tax incomes, improving transparency and keeping the money in town while key performance indicators are increasing the number of local employees and interns hired by local businesses, increasing local tax incomes, organising entrepreneurial forums and increasing spends with local suppliers over the course of the next 5-10 years.

It is clearly visible from the above that, as a result of Procure, something has started in this small Hungarian town. The eagerness and the desire are there to change the approach, which is perfect for a first step. However, there is still a long way to go and this is where our Integrated Action Plan will support us in doing that.