

## **IMPROVING ACCESS OF SMES TO THE PUBLIC PROCUREMENT MARKETS**

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### ***Abstract:***

*This paper focuses on the issue of participation of Small and medium-sized enterprises (SMEs) in public procurement in Romania, taking into account that this market it is a key factor for stimulating economic growth, contribute to economic recovery, job creation and innovation. SMEs in Romania receive only 27% of public procurement. This percentage is lower in relation to both EU average of 38 %, and with their own contribution to the economy (45% of gross value added).*

*This paper provides overviews of the main barriers to entry for SMEs into the public procurement markets, as well as a series of measures designed to support their access to a greater proportion. Facilitating the access of small and medium-sized enterprises in public procurement markets can help them to exploit the huge potential of creating jobs, growth and innovation, while allowing contracting authorities to widen the supplier base, which has positive effect of increased competition for public contracts.*

**Keywords:** public procurement, small and medium-sized enterprises, barriers to entry, contracting authorities, tenders

**JEL:** D44, H57, E60

### **Introduction**

The Europe 2020 strategy considers public procurement as an important tool to improve the business environment and to enhance the innovative performance of firms. Also, by encouraging environmentally friendly procurement is supported the transition towards a low-carbon economy and carbon efficient in terms of resource use.

Public procurement in the EU accounted for 18% of GDP in 2011, and 11% of GDP in Romania. In terms of total contract value secured, European SMEs

accounted for about 34% of public procurement in the 2006-2008 period, which is 18 percentage points lower than their overall share in the economy, as calculated on the basis of their combined turnover (52%)<sup>99</sup>. SMEs from the period of 2002 – 2010 were responsible for creating over 85% of all new jobs in Europe, with micro-enterprises alone responsible for 58% of total net employment growth<sup>100</sup>

Despite the fact that SMEs play a particularly important role in Romanian economy they are under-represented in public procurement contracts. Small and medium-sized enterprises in Romania get only 27% of the value of public works contracts, this percentage is low compared to the EU average of 38%, as well as their contribution to the economy (45% of the gross value added)<sup>101</sup>.

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.

SMEs have often been described as the ‘engine of the economy’ and there has long been recognition of the small business sector’s contribution to a competitive economy<sup>102</sup>

In Romania, SMEs account for 99.7 % of all enterprises, 56 % of gross value added, 67 % of employees within the business<sup>103</sup>.

For Romania, the lower contribution of the SME sector is due to the weaker performance of micro-enterprises comparative with the EU average (see Table 1).

SMEs perceive public procurement processes as complex, costly and time-consuming.

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<sup>99</sup> Evaluation of SMEs’ access to public procurement markets in the EU, Final Report, GHK, 2010, [http://ec.europa.eu/enterprise/policies/sme/business-environment/final\\_report\\_2010\\_e](http://ec.europa.eu/enterprise/policies/sme/business-environment/final_report_2010_e), pag.26

<sup>100</sup> EIM. (2011) Do SMEs create more and better jobs? Available at; [http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/performance-review/index\\_en.htm](http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/performance-review/index_en.htm)

<sup>101</sup> Informative sheet SBA – Romania – 2010/2011 European commission Enterprise and industry. pp.7

<sup>102</sup> Loader, K. (2007). The Challenge of Competitive Procurement: Value for Money Versus Small Business Support. *Public Money & Management*, 27 (5), 307-314.

<sup>103</sup> Balan M., Balan Gh., “*Can SMEs in developing countries resist crisis? An analysis on Romania’s case in transport industry*”, Vol. II “Republica Moldova: 20 de ani de reforme economice”, Editura ASEM, Chisinau – 2011, pp.62-66, ISBN 978-9975-75-588-7, 2011

Although SMEs are not explicitly discouraged from bidding for public procurement contracts, the procedures and practices used in many tenders disadvantage SMEs over larger competitors.

Table 1: Key indicators for SMEs in 2008

	Number of enterprises			Employment			Value added		
	Romania		EU27	Romania		EU27	Romania		EU27
	Number	Share %	Share %	Number	Share %	Share %	Bill-ion euro	Share %	Share %
Micro	475.536	89,6	92,2	993.079	24,9	29,6	7	14,4	21,2
Small	45.131	8,5	6,5	840.848	21,1	20,6	8	17,8	18,5
Medium-sized	8.348	1,6	1,1	843.021	21,2	17,2	9	20,5	18,4
<b>SMEs</b>	<b>529.015</b>	<b>99,7</b>	<b>99,8</b>	<b>2.676.948</b>	<b>67,2</b>	<b>67,4</b>	<b>24</b>	<b>52,7</b>	<b>58,1</b>
Large	1.527	0,3	0,2	1.304.963	32,8	32,6	22	47,3	41,9
Total	<b>530.542</b>	<b>100,0</b>	<b>100,0</b>	<b>3.981.911</b>	<b>100,0</b>	<b>100,0</b>	<b>46</b>	<b>100,0</b>	<b>100,0</b>

Source: Annual report on small and medium-sized enterprises in the EU, 2011/12, Rotterdam, September 2012, ECORYS

### 1. Difficulties faced by SMEs in accessing public procurement

Despite actions taken at both national and EU level, there are still many obstacles which discourage SMEs from responding to tenders.

The main difficulties are:

- *The lack of stability of the Romanian public procurement legislation*

Despite de fact that the Romanian public procurement legal framework is harmonized with the specific European *acquis communautaire* it was subject to multiple and substantial amendments and still present's inconsistencies on key relevant topics.

- *The lack of knowledge and skills for bidding*

SMEs lack knowledge about the correct procedures for bidding.

Tender forms and guidance are often worded in specialist, unclear and overly complex jargon

SMEs often are not well-acquainted with public procurement language and procedures, and may face more difficulties than larger organizations when looking for relevant opportunities and drawing up tenders.

- *The high costs associated with participation in public procurement*

Competitive bidding is generally expensive and time-consuming for business: for small businesses these costs can be prohibitive, effectively barring them from competing.

SMEs generally need more time to prepare competitive offers due to staff constraints.

Since many tendering costs are fixed, SMEs face disproportionately high costs in comparison with larger enterprises.

- *The lack of transparency in public procurement*

Information is particularly hard for SMEs to obtain, as they do not normally have the capacity to conduct extensive research for new tenders.

Limited transparency from the CAs in wording of award communications, unclear technical specifications or unclear answers to request of clarifications

SMEs in general and micro companies or startups in particular are interested in smaller value contracts but do not want to be overburdened with paperwork.

These are contract that are not subject to the EU directives rules and consequently are not subject to advertising. Without advertising it is impossible for the companies “outside the loop” to know about those business opportunities.

- *The lack of trust in the public procurement process*

A certain degree of lack of trust from the tenderers on the manner the CAs define and apply the selection and qualification criteria;

- *Qualifications and Selection Criteria difficult to accomplish*

SMEs interested in public contracts are excluded *de facto* from public procurement contracts simply because they do not have the capacity to tender for the whole contract.

Public contracts tend to require extensive professional, technical and economic qualification criteria, which individual SMEs cannot always fulfill

Disproportionate turnover requirements for proving financial capacity are often an enormous obstacle to SME access to public procurement.

Heavy administrative burden required from EOs for the preparation of the tender response (e.g. multiple hard-copies of the tender documentation, low value-added formalistic paperwork, difficult and bureaucratic way of communication with CAs, etc.). In some cases, such administrative burden is a key reason for EOs to not participate in tenders, especially for lower value of contracts – due to the risk of being rejected / disqualified.

- *Long payment periods in public procurement contracts and late payment* by public authorities also discourage businesses to participate in public procurement opportunities.

- *The use of the „lowest price” as the main award criterion –*

A major barrier in doing business with the public sector for SMEs may be the culture of awarding contracts based on price before quality, which biases procurers to favour larger and more experienced tenderers.

A reason why the „economically most advantageous tender” criterion is less often used by the Romanian CAs is that the relative weighting of this criterion is more difficult to be formulated and justified, and thus to obtain approval on it by UCVAP<sup>104</sup>

This (i.e. the low prices) indicates that the current Romanian market conditions determine EOs to compete strongly on prices – however, on long term this may lead to a negative impact on the willingness of bidders/tenderers to compete in public tenders.

## 2. Supporting SMEs access to public procurement markets

In order to strengthen its procurement system to be capable to effectively face the crises, the *Romanian* authorities should:

- *Improve the transparency and discipline in public procurement*

are factors that increase competition for works, supply and service contracts and raise the number of bids per contract/procedure.

Transparency can improve access to public procurement opportunities through disclosure, publication and dissemination of information on available tenders.

- *Improve internal control within the organization of contracting authority*

Improving control over public spending is an absolute necessity, some authors point out “Lack of control or organization lead in most cases to the emergence of conditions conducive for the manifestations of fraud, taking advantage of the weakness of the system”<sup>105</sup>.

- *Further develop e-procurement system*

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<sup>104</sup> European Commission, Directorate General Regional Policy Assessment of the Public Procurement System in Romania, Final Report, August 2011

<sup>105</sup> Emilia Vasile, Ion Croitoru, Daniela Mitran, “Risk management in the financial and accounting activity” in Internal Auditing & Risk Management, Anul VII, NR. 1(25), Martie 2012, pp.23

The Electronic Public Procurement System (SEAP) represents a key element created to facilitate the enforcement of the basic principles of the Romanian public procurement legislation – transparency, supporting free and fair competition and equal treatment. The relative limited capabilities and flexibility of SEAP may discourage some of the CAs from using it – the inquired CAs reported difficulties in using SEAP. Moreover, not all CAs are currently recorded in SEAP, or not all CAs use the system

SEAP needs an urgent and in-depth assessment and major further improvements in terms of new data fields, IT basic system functionalities, performance, availability and support to end-users<sup>106</sup>

- *Increase the level of administrative assistance / guidance towards SMEs in their preparation of their response to public tenders*

The elaboration by ANRMAP of standardized tender documents and providing the CAs with specific training and guidance for: use of better and more standardized tender documentation templates and practical examples.

Furthermore, clarity and increased disclosure of guidelines and documentation can decrease time needed to submit bids – particularly prohibitive for SMEs – thus saving them valuable time and money.

- *Reduce the administrative burden*

Obligation for contracting authorities to accept self-declarations as a first step; only the winning bidder must then supply the documentary evidence for the selection criteria; documents which have already been submitted to the same contracting authority within the past four years and which are still valid shall not have to be re-submitted.

Further simplification can be achieved through standardized documents such as the European Procurement Passport, which should be recognized by all contracting authorities and widely promoted among economic operators, in particular SMEs, for whom they can substantially lessen the administrative burden<sup>107</sup>

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<sup>106</sup> European Commission, Directorate General Regional Policy Assessment of the Public Procurement System in Romania – Final Report (Part C & D), 29 August 2011 pag.23 ,<http://www.anrmap.ro/sites/default/files/>

<sup>107</sup> Proposal for a DIRECTIVE OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL on public procurement <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:52011PC0896:EN:NOT>

- *Direct payment of subcontractors*

Ensuring equal terms to subcontractors by including in the standard tender documents a provision requesting the contracting authority to pay directly the subcontractor, subcontractors which are often SMEs in case of a payment delay by the main contractor.

- *Encourage collaboration and association with other SMEs or large companies in order to submit joint bids*

- *Divide larger contracts into lots*

Contracting authorities can make contracts more accessible by dividing them into smaller 'lots' and by simplifying the financial and technical requirements, at least at the start of a tendering process. Dividing contracts into lots is a useful means of addressing a lack of capacity among some SMEs to access particular public sector procurement opportunities.

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