

2012 WTO GPA: Facilitating participation of women-owned small and medium-sized enterprises in local and global public procurement markets

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RESEARCH TASK

1. SMEs contribute between 33 percent to the GDP in developing economies to 64 percent in developed countries
2. SMEs participation in public procurement markets is underrepresented

3. Research Objective:

Political propaganda says that trade agreements in public procurement are NOT working towards market access of small business and women-owned SMEs in particular

Verify on hard data:

- 1) Impact of liberalisation on SMEs in general
- 2) Impact of decreasing entry barriers on access of women-owned SMEs
- 3) Impact of protectionism in public procurement markets



1. SMEs & Public Procurement

Research background

High share of SMEs in domestic and regional markets, should logically result in substantial share in public procurement and transactions. But this is not the case. All over the world public contracts are principally awarded to large companies.

SMEs share in public procurement is typically **well below half of the value of their general market standing**.

Level of participation of women-owned SMEs in global public procurement markets across the world **is unknown**. In the GPA Parties and the EU Member States in procurements covered by the 2012 WTO GPA women participation **is estimated at between 2 to 5 per cent**.

SMEs share, %	Poland	Denmark	Latvia	EU
Public procurement market	29	45	64	56
Total number of enterprises	99.8	99.7	99.6	99.8

What are barriers faced by SMEs?

The OECD Taxonomy of Measures Affecting Trade in Government Procurement Processes, popularly known as '**trade barriers**' is distinguishing the following:

Regulatory barriers

- Market barriers to entry imposed by public procurement regulation (**legal barriers**);

Non-regulatory barriers

- Knowledge asymmetry between large and small enterprises (**complexity barriers**);
- Insufficient transparency of information on procurement (**access barriers**);
- Excessive financial and technical requirements imposed by contracting entities (**capacity barriers**).

MOST FREQUENT barriers (1)

Very large contracts: capacity problem for SMEs to win and implement big public contracts, in particular with respect to technical capacity, access to capital and the level of contract performance guarantees. Very often PEs tend to aggregate supplies and services or services and works they intend to buy.

Insufficient access to information on bidding opportunities: If information is not easily accessible and available free of charge, only large companies with resources to scout specifics of the PP market may obtain the essential information necessary to effectively participate and win tenders;

Lack of knowledge regarding PP procedures: SMEs have fewer resources (employees, time and money) to understand a highly regulated market with procedures, terms and concepts that are different from commercial transactions and only used in public procurement laws.

Excessive bureaucracy: The existence of procedures that involve knowledge or procedures forcing suppliers to incur transaction costs undermines the possibility that SMEs can compete in PP market;

Limited experience in bidding: SMEs usually have shorter lifespan compared to large enterprises, frequently below five taxable years. Therefore, SMEs have less experience in public market.

Expensive standards and certification requirements: It is very difficult for SMEs to have quality certifications, not only due to the direct and indirect costs they generate, but also because obtaining them takes long periods of time, almost the half-life of a typical small business.

MOST FREQUENT barriers (2)

Disproportionate levels of technical qualification: It is reasonable that small suppliers do not possess the technical qualifications set by the market. To enable their participation, PEs should be requesting only qualifications that are strictly mandatory to comply with their purchasing objectives and preferred functional requirements, rather than solutions in order to allow competition, innovation and renewal of suppliers;

Disproportionate levels of financial qualifications and incompatible payment terms: Levels of liquidity typically requested by Pes to allow responding in case of breach of public contract are normally unattainable for SMEs. One of the essential issues is the period for payment of amounts due. In the EU, regulation on payment periods was adopted to combat delayed payment. Maximum period for payment is 60 days from the date of invoice confirming the delivery of goods or the provision of a service;

Unclear tender requirements: Vagueness of tender technical requirements implies difficulty for new entrant SMEs to submit a valid bid with their best offer;

Lack of time to prepare bids: Due to reasons already mentioned above (lack of resources and experience) SMEs are likely to need more time to prepare and submit valid bids compliant with expectations of PEs;

Centralisation of public procurement contracts: With centralised purchasing closing markets for certain periods of time, it gradually becomes more and more difficult for SMEs to take part in public tenders in these markets.

How SMEs support measures work?

Governments may target procurement-related assistance towards SMEs to enable their participation in public tenders. This assistance may be focused on capacity building or may offer a form of subsidy.

Dedicated facilitative assistance for SMEs participating in public tenders

Decreasing entry barriers, encouraging prequalification and introducing modern procurement methods decreasing transaction cost for stakeholders. In this case the support policy is providing an advantage for SMEs with no distortion to competition in public procurement market;

Price preferences to SMEs

Providing for price preferences to SMEs is in essence a particular form of subsidy. The price preference is providing an advantage for SMEs but also resulting in distortion of PP market;

Exclusive quotas for SMEs

Government agencies may mandate procurement quotas or targets for SMEs in specific PP quotas. The quotas are providing a market advantage for SMEs but also resulting in distortion of PP market.

Italy – when SMEs benefit most?

1. SMEs started to play a role when electronic bidding was permitted in early 2000s
2. SMEs participate and win most frequently in public tenders **below 50,000 euros organised in open tender procedure**, but do not do well in complex or non-competitive procedures for high value procurement
3. SMEs **excel at online shopping** and constitute **89 per cent of suppliers active** on the online marketplace MEPA



New market access for SMEs in Cyprus



1. Electronic public procurement was designed to minimise transaction costs and remove geographical barriers for SMEs **and it worked**, number of SMEs suppliers doubled
2. **Online market** – SMEs are invited to publish e-catalogues, process orders electronically and receive quick online payments
3. **Online shopping on e-Agora is good value for government** – direct award contracts are avoided and up-to-date online recorded prices inform government about situation on the markets

Ukraine – how much SMEs benefit from electronic tenders on Prozorro?

1. With online bidding on Prozorro – electronic procurement system, **80 per cent of bidders in Ukraine are SMEs** with 2.89 bids submitted on average in any public tender
2. SMEs participating in small value electronic tenders **were awarded 71,76 per cent of public contracts**
3. In high value electronic tenders, large enterprises constituted **18.61 per cent** of bidders, **SMEs 81.39 per cent**,
4. 75 per cent of SMEs bidding on Prozorro won at least one public tender in 2017
5. Government saves more on contracts won by SMEs than by large enterprises



2. How women-owned SMEs are represented on public procurement markets?

- What is **actual** level of participation of women entrepreneurs **in terms of value of public contracts?**
 - EU member States
 - EBRD countries of operations, from Eastern Europe to Central Asia
 - Global benchmark: Australia, Canada, Chile and Korea
- What policies brings most value to improving women-owned SMEs businesses **winning public tenders?**
 - Dedicated facilitative assistance for SMEs participating in public tenders
 - Price preferences and exclusive quotas for women
 - Prequalification and online marketplaces for small value contracts
- What the 2012 WTO GPA brings to improving women-owned SMEs businesses market access in public procurement?

RESEARCH RESULTS

Verify on hard data –open data from national systems:

- 1) Impact of liberalisation on SMEs in general – published in 2017
- 2) Impact of decreasing entry barriers on access of women-owned SMEs – to be published in 2018
- 3) Impact of protectionism in public procurement markets, in particular SMEs and women-owned SMEs – in progress, to be published in 2019