



# Micro Enterprises – the Hidden Organisations and their Participation in the Public Procurement Market

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## Introduction

The public procurement market is a very significant market for the small and medium sized enterprises (SME) sector. Expenditure on the procurement of goods, works and services by public authorities in the EU represents approximately 19% of EU GDP which equates to €2.1 trillion. In Ireland, public procurement expenditure is estimated at between 10% and 12% of GDP. In today's terms this equates to approximately €9.5 billion. Given the value and variety of goods, works and services procured by public authorities, the public procurement market provides significant opportunities for SMEs. However, according to European Commission data, SME participation in the public procurement market remains lower than their importance in the economy. Access to the market is perceived by SMEs as being overly complex and burdensome. Factors which are consistently cited as representing barriers to SMEs' full participation in the public procurement market include disproportionate financial criteria, the large size of contracts being tendered, excessive paper work, over-emphasis on price, bid costs and insufficient time to bid. One of the difficulties is looking at the SME sector is the fact that majority of these enterprises are Micro Enterprises and the factors that apply to companies with in excess of 50 people do not apply to companies with less than 10 people.

## Mechanisms for SME Participation in Public Procurement

It is recognised that the large size of public contracts is often a disincentive for SME participation in the procurement process. Four mechanisms have been set out that could be considered by large contracting authorities in order to encourage SME participation regardless of the large size of the contract namely (i) subdividing contracts into lots; (ii) combinations of contractors in order to facilitate reliance on mutual financial and technical capabilities - setting up collaborative mechanisms and

consortia; (iii) framework agreements and (iv) sub-contracting. Although these are actively encouraged they are seldom practiced to the extent that they can be seen as being effective at having any increased participation levels for micro-enterprises. In the UK the use of the local multiplier (LM3) methodology and the setting of targets of 75 % for local SME participation have forced the appliance of these mechanisms rather than the optional adoption that is available in Ireland.

The requirements for selection criteria should be proportionate and objective. An example of criterion, which raises issues for SMEs would be, a criterion, which evaluates experience, acquired in dealing with the public sector only. It is noted that such a criterion is irrelevant and limits competition. It should also be noted that disproportionate financial guarantees (e.g. high qualification levels and financial requirements) constitute an obstacle to the participation of SMEs in public procurement. Although Circular 10/14 goes some way to acknowledging changes to be put in place again it should be noted that this is a guidance document and in no way ensures that practices will change as there are no penalties to enforcement

The current Directives refers to EU measures aimed at combating late payments and providing for a default level of interest for late payments and recovery procedures. In Hungary the tenderer is entitled to collect the money directly from the contracting authority's bank account where it is not paid within 30 days following performance. In the UK, Government Departments and their agencies must publish the proportion of bills paid within 30 days or another agreed credit period and to consider whether staggered or interim payments are appropriate

## Progress

In July 2008, the Department of Enterprise, Trade & Employment established the Procurement Innovation Group comprising representatives of industry, academia, government departments and State agencies. The Group's objectives were to (a) raise awareness of the benefits of using public procurement to stimulate research and innovation; (b) identify obstacles or problems in the current procurement process which impede opportunities for innovation; (c) examine the potential of the Public Procurement Directives to ensure a level playing field for all innovative companies wishing to participate in public tendering; (d) create an environment in which the potential of innovation for public procurement can be realised; and (e) make recommendations on how objectives may be achieved. The work of the Group culminated in the publication of Using Public Procurement to Stimulate Innovation and SME Access to Public Contracts (July 2009) and The 10 Step Guide to SMART Procurement and SME Access to Public Contracts (2009)<sup>1</sup>. The Guide outlined the importance of the SME sector in the Irish economy as follows:

<sup>1</sup>Guidance Notes are available on [www.etenders.gov.ie](http://www.etenders.gov.ie)

*"The SME sector plays a fundamental role in contributing to economic growth and employment in Ireland. The public sector is a particularly important market for small businesses, so improving our public procurement practices by removing obstacles and boosting the involvement of SMEs is a key priority.*

*Developing a more SME-friendly approach to public procurement will allow SMEs to make the most of their potential for job creation, growth and innovation. An increased involvement of SMEs into public purchasing will also result in higher competition for public contracts, leading to better value for money and efficiencies for contracting authorities."*

The Guide reflects a large number of the initiatives and mechanisms outlined in the European Code of Best Practices facilitating Access By SMEs to Public Procurement Contracts.

In a recent review carried out for Enterprise Ireland it is observed that there has been no follow up to this policy implementation nor have there been any KPI's included in any recent procurement policies to ensure that any of the practices to date can be measured. This lack of prioritisation is further observed in the Programme for Public Sector Reform (January 2014) where there is only minimal consideration of public procurement that refers to SME participation.

**SME Management Development Insights** is a collaborative initiative from Skillnets and Dublin Institute of Technology. Each Insight is based on academic research relevant to Irish SMEs and is intended to communicate the key implications, insights and recommendations of this research to a wide SME readership, providing opportunity for the research to contribute to improved decision making, practices and policy development for Irish SMEs.

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