

**SYMPOSIUM ON THE REVISED WTO AGREEMENT ON GOVERNMENT PROCUREMENT**

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**Encouraging the Participation of SMEs in  
the Government Procurement Sector:  
Insights from International Experience**

**(S3.4)**



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# SMEs:

## A Group Everyone Wants to to Help

- SMEs are often viewed as the “engine” of the economy – a source of economic growth, innovation, and jobs
- They generally also have broad political support
- Note that when we say “SMEs”, we virtually always mean *domestic* SMEs

# SMEs: How to Help Them?

*Two primary paths:*

## 1. Provide them procurement preferences

- Reserve some procurements for them (“set-asides”)
- Give them preferential treatment, typically by treating their bid price as lower than it is

# SMEs: How to Help Them?

## 2. Remove barriers to entry for SMEs

### – Systemic barriers:

- Train them, especially about the public procurement rules
- Ensure they get key information, for example, about upcoming procurements

### – Procurement-specific barriers

- Ensure that procurements are not too big for SMEs (“division into lots” [new EU Procurement Directive], “unbundling” [U.S.]

# **SMEs: What Helps Them the Most?**

**Set-asides are the most effective form of assistance**

**Preferential treatment is the next-most effective means**

**Division into lots / unbundling seems to help SMEs**

**Training and information-sharing are criticized as not effective enough in getting contracts to SMEs**

# Concerns about Set-Asides & Other Preferential Treatment

**Set-asides reduce competition, they often reduce transparency and lead to fraud and abuse (because, for example, large companies claim to be small)**

**Even if there is no fraud, there is widespread concern that set-asides lead to higher prices**

**Note, though, that obtaining reliable data is difficult**

# Concerns about Preferential Treatment

If they apply only to domestic SMEs (and their purpose is to help domestic SMEs), they may violate international agreements such as the GPA prohibiting discriminatory national preferences

**Query:** Could the revised GPA's Article V provision regarding transitional measures make a difference?

Note that set-asides (and preferences) applied to procurements below applicable thresholds (or otherwise excluded during accession negotiations – as in the U.S.'s General Note) would not be covered procurements under the GPA and may be outside the scope of other international agreements as well

# **The Challenge: Making Training and Information Sharing Meaningful**

**The barriers to entry into the public procurement marketplace can be daunting to SMEs, so that training may represent valuable assistance**

**Similarly, access to useful information may provide a real boost to SMEs**

**International obligations need to be kept in mind and respected – but this kind of help for SMEs can be consistent with international commitments**

# **The Challenge: Breaking Procurements Up to Keep Them Small Reduces Efficiency**

**Breaking procurements up to ensure that they are not too large for SMEs has great appeal (and may be consistent with the GPA and other international agreements)**

- A procurement may call for a quantity too large for SMEs**
- It may cover too large an area (e.g., the entire U.S.A.)**
- It may cover too many different items (e.g., IT hardware, software, and support services)**

**The challenge: There is tension with the goals of efficiency and cost savings, which often push in the direction of aggregated purchasing**

# **The Role of Public Policy in Helping SMEs: The U.S. Example**

**The U.S. has a longstanding statutory goal of ensuring that U.S. small businesses get a particular share of federal prime contract dollars – currently 23 percent**

**That goal is not binding, nor can it be used as a basis for awarding contracts to SMEs**

**Nonetheless, the 23 percent goal has had significant impact, because it is taken seriously – including in evaluating the performance of civil servants and political appointees**

## Useful Resource

**The UNCITRAL Model Procurement Law's Guide to Enactment contains a particularly helpful discussion of assistance to SMEs in its section on Socio-Economic Policies**

<http://www.uncitral.org/pdf/english/texts/procurem/ml-procurement-2011/Guide-Enactment-Model-Law-Public-Procurement-e.pdf>