Chapter 2. Ensuring a public procurement environment conducive to SME participation

This chapter surveys the various means through which governments can facilitate SME participation in the procurement process. Governments’ efforts mostly focus on verifying that competition is fair and that SMEs are not unjustifiably prevented from participating. This chapter analyses the measures they have implemented in order to smooth the path to full participation in the procurement process, for SMEs as well as other competitors, and takes a close look at their advantages and potential drawbacks. These measures focus on lowering the barriers related to the size of tenders, making procurement processes less complex, and doing away with disproportionate financial and technical requirements.

The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.
The main objectives of SME enablement programmes in public procurement, as identified by countries, are facilitating SMEs’ access to public contracts and ensuring a level playing field for all economic operators (Figure 1.7). Indeed, ensuring access for potential competitors of all sizes and business characteristics constitutes a key requirement for a well-functioning public procurement system. This point is highlighted by the OECD Recommendation of the Council on Public Procurement under the principle of access (see Box 2.1).

Box 2.1. OECD Recommendation of the Council on Public Procurement – Principle on Access

The Council:

IV. RECOMMENDS that Adherents facilitate access to procurement opportunities for potential competitors of all sizes.

To this end, Adherents should:

i) Have in place coherent and stable institutional, legal and regulatory frameworks, which are essential to increase participation in doing business with the public sector and are key starting points to assure sustainable and efficient public procurement systems. These frameworks should: (…)

1. treat bidders, including foreign suppliers, in a fair, transparent and equitable manner, taking into account Adherents’ international commitments (e.g., the Agreement on Government Procurement within the framework of the World Trade Organization, the European Union Procurement Directives, and bilateral or multilateral trade agreements).

ii) Deliver clear and integrated tender documentation, standardised where possible and proportionate to the need, to ensure that:

1. specific tender opportunities are designed so as to encourage broad participation from potential competitors, including new entrants and small and medium enterprises. This requires providing clear guidance to inform buyers’ expectations (including specifications and contract as well as payment terms) and binding information about evaluation and award criteria and their weights (whether they are focused specifically on price, include elements of price/quality ratio or support secondary policy objectives);

2. the extent and complexity of information required in tender documentation and the time allotted for suppliers to respond is proportionate to the size and complexity of the procurement, taking into account any exigent circumstances such as emergency procurement.

iii) Use competitive tendering and limit the use of exceptions and single-source procurement. Competitive procedures should be the standard method for conducting procurement as a means of driving efficiencies, fighting corruption, obtaining fair and reasonable pricing and ensuring competitive outcomes. If exceptional circumstances justify limitations to competitive tendering and the use of single-source procurement, such exceptions should be limited, pre-defined and should require appropriate justification when employed, subject to adequate oversight taking into account the increased risk of corruption, including by foreign suppliers.

Source: (OECD, 2015[1]).
Even after a series of reforms, constraints still exist for SMEs on accessing public procurement opportunities. Some of the main ones identified by policy makers and public procurement practitioners in OECD countries included:

- quality and understanding of the information provided (76%)
- difficulties relating to the size of contracts (69%)
- administrative burden too high (68%)
- difficulties relating to proportionality of qualification levels and financial requirements (56%) (see Figure 1.10).

Among the challenges to participating in public procurement faced by SMEs, the complexity of the public procurement system and its processes is often at the top of the list. SMEs are not alone in perceiving this complexity. They are however disproportionately affected due to their internal constraints in terms of financial, technical and administrative capacities to access procurement opportunities, prepare tender documents, apply the procedures and execute the contracts.

Governments have been addressing these challenges through revision of legal and regulatory frameworks as well as adoption of various measures and approaches (Figure 2.1). The weight of the challenges faced by SMEs suggests that adding legal obligations alone would not suffice to remove the barriers. This is because imposing such of obligations – for instance defining the right size of contracts, simplifying the process and setting proportionate requirements – would depend on the public procurement objects. The most widely adopted approaches involve ensuring that SMEs are aware of tender opportunities and competent SMEs have a fair chance of competing for government contracts. As there is no one-size-fits-all solution to address the many challenges, this chapter discusses the different approaches and measures used by countries to ensure the public procurement environment is conducive to SME participation.

Figure 2.1. Measures and approaches used to support SMEs in public procurement

<table>
<thead>
<tr>
<th>Measure</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Encourage the use of e-procurement</td>
<td>88%</td>
</tr>
<tr>
<td>Encourage the division of contracts into lots</td>
<td>83%</td>
</tr>
<tr>
<td>Encourage joint bidding/consortia rules so as not to discourage SME participation</td>
<td>66%</td>
</tr>
<tr>
<td>Simplified processes and documentation requirements for SMEs</td>
<td>57%</td>
</tr>
<tr>
<td>Encourage prime contractors to subcontract with SMEs and/or subcontracting arrangements to facilitate/encourage SME participation</td>
<td>56%</td>
</tr>
<tr>
<td>Arrange timely and efficient payment terms for SMEs (or for lower-value contracts)</td>
<td>50%</td>
</tr>
<tr>
<td>Accord SMEs preferential financial treatment for SMEs, e.g. waving of fees</td>
<td>19%</td>
</tr>
</tbody>
</table>

Note: Based on responses received from 20 OECD and 5 non-OECD countries.
Source: 2017 OECD survey on strategic use of public procurement to support SMEs.
2.1. Defining the right size of public procurement contracts

The large size of public procurement contracts is one of the main impediments to SMEs participating in public procurement markets. Large-scale contracts are inaccessible to SMEs simply due to the size and broad range of capacity that is required to tender and execute the contracts. Along with the wide use of instruments to centralise and aggregate procurement activities in OECD countries (OECD, 2017[2]), this may lead to a growing fear that asymmetric treatment against small and medium-sized firms will slowly increase over time if not tackled with other instruments (Bovis, 2016[3]).

2.1.1. Division of contracts into lots

Dividing public contracts into lots facilitates SMEs’ access, both quantitatively and qualitatively. Quantitatively, the size of the lots may better correspond to the capacity of the SME to deliver the good or service, and qualitatively, the content of the lots may correspond more closely to the specialised sector of the SME. With the latter aspect especially, when division into multiple lots involves unbundling a procurement contract that includes heterogeneous products or services, SMEs may generate competition as they may display higher levels of specialisation and efficiency than larger competitors (Albano, 2017[4]).

Some of the reasons identified by OECD countries for dividing a contract into lots included promoting SMEs and new entrants to the market; promoting tender participation, namely by specialised groups of firms; generating competition in the market; avoiding single supplier dependency; and spreading risk (OECD, 2015[5]).

The majority of the surveyed countries encourage division of public procurement contracts into lots (Figure 2.2). For EU Member Countries in particular, the 2014 EU Directive on public procurement1 obliges contracting authorities to consider at the planning stage whether or not to divide a contract into lots. Where the contracting authorities decide not to do so, they must justify the reasons for it. This provision is included in the Directive as one of the measures intended to facilitate SME participation in public procurement.
2. ENSURING A PUBLIC PROCUREMENT ENVIRONMENT CONducIVE TO SME PARTICIPATION

Figure 2.2. Encouraging division of contracts into lots to facilitate SME participation in public procurement

Source: 2017 OECD survey on strategic use of public procurement to support SMEs.

Some of the arguments against dividing contracts into lots include concerns over the potential adverse effects on transparency. If lots are defined too narrowly, that may open the door to direct awards, which often lack transparency and thus damage value. At the EU level, the 2014 EU Directive on public procurement takes this concern into consideration by stipulating that contracts must not be artificially split in order to avoid application of the public procurement rules concerning aggregation requirements (SIGMA, 2016[6]).

There are undeniably risks associated with splitting a procurement contract into lots. First of all, doing so may not result in multiple awardees. Certain firms, due to their accumulated knowledge as existing or historical government suppliers or contractors, could exercise market power resulting in supplier lock-in, which is a potential by-product of recurring public procurement procedures. The relative disadvantage of SMEs that have no experience of contracting with the government persists. Additionally, when bidding is only allowed on a lot-by-lot basis, larger firms are not able to exploit synergies among multiple lots in their bid for each individual lot. This may lead them to bid a higher price for each individual lot, compared to the lower price they would offer if they were bidding for the total volume. For example, their higher price might ensure they cover their fixed costs in the event they win a smaller number of lots. Division into lots can therefore be inefficient where there is healthy competition for current and future contracts (Albano, 2017[4]). The potential benefits of dividing contracts into lots thus needs to be balanced with the associated risks. Package bidding could help achieve that balance by allowing SMEs to bid for single lots and large enterprises to exploit the possible synergies between different lots. Economic
literature, though limited on this topic, could still give some insight into the necessary considerations when splitting contracts into lots (Box 2.2).

**Box 2.2. Economic literature on division into lots**

While a “one size fits all” solution cannot be prescribed, there is room for a fruitful discussion on potential comprehensive considerations. Economic theory on the subject is limited, but what literature there is nonetheless provides several important insights:

- **The trade-off between potential competition gains and efficiency losses**

  Efficiency losses can emerge if there are complementarities (e.g., economies of scale and scope) among different parts (lots) of the contract. If these complementarities are strong, firms will face uncertainty that is driven by the fact that they do not know which other lots they will win when placing their bid on a given lot. The internalisation of the risk of failing to win complementary objects and being unable to benefit from the resulting cost synergies will translate into lower valuations when placing the bids (the “exposure problem”). Allowing bidders to place offers on bundles of lots, i.e., the possibility of package bidding addresses this issue.

- **Relevance of the number of firms in the market to the number of lots**

  The ratio between the number of potential bidders and the number of lots has been shown to be another crucial consideration when deciding on the configuration of contract division. One of the key results of the literature states that having more lots than expected tender participants may deliver more competition and reduces the risk of collusive agreements. Important lessons can be learned from the different outcomes of spectrum auctions in European countries, both for the ratio between tender participants and the number of lots and for the role of potential entrants in the market.

- **The effect on the auction of having new entrants**

  Promoting tender participation by new entrants is one of the keys to auction design. New entrants to the tender can introduce competition for the lots and weaken the conditions for collusion. The presence of new entrants can also affect the division of lots. Whenever appropriate, lots may be reserved for entrants or caps may be imposed on the number of lots that can be awarded to incumbents.

- **The relative size of lots and the risk of collusion**

  Heterogeneity in the size of lots may play a role in reducing the scope for market sharing arrangements. For a discussion on collusion based on the relative size of lots as well as the auction format in the tender procedure, see Albano et al. (2006).

Source: (OECD, 2015[5]); (Grimm et al., 2006[7]); (Klemperer, 2002[8]); (Klemperer, 2002[9]); (Milgrom, 2004[10]); (Albano, Bianchi and Spagnolo, 2006[11]).

Contracting authorities take a number of factors into consideration when deciding whether the works, goods, or services are to be procured using one contract or a number of separate contracts – and, in the case of the latter, how to split the contract into lots. The increased participation of SMEs leads to a higher level of competition in the tendering process where the division into lots is appropriate and feasible with respect to the procurement needs of the contracting authorities. At the same time, the savings derived from increased economies
of scale could also promote the use of a single contract. In this context, the decision to split up contracts should consider the specific characteristics of the market concerned and the object of the contract. Market characteristics that may impact the decision include the number and type of economic operators in that market, technical and quality aspects, the speed of technological change, and risk of dependency on a sole supplier (OECD SIGMA, 2016[12]). Box 2.3 offers an example of a tool developed in Germany to help contracting authorities in their decision to split contracts into lots. OECD has also developed a checklist in order to help public procurement practitioners mitigate the risks when splitting contracts into lots (Box 2.4).

**Box 2.3. A tool for division into lots – Germany**

Procurement practitioners often find it difficult to reconcile the competing priorities of aggregating expense in order to generate cost savings, and developing tenders that are accessible to SMEs. A common approach to supporting SME participation in public procurement in OECD countries is to divide contracts into lots. However, dividing contracts in a fair and proportionate way can be a challenging activity, because it must be tailored for each industry. Incorrectly dividing contracts can have a negative impact on an industry, adversely affecting both SMEs and large organisations.

To assist procurement practitioners, the federal government in Germany partnered with a consultancy firm to develop a tool that uses complex algorithms to support decision making. The tool uses statistics from the Federal Statistical Office (Destatis) on the number of employees, sales and production values from various industries and trades. For reasons of simplification, the tool uses nationwide data to provide a high-level industry assessment. However, a separate setting in the tool enables smaller-scale regional markets to be taken into account. Once relevant information on the procurement in question is inserted into the tool to take into account the specifics of the industry, the tool then generates a suggested split of the contract.

The tool can be applied to all major industries that are relevant for public procurement, and can be further developed to include additional sectors if required. There is limited feedback on the success of the tool to date given it was only recently launched, but the government will continue to monitor its progress.

*Source: OECD (forthcoming), Public Procurement Review of Germany.*
Box 2.4. OECD Checklist for protecting competition when splitting contracts into lots

Procurers may be concerned that large or bundled contracts may risk reducing competition in the market, either by preventing efficient small or specialist firms from bidding, or by creating an overwhelming advantage for the winning bidder in future tenders. They might want to split contracts into lots to reduce this risk. However, at the same time, procurers will not want to facilitate collusion, or prevent bidders from exploiting economies of scale or scope to improve the value of their bid. Therefore, when splitting contracts into lots, procurers should take care to do so in ways that do not reduce competition and the value achieved by the procurement.

If splitting the contract into lots would promote competition, then procurers should ensure that they split lots in ways that do not risk reducing competition and the value that the procurement achieves. This checklist suggests ways to protect and promote competition when splitting contracts into lots. For the avoidance of doubt procurers should also ensure that their actions are consistent with the applicable procurement law.

1. To split contracts into lots without reducing competition and the value that the procurement achieves, at the pre-tendering stage the procurer:
   - should provide all potential bidders with clear tender documentation including all the relevant information that is available on the product or service that is being procured in order to help minimise any advantage to the incumbent supplier (e.g. electronically available and free of charge).
   - should consider dividing a contract into lots where it is aware of small or specialist firms that will not otherwise participate in the bidding. For example, it should not carve out an additional lot if it expects there to be fewer competitors for that lot than there would be for the bundle of lots.
   - should allow a bidder to make bids for different combinations of lots (so-called package bidding) in order to obtain any cost synergies available from providing a larger bundle of goods or services. Obtaining these synergies may for example encourage non-local bidders to bid for packages of different lots even if they are unwilling to bid for individual lots.
   - should use award limits rather than participation limits in those cases where they want to prevent all lots being awarded to a single firm, and are confident that the benefits from doing so will outweigh the ensuing loss of competition for the contract in question.
   - should consider making the number of lots smaller than the number of expected bidders. This can make it more difficult for colluding bidders to agree a division of lots and hence improve value achieved providing it does not create inefficiency.
   - should consider making the lots different in size from the market share of the bidders. This can make it more difficult for colluding bidders to agree a division of lots and hence improve value achieved providing it does not create inefficiency.
   - should consider in repeated procurements making the division into lots unpredictable (for example by changing the size or composition of the lots), and making bidders aware of this unpredictability. This can reduce the risk that lot division facilitates collusion and hence improve value achieved providing it does not create inefficiency.
2. To split contracts into lots without reducing competition and the value that the procurement achieves, at the tendering stage the procurer:

- should refer to the Competition Authority any suspicions of actions taken by incumbents to obstruct rivals ability to put together an attractive bid. The Competition Authority is able and may decide to determine whether this constitutes anti-competitive exclusionary conduct.
- should refer to the Competition Authority any suspicions of actions taken by bidders to rig the bidding.
- should be aware that joint bidding may be anti-competitive in cases where the bidders are capable of submitting separate bids. There are different ways procurers might treat joint bids. For example, one option could be that procurers may wish to set out a presumption that joint bidding between horizontal rivals will not be permitted, unless they are not able to bid independently. Alternatively, procurers may wish to make no presumption and take a case-by-case approach. For the avoidance of doubt, procurers should also ensure that their actions are consistent with the applicable procurement law.

Source: (OECD, n.d.[13]).

### 2.1.2. Joint bidding

Another channel through which governments can address the financial and technical capacities of SMEs to carry out large and complex contracts is by encouraging joint bidding. Where compliant with competition law, joint bidding – in which two or more firms submit a single bid – is commonly accepted practice in OECD countries. Suppliers, typically operating on a temporary rather than long-term agreement, bid in consortium for a contract (Albano, 2017[4]). The reliance on capacities of other firms to meet criteria relating to economic and financial standing and technical and professional ability constitutes the main benefit of this mechanism.

Joint bidding facilitates access to public procurement markets, especially through:

- **Grouping** – Allowing economic operators to group together in order to participate as candidates or tenderers in procurement procedures. The possibility of forming such a group enables SMEs to compete jointly for large and complex contracts, the execution of which would surpass their individual capacities.
- **Reliance on capacities of other entities** – Enabling economic operators to rely on the capacities of other entities in order to meet the criteria relating to economic and financial standing and technical and professional ability. This option encourages the participation of SMEs in the procurement process (SIGMA, 2016[14]).

There are different forms of joint bidding, depending on the liabilities of each member of the consortium. For instance, France specifies the type of liabilities that are foreseen in different forms of consortia that economic operators choose to form. There are joint-and-several liability consortia (*groupement solidaire*), where each member of the consortium is committed financially to the performance of the whole contract, and joint-liability-only consortia (*groupement conjoint*) where each member of the consortium is responsible only for the performance of an allocated contract share. Central purchasing bodies (CPBs) also very often allow suppliers to bid jointly as a means to balance SME access with aggregation and centralisation of public procurement activities For instance, the CPB in Finland always includes instructions on how suppliers can bid jointly in their call for tenders. Similarly,
the CPB in Norway encourages co-operation between suppliers in their tender documents, and templates for joint bidding are attached to tender documents.

Joint bidding may raise concerns over collusion in the market. It is a principle of competition that where competitors can bid individually, they should do so. Joint bidding between competitors reduces competition and may also enable sharing of commercially sensitive information between actual or potential competitors when discussing the terms of a joint bid. In this sense, when suppliers consider forming consortia to bid jointly, they should evaluate whether they are able to bid alone or not. The Competition and Consumer Protection Commission of Ireland has published a guide to help SMEs in their decision to tender as part of a consortium (Box 2.5).
Box 2.5. Guide to compliance with competition law in joint-bidding, Ireland

The Competition and Consumer Protection Commission of Ireland has prepared a guide on how to comply with competition law when tendering as part of a consortium. The guide is aimed at helping SMEs involved in consortium bidding.

In the guide, the commission identifies four factors that economic operators must take into account in their self-assessment on whether the pro-competitive benefits that result from joint bidding outweigh anti-competitive effects:

1. The consortium bid must produce real efficiency gains
2. Consumers must benefit from those efficiency gains
3. Any restrictions of competition involved in the consortium bid must be indispensable to the achievement of the efficiency gains
4. Consortium bidding must not substantially eliminate competition either in the particular public procurement competition or in other markets.

A consortium bid does not cause competition problems if:

- The consortium members are not actual or potential competitors
- The consortium members are all owned by the same parent company, i.e., the consortium members all form part of a single economic entity, or ‘undertaking’, for the purposes of competition law. To come under this heading this must be the case before you start discussing your joint bid. The fact that a merger or takeover is planned is not enough.

In the Commission’s view, a consortium bid even between actual or potential competitors will not cause competition problems if:

- none of the parties to the consortium bid could fulfil the requirements of the tender competition or the contract on its own; and
- no subset of the consortium members could together fulfil the requirements of the tender competition or the contract; and
- only the minimum amount of information strictly necessary for the formulation of the consortium bid and the performance of the contract (if awarded) is shared between the members of the consortium and is restricted to relevant staff on a ‘need to know’ basis. (More specifically, discussions between them must be confined to the relevant procurement project and must not involve disclosure of the terms, especially prices, that individual consortium members currently offer to other customers or of information relating to other procurement projects or their future strategies, whether related to pricing, capacity, customers or markets.); and
- the consortium members ensure that they compete vigorously as normal in all other contexts. In other words, consortium members should not compete less aggressively with each other when tendering separately for other contracts or when offering their goods and services generally on other markets just because they have formed a consortium to help them bid for one particular contract.

Source: (Competition and Consumer Protection Commission, 2014[15]).
2.2. Simplifying and standardising public procurement processes

The complexity of public procurement systems and processes represents a major hurdle to SME participation in public procurement markets. Public procurement is indeed a complex activity, involving close interaction among many stakeholders with distinct interests at different stages of the procurement cycle. This, together with the large financial interests at stake, places public procurement at high risk of waste, corruption and fraud. Public administration, in particular with regard to the procurement function, requires close financial scrutiny given its stewardship role over public funds. Consequently, when selling to governments economic operators need to comply with public procurement regulations and rules that seek to ensure that adequate control is in place to manage the risks of procurement processes.

However, the amount of information that companies need to provide when submitting a bid – including historical financial information, certificates and other documents related to exclusion and selection criteria – represents a high administrative burden especially for SMEs. While the requirement applies regardless of firm size, SMEs are disproportionately affected by the time, financial resources, and legal and technical knowledge required to understand the public procurement system. Governments are actively addressing these issues by cutting administrative red tape, and simplifying and standardising documents and public procurement procedures in a number of ways, as described below.

2.2.1. Standardising procurement documents

One way that countries address this issue is by standardising procurement documents through the use of templates. Canada, for instance, has used them to simplify solicitation and contractual documents for all suppliers. The templates are part of the commitment of Public Services and Procurement Canada, as the country’s CPB, to promote a common look and feel in acquisition documents by standardising terminology and simplifying contract language by using plain language; this ensures greater consistency and uniformity. Additional steps are under way to simplify solicitation and contract documents, as well as documentation requirements for suppliers and procurement processes generally.

The use of templates reduces the administrative burden for both contracting authorities and bidders. It streamlines public procurement procedures and helps bidders to better understand them. The Office of Government Procurement (OGP) in Ireland has created a standard suite of tender document templates to drive best practice and to reflect the 2016 EU Procurement Directives. The OGP website offers a repository with an extensive amount of template documents and guidance material. There are currently six model documents available and more are planned, covering the tender process and the contract phase of a procedure.

Certain types of contract indeed require specially designed tender documents, especially those involving higher-risk goods or services. While acknowledge these specific needs, some countries define use of the standardised documents for lower-risk and/or lower-value procurements. In Australia for instance, application of the Commonwealth Contracting Suite (CCS), which provides standardised procurement documentation, is mandatory for procurements under AUD 200 000 and is encouraged for low risk contracts valued up to AUD 1 million (Box 2.6).
Box 2.6. Use of the Commonwealth Contracting Suite in Australia

The Commonwealth Contracting Suite (CCS) is an online system launched in 2014 that provides automated production of procurement documents. Commonwealth Government entities are required to use it for procurements under AUD 200 000, and encouraged to use it for those between AUD 200 000 and AUD 1 million.

The CCS minimises the burden on businesses contracting with the Commonwealth Government, streamlining and simplifying procurement processes for Commonwealth entities. The CCS provides the “Approach to Market” document and the corresponding suppliers’ “Response to Approach to Market” document simultaneously in an editable format, and similarly produces the contract based on the options selected. Accordingly, this online tool supports a consistent set of familiar terms.


2.2.2. Process simplification

Document standardisation also supports the simplification of public procurement processes. Together, these efforts help greatly reduce the administrative burden for SMEs. The European Single Procurement Document (ESPD), provided for in Article 59 of the 2014 European Directive on public procurement, is a supplier self-declaration tool. Based on a standard form, it offers preliminary evidence concerning exclusion criteria (e.g. criminal convictions, grave professional misconduct) and selection criteria (financial, economic and technical capacity). The full set of supporting documentation, including attestations and certificates, needs only to be presented by the winning economic operators. While supplier selection is a key stage in assessing the credentials of bidders before considering tenders, this approach prevents unsuccessful suppliers from having to provide large amounts of evidence (as further described in Box 2.7).
Box 2.7. European Single Procurement Document

With a view to simplifying the procurement process, the Directive (Article 59) has introduced a European Single Procurement Document (ESPD). The ESPD is a standard self-declaration form that an economic operator completes and submits to the contracting authority. The economic operator can use the ESPD to confirm that it fulfils the following conditions:

- It is not in a situation that would warrant an economic operators being excluded.
- It meets the relevant selection criteria.
- It fulfils, where applicable, the objective rules and meets the criteria that otherwise eliminate seemingly qualified candidates.

The contracting authority must accept the ESPD as preliminary evidence, in place of certificates issued by public authorities or third parties. The ESPD contains a formal statement to the effect that the economic operator will be able, upon request and without delay, to provide those supporting documents.

The ESPD also identifies the public authority or third party responsible for providing the supporting documents. Where supporting documents are accessible directly and without charge through national databases, the ESPD must also contain the relevant information about access, such as the internet address of the database, any identification data and, where applicable, the required declaration of consent.

Contracting authorities must accept the ESPD at the time of submission by candidates or tenderers. A contracting authority may nevertheless request, at any moment during the procedure, that tenderers or candidates submit all or part of the supporting documents. It may do so whenever these documents are necessary to ensure the proper conduct of the procedure. Furthermore, before awarding the contract, the contracting authority must require the prospective winning bidder to submit up-to-date supporting documents, unless the contracting authority can obtain them free of charge.

The ESPD is to be provided exclusively in electronic format. To allow sufficient time for the transition to this format in all Member States, both electronic and paper versions of the ESPD may co-exist until 18 April 2018.

Source: (OECD SIGMA, 2016[16]).

With the introduction of the ESPD, some EU Member States envisage further simplification of public procurement processes, in particular through its integration with databases and/or IT systems for the pre-qualification of suppliers. A report prepared by the European Commission based on a survey of member states and stakeholders shows that the majority of Member States (68%) indeed plan to integrate or have already integrated the ESPD with a pre-qualification system, acknowledging the importance of the ESPD as a “building block for the digitisation of public administration.” Another key element in the use of the ESPD to bring about simplification is the “once-only principle”. This means that suppliers should be asked only once at most to provide information, through interconnection and wider use of databases owned by public authorities, to demonstrate that they meet the requirements set out in administrative procedures (European Commission, 2017[17]).
Integration of e-procurement platforms with other e-government systems could also reduce the burden on suppliers to submit certificates issued by other public authorities. In Korea for instance, the shared use of government data through data interchange between KONEPS (the Korean e-Procurement System) and other databases owned by public authorities enabled the elimination of paper submission of business registration certificates and tax payment certificates. Furthermore, for public construction tenders, bidders are not required to submit certificates attesting to past experience, as such information is electronically collected through data interchange with construction industry associations (OECD, 2015[18]). Another example can be found in Finland, where the information related to certain exclusion and selection criteria of Finnish firms – such as unpaid taxes and social security contributions – gets sent to the e-tendering system at the time of the bid evaluation. In this way, the contracting authority could request explanations from bidders before awarding of the contract; this reduces the burden of receiving official attestations and then having to award the contract again if there are discrepancies in the company data.

2.2.3. **Clear establishment of the public procurement rules**

Regulatory frameworks in OECD countries define different threshold amounts above which competitive procedures should apply. Thresholds are often different depending on whether the procurement is of goods, services or works. For government buyers, meeting the threshold should justify the cost of undertaking a procurement exercise, because of the additional value or cost savings that can be achieved from engaging in a competitive process. For suppliers, the thresholds for a competitive process must be sufficiently high to justify the cost of participating in a tender, yet sufficiently low to provide certainty that government will generate competition rather than arbitrarily select a single supplier.

Advertising procurement opportunities for competitive procurement procedures facilitates SME access. In particular, SMEs benefit from enhanced visibility and easy access through obligations to publish these opportunities on e-procurement systems. Information on upcoming tender opportunities is further enhanced through publication of annual public procurement plans and prior information notices. The OECD Recommendation on Public Procurement also promotes the use of open and competitive tendering, which should be the standard method for conducting procurement as a means of driving efficiencies, fighting corruption, obtaining fair and reasonable pricing, and ensuring competitive outcomes (OECD, 2015[1]). In particular, governments establish clear rules on the minimum number of advertising days so that interested suppliers have sufficient time to be informed and prepare their bids, as is the case for public procurement contracts under EU directives (see Box 2.8).
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Box 2.8. EU rules on the minimum time limit for submission of tenders

**Open procedure**

The minimum time limit for submission of tenders is 35 days from the publication date of the contract notice. If a prior information notice has been published, the time limit can be reduced to 15 days.

**Restricted procedure**

Any business may ask to participate in a restricted procedure, but only those that are pre-selected will be invited to submit a tender. The time limit to request participation is 37 days from the publication of the contract notice. The public authority then selects at least five candidates with the required capabilities, who then have 40 days to submit a tender from the date the invitation was sent. This time limit can be reduced to 36 days if a prior information notice has been published.

In urgent cases, the public authority may set a time limit of 15 days to receive participation requests (this can be reduced to 10 days if the notice was sent electronically) and 10 days for the submission of tenders.

*Source:* (European Union, n.d.[19]).

When applying a procurement procedure other than open tender, contracting authorities’ decisions on which suppliers to invite to tender, and the criteria by which they must qualify, have a direct impact on SMEs’ access to public procurement opportunities. Austria addresses this concern by specifying in the Federal Law on Public Procurement (*Bundesvergabegesetz 2006*) that in cases of restricted procedures and negotiated procedures without prior notice or without prior call for competition:

- The selection of the economic operators to be invited must take place in a non-discriminatory manner.
- The buyer must change the economic operators that are invited as often as possible.
- If possible, SMEs in particular should be involved in the tender process.

In this light, having a clear legal framework in place that provides clear guidance on how to maintain competition and that sets proportionate participation requirements further facilitates SME access to public procurement opportunities.

2.2.4. *Adapting the use of procurement instruments and tools for lower-value contracts*

SMEs are generally more successful in winning relatively lower-value contracts; the value of public procurement contracts won by SMEs thus does not display the same public procurement market distribution of contract values (Figure 2.3). While Figure 2.3 only represents SMEs’ share for above-threshold contracts, the study also estimated SME participation in below EU-threshold contracts. While there is a higher representation of SMEs in below-threshold contracts, their share in terms of numbers is larger than their share in terms of value. This reaffirms that relatively lower-value contracts are generally won by SMEs.
Figure 2.3. SMEs’ share of public contracts won in selected European countries

Average total of SMEs’ share of above-threshold contracts won, by aggregate value and number of contracts for 2009-11 (percentages)

Note: The line in each figure represents a line of equality, which means that the vertical or horizontal distance between the data point and the line represents the difference between the values on x- and y-axes.

For methodological discussion of the calculation of SMEs’ share of above-threshold contracts won, refer to (PwC, ICF GHK and Ecorys, 2014[20]).

Source: Adapted from (PwC, ICF GHK and Ecorys, 2014[20]).
The publication of tender announcements on e-procurement platforms greatly helps SMEs to be informed about public procurement opportunities. The use of e-procurement systems is indeed the practice in almost every OECD country (OECD, 2017[2]) (for further discussions on e-procurement systems, see Section 2.4). However, the relatively high value and complexity of above-threshold contracts that are advertised publicly – in particular the high level of financial, technical and professional capacity that they require – may not represent the public procurement opportunities where smaller firms can best compete.

While this holds true, some countries also recognise the potential strategic leverage of larger contracts on SME performance. For instance, the Procurement Review Policy of Canada obliges all procurements in excess of CAD 2 million to be reviewed for potential regional and industrial benefits.

Indeed, a recent report on SME access to public procurement in the European Union includes a statistical overview saying that “it is important to highlight that SMEs’ share of the total value of contracts below EUR 300 000 in fact slightly exceeds the corresponding figures for the real economy. However, this is more than offset by the huge disadvantage they (micro and small enterprises primarily) have in accessing larger contracts. Whilst one would not expect the largest contracts to be won by SMEs, they could eventually win more lower-value contracts to have their ‘fair share’ of public procurement overall” (EU, 2009, cited in Nicholas and Fruhmann, 2014[21]).

In this vein, countries have devoted efforts to designing and developing public procurement instruments that could ease the procedural burden on low-value procurements. The example of Italy sheds light on how the development of an e-marketplace facilitated SMEs’ participation in public procurement (Box 2.9).
Box 2.9. The e-marketplace for small value procurement in Italy: The MePA

Launched in 2004 and currently operating with an e-catalogue of over 10 million items, the MePA (Electronic Marketplace for the Public Administration) is one of the leading e-marketplaces currently operating in Europe. Managed by Consip, MePA provides a paperless environment for awarding low-value public contracts for goods, services and maintenance works. It is a digital marketplace in which contracting authorities (CAs) can purchase goods and services offered by qualified enterprises for a value below the EU threshold.

MePA in fact encourages economic operators (EOs) to engage with CAs throughout Italy. The e-marketplace provides operational flexibility, allowing for direct awarding from standardised e-catalogues and for requests for quotations (RfQ).

CAs can choose among a wide range of goods and services offered by an increasing number of EOs. MePA is open to any kind of enterprise that meets the qualification criteria.

How does it work?

CAs can access the MePA e-catalogue, a user-friendly shop window showcasing the goods and services available; easily compare the prices, features and delivery conditions offered by different EOs; and then proceed with the purchase according to the chosen procedure – direct order or RfQ.

The process is split into three steps:

Step 1 – Consip publishes the MePA tenders.

Step 2 – EOs qualify and publish their e-catalogues and offers compliant with the tender indications.

Step 3 – CAs issue direct orders or negotiate prices and supply conditions during RfQ.

MePA’s major benefits for CA:

- time saving
- transparency and traceability of the entire procurement process
- greater range of products to buy with the possibility of comparing prices and characteristics offered by EOs from all over the country
- opportunity to satisfy customised needs by means of RfQ that identify specific requirements

MePA’s major benefits for EOs:

- decreasing commercial costs and optimising sales times
- wider access to the public procurement market and opportunity to propose offers throughout the entire national territory
- potential enhancement of the company, despite the small size of the enterprise
- competitiveness and direct comparison with the reference market
- incentive for the renewal of sales processes
The MePA: A growing instrument in an expanding market

At the end of 2017, for the first time, the transactions carried out on the MePA – about 600,000 – reached a value of EUR 3.1 billion. That figure that can increase significantly, given the potential market for public spending and the exponential growth of the MePA. Only five years ago, at the end of 2012, the value of annual purchases was one-tenth what it is today, EUR 360 million a year.

The average growth recorded during the past few years was more than 50% per year.

Today, the MePA is progressively becoming larger, indeed “universal”. In August 2017, Consip began reorganisation of the offer on the MePA, simplifying its structure and at the same time extending the product categories available to users. The existing product/services tenders moved from 41 to only 9: 1 for goods, 1 for services and 7 for the various categories of maintenance works. This reorganisation makes it much easier to foresee new categories of purchase and to enlarge the number of products and services available, encompassing the entire potential universe of purchases below the threshold.

A great deal can be purchased through the MePA

If the amounts for individual purchases on the MePA are less relevant than the big tenders, that should not lead to the conclusion that this is a market of little importance. In fact, throughout the public administration, low-value supply purchases represent, in terms of number, the majority of the total amount of purchases – over 99% of the approximately 4.5 million contracts performed annually – and in terms of value they represent around 20% of the total value of tenders published every year (amounting to over EUR 100 billion).

Moreover, in the maintenance work market, which is worth about EUR 5 billion each year, half of the expenditure concerns procedures under the value of EUR 1 million (thus potentially via MePA).

Source: Information provided by Consip, Italy.

2.3. Addressing the financial capacity of SMEs

2.3.1. Timely and advance payments

Receiving payments from government in OECD countries often offers high certainty. Yet if payments are not made in a prompt manner, it could pose an additional risk for SMEs. In particular, delays in payments have an adverse effect on the cash flow of firms. For smaller firms in particular, this could severely affect a firm’s liquidity and even force some firms to exit the public procurement market and sometimes even go bankrupt (OECD, 2017[22]).

The problem can be exacerbated when there is no efficient and effective complaints system, and difficulties made even worse during times of financial and economic difficulties, due to restrictions on credit lines and bank loans (Wehinger, 2013[23]).

Governments have implemented measures to put legal limits on the payment period for public procurement contracts. For instance, in the European Union the directive on combating late payments in commercial transactions obliges public authorities to make payment for the procurement of goods and services within 30 days (Box 2.10).
Box 2.10. Protecting SMEs against late payment – European Union

To protect European businesses, in particular SMEs, against late payments and to improve their competitiveness, Directive 2011/7/EU on combating late payments in commercial transactions was adopted on 16 February 2011 and was due to be integrated into national law by EU countries by 16 March 2013.

Some of the main provisions of the Directive regarding payments by public authorities to businesses include the following:

- Public authorities have to pay for the goods and services that they procure within 30 days or, in very exceptional circumstances, within 60 days.
- Businesses are automatically entitled to interest for late payment and EUR 40 minimum as compensation for recovery costs.
- Statutory interest is applied for late payment at the rate of at least 8% above the European Central Bank’s reference rate.
- EU countries may maintain existing laws (should they exist) or bring into force new laws and regulations that are more favourable to creditors than the provisions of the Directive.

A report on the implementation of this Directive, prepared in 2016, showed that while the average payment period is slowly decreasing in both the public and private sectors, public entities in more than half of the Member States were not respecting the 30-day limit imposed by law. Furthermore, the report stated that approximately half of all creditors were not exercising their rights to claim late payment interest, compensation or recovery costs as provided for by the Directive, for fear of damaging their commercial relationships. The external evaluation also revealed that many SMEs continue to accept long payment terms imposed by larger companies for the same reason. This is an inherent aspect of business culture brought about by the different positions of companies in the supply chain, their size and degree of dependency on each other, as well as other factors such as specificities of a given sector.

Source: (European Commission, n.d.[24]; European Commission, 2016[25]).

While under a legal obligation to make payment within 30 days of the presentation of the invoice, countries have reported that payments are in general made in a timely and efficient manner. For instance, the United Kingdom also commits to support the prompt and reliable payment of invoices. In 2015, UK central government departments had 80% of all invoices paid within 5 days and most of the remainder within 30 days (Crown Commercial Service, 2016[26]).

Yet in order to initiate the payment process, suppliers often need to obtain from contracting authorities a certificate attesting to the performance of the contract. Administrative red tape or complex processes that are involved in obtaining the certificate would thus not be reflected in payment deadline statistics. In France, UGAP, a national central purchasing body, implemented a mechanism that establishes a deadline for public entities to certify the performance of the contracts. Since January 2016, suppliers inform UGAP and the buyer regarding contract performance through an online system. If the buyer in charge of attesting the performance of the contract does not react within 20 days, UGAP considers that the
contract has been performed and the terms of the contract respected, and therefore pays the supplier.

Statutory obligation for prompt payment is not limited to European countries. A maximum payment term of 30 days is also applied in Canada and in Australia for contracts valued up to AUD 1 million. Furthermore, the Australian Government’s payment policies stipulate that payment cards (e.g. credit cards) are the preferred method for paying supplier invoices below AUD 10 000. Canada is developing pilots to further reduce payment times, for instance as detailed in an action plan on prompt payment in the construction industry developed by the government-industry working group.

As an additional example, the Public Procurement Service (PPS), the central purchasing body of Korea, provides an upfront payment of up to 70% of the value of a government contract. For some lump-sum contracts for goods valued up to USD 423 800, including orders on unit-price contracts, suppliers are entitled to instant payment. Businesses may also be entitled to instant payment for other goods contracts at the request of the end user. In these cases, payment is made from a special PPS account and then reimbursed by the end user. Though central government entities are entitled to a payment period of up to five days, instant payment allows SMEs to receive payment within as little as four working hours. The collaborative reverse factoring (affacturage collaborative) mechanism developed by UGAP illustrates provision of financial support to further expedite the payment process (Box 2.11).

**Box 2.11. Collaborative reverse factoring – UGAP, France**

UGAP (Union des Groupements d’Achats Publics), a central purchasing body in France, takes SMEs into account in its activities. UGAP has developed a solution called “collaborative reverse factoring” which allows it to make the payment for invoices within a few days at financially favourable conditions. The CPB does not provide financing to its suppliers; rather, UGAP negotiates financial conditions. Based on the purchasing volume and the credit standing of UGAP, the conditions it negotiates are much more advantageous than the interest rates that a single supplier could obtain in the financial market. This mechanism allows suppliers to be paid in 5 days (or less) on average instead of the statutory deadline of 30 days.

UGAP suggest this solution for its suppliers, targeting SMEs as a priority group. The suppliers can adhere to this solution on a voluntary basis and can use it either for all their invoices or on a case-by-case basis depending on their financial needs.

*Source*: Country response to 2017 OECD Survey on strategic use of public procurement to support SMEs.

### 2.3.2. Setting proportionate qualification levels and financial requirements

Excessively high requirements asked of bidders can be one of the major barriers to SME participation in public procurement markets. This could be the result of the risk-averse nature of public procurement officials, or a lack of professionalism on their part.

A disproportionate level of technical and financial requirements for participation in public procurement opportunities precludes a large number of SMEs. In defining selection criteria, the technical and professional capacity requirements should ensure that “the tenderer has the capacity required for the contract in question, rather than the general capacity of
tenderers” (Bovis, 2016[3]). At the EU level, the 2014 procurement Directive limits the annual turnover requirement to at most twice the estimated contract value, except in duly justified circumstances, such as for certain high-risk contracts.

The Public Procurement Act in Hungary introduced normative limitations to selection criteria. By law, the contracting authorities’ discretion in determining the selection criteria has been significantly limited:

- The required amount or measure of references shall not exceed 75% of the estimated value or other quantity of the contract; moreover, the law introduced the requirement to accept all references that are equivalent to the subject matter of the contract from a technical standpoint.
- The required total amount of annual income over the previous three years shall not exceed the estimated value of the procedure.

Disproportionate financial guarantees also limit SME participation. This is especially so since SMEs in many countries face difficulties in obtaining financial guarantees, such as bid or performance bonds. They have more difficulties in accessing financial markets and obtaining these instruments under favourable financial conditions due to their low credit ratings and limited financing levels.

In the same vein, unjustified retention of the resources by contracting authorities has a critical impact on SMEs, in particular their cash flow. In this regard, in requiring financial guarantees only at a level in line with the risks of the given procurement contract, authorities could greatly aid SME participation in public procurement markets, and their performance in general.

2.3.3. Supporting SMEs participating as subcontractors

SME representation in public procurement often does not take into account those SMEs that take part in the delivery of public contracts as subcontractors. For large or complex contracts, a SME may not be in a position to be a prime contractor, perform the whole contract, or even tender jointly with other economic operators because of its small size, specialisation or limited resources. Subcontracting may therefore provide good opportunities for SMEs to perform some of the services or works included in a project. In this way, subcontracting can facilitate the access of SMEs to the public procurement market (SIGMA, 2016[14]).

Promptness and certainty of payment also constitute a key area of support for SMEs that participate in public procurement opportunities as subcontractors. In general, there is a low degree of transparency of payment between the prime contractors and subcontractors. In order to protect the subcontractors from unfair treatment, governments have put in place various measures to better monitor the payments to subcontractors.

Subcontractors could be exposed to demands for price reductions, delayed payment or non-payment, and to use of dual contracts (see Box 2.12) at the post-award stage due to the lower degree of transparency and accountability for payments among private companies. Governments are considering ways to ensure timely payment not only to prime contractors but also to subcontractors, such as through the possibility of direct payments to the latter, such as in Poland and the Czech Republic. In Spain, contracting authorities are able to monitor the payments of main contractors to subcontractors. Development of the subcontractor management system for government contracts in Korea is an example of the use of electronic platforms to better manage subcontractors.
Box 2.12. Korea – The subcontractor management system

There were concerns in Korea regarding treatment of subcontractors by prime government contractors. While project owners are legally required to approve subcontracts following examination of their propriety and the payment price, there was little transparency on the realities of subcontracting practice because most of these processes are conducted manually. This led to reports of a number of poor practices, including post-award demands for price reductions, delayed payments or non-payment, and the use of dual contracts (where one is presented to PPS and another drawn up to represent the actual arrangement at less favourable terms to the subcontractor).

To address these issues, PPS established the Subcontract Management System for Government Contracts (SMSGC) to allow project owners to manage the subcontracting process consistently and effectively. As with many elements in KONEPS, these benefits are largely realised by eliminating manual processes throughout the entire subcontracting cycle, through to payments to suppliers. The system came on line in December of 2013, and PPS is currently engaged in efforts to expand its use through promotional activities and training. For construction works and IT projects facilitated by PPS, project owners are recommended to include use of SMSGC as one of the terms of the contract. In addition, promotional video clips were developed and shared in major transit, online newspaper and social media venues.

As of 2014, with 588 public organisations registered in the SMSGC system – more than half of those conducting construction works valued at more than USD 1 million or software projects valued above USD 300 000 – the system was utilised in 772 projects valued at approximately USD 5.6 billion, dramatically exceeding the initial target of USD 2.7 billion for the initial deployment. There has been increasing use of the system with 888 entities registered in 2017. The system was used in 2017 for 4,936 projects valued at approximately USD 19.8 billion.

Given that many construction subcontractors, materials suppliers and IT companies are small and medium-sized enterprises, progress in ensuring proper payment – both on time (see Table 2.1) and the right amount – and in eliminating dual contracts serves as an additional and innovative way to support these communities. Digital management of these processes also provides a source of market data that can be used to better plan and conduct large procurements over time.

Table 2.1. Improving payment time for subcontractors through SMSGC (2015-17), Korea

<table>
<thead>
<tr>
<th>Type of payment</th>
<th>Legal deadline</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Subcontract payment</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Progress payment</td>
<td>15 days</td>
<td>1.5 days</td>
<td>1 day</td>
<td>1.2 day</td>
</tr>
<tr>
<td>Advance payment*</td>
<td>15 days</td>
<td>4.3 days</td>
<td>1.3 days</td>
<td>1 days</td>
</tr>
<tr>
<td>Payment for construction material</td>
<td>15 days</td>
<td>1.3 days</td>
<td>1 day</td>
<td>1.3 day</td>
</tr>
<tr>
<td>Labour cost</td>
<td>2 days</td>
<td>0.8 days</td>
<td>0.9 day</td>
<td>0.8 day</td>
</tr>
</tbody>
</table>

*Note: Advance payment (*) time improvements are calculated when the prime contractor and subcontractor jointly request advance payment.

Source: (OECD, 2016[27]) and information provided by PPS.
2.4. Encouraging use of e-procurement

2.4.1. Increasing transparency of public procurement opportunities

E-procurement systems, referring to integration of digital technologies in the replacement or redesign of paper-based procedures throughout the procurement cycle, increase transparency by improving access to public tenders and allowing timely diffusion of information to diverse stakeholder groups. This information facilitates the participation of more suppliers, especially SMEs, in public procurement processes through a reduction in marketing and transaction costs. Indeed, SMEs’ lack of knowledge of opportunities to supply the public sector had been identified as a major hindrance to their participation (Fee, Erridge and Hennigan, 2002[28]). The development of e-procurement systems has mainly focused on their functionality as an informational platform; every OECD country has an electronic procurement platform on which information on public procurement opportunities and award notices are published (Figure 2.4).

Figure 2.4. Functionalities provided by the e-procurement systems in OECD countries, 2016

<table>
<thead>
<tr>
<th>Functionality</th>
<th>Provided in a national central e-procurement system</th>
<th>Provided in specific procuring entity(ies)’s e-procurement system</th>
<th>Not provided</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business intelligence module</td>
<td>27%</td>
<td>10%</td>
<td>63%</td>
</tr>
<tr>
<td>Framework agreements module</td>
<td>59%</td>
<td>13%</td>
<td>28%</td>
</tr>
<tr>
<td>Supplier registry</td>
<td>43%</td>
<td>17%</td>
<td>40%</td>
</tr>
<tr>
<td>Ex-post contract management</td>
<td>27%</td>
<td>20%</td>
<td>53%</td>
</tr>
<tr>
<td>Electronic submission of invoices</td>
<td>33%</td>
<td>23%</td>
<td>44%</td>
</tr>
<tr>
<td>Ordering</td>
<td>21%</td>
<td>30%</td>
<td>49%</td>
</tr>
<tr>
<td>Notification of award</td>
<td>97%</td>
<td>3%</td>
<td>0%</td>
</tr>
<tr>
<td>e-reverse auctions</td>
<td>37%</td>
<td>17%</td>
<td>46%</td>
</tr>
<tr>
<td>e-tendering</td>
<td>70%</td>
<td>10%</td>
<td>20%</td>
</tr>
<tr>
<td>Electronic submission of bids</td>
<td>70%</td>
<td>10%</td>
<td>20%</td>
</tr>
<tr>
<td>Provision of tender documents</td>
<td>37%</td>
<td>17%</td>
<td>46%</td>
</tr>
<tr>
<td>Online catalogue</td>
<td>87%</td>
<td>13%</td>
<td>0%</td>
</tr>
<tr>
<td>Announcing tenders</td>
<td>97%</td>
<td>3%</td>
<td>0%</td>
</tr>
<tr>
<td>Publication of opportunities</td>
<td>79%</td>
<td>7%</td>
<td>14%</td>
</tr>
<tr>
<td>Publishing procurement plans</td>
<td>72%</td>
<td>10%</td>
<td>18%</td>
</tr>
</tbody>
</table>

Note: For electronic submission of bids and invoices, the data exclude submission by emails.

Source: 2016 OECD Survey on Public Procurement.

Special attention is paid to making information available to suppliers about upcoming public procurement opportunities. Such information, through for instance annual procurement programmes or plans, not only helps contracting authorities better plan procurement activities and control their spending in a more structured way, but also is crucial for suppliers to remain informed so as to plan and prepare for them. Reflecting these benefits, public procurement plans are published on e-procurement systems in 80% of OECD countries (Figure 2.4).
Central purchasing bodies, as contracting authorities responsible for centralised purchasing, do what they can to make this information available. Additionally, CPBs very often actively communicate about upcoming tenders in order to promote participation of suppliers, including SMEs (Figure 2.5). In addition to providing information through online publications, many CPBs and large contracting authorities organise events to better explain their needs and the upcoming opportunities; this is the case of the OGP in Ireland, which organises “meet the buyer” events together with Enterprise Ireland.

Figure 2.5. Enhanced information about upcoming tenders in advance by the CPB

At the same time, lack of visibility, especially of lower-value contracts, along with a high administrative burden, has been identified by SME associations as the toughest challenges to accessing public procurement opportunities. Some countries addressed this issue by developing electronic tools to enable businesses and in particular SMEs find small value procurement opportunities. For example, the Contracts Finder website in the United Kingdom is an example of a country’s efforts to increase the availability of information on smaller value contracts (Box 2.13). For the example of the development of an e-marketplace in Italy – MePA – see Box 2.9.
Box 2.13. Contracts Finder – United Kingdom

Increasing information on available contract opportunities

The Crown Commercial Service in the United Kingdom is responsible for managing the procurement of common goods and services for over 17,000 customer organisations in the public sector, and their services are provided by more than 5,000 suppliers.

To increase information on available low-value contract opportunities, the website Contracts Finder was developed (www.contractsfinder.service.gov.uk/Search).

This website makes it possible for suppliers to search for information about contracts worth over GBP 10,000 with the government and its agencies. Suppliers can use Contracts Finder to:

- search for contract opportunities in different sectors
- find out what is coming up in the future
- look up details of previous tenders and contracts.

Suppliers can create an account to get email updates and save their searches.

Source: Country response to OECD Survey on strategic use of public procurement to support SMEs.

2.4.2. Reducing transaction costs

The use of digital technologies in public procurement, and in particular the development of e-procurement systems, has greatly helped simplify public procurement processes. By definition, e-procurement implies standardisation, streamlining and integration of processes. The role of e-procurement in improving public procurement systems is also recognised by the OECD Recommendation on Public Procurement (OECD, 2015[1]).

Transaction costs associated with public procurement processes disproportionately affect SMEs. E-procurement systems covering the whole procurement cycle enable cost and time savings through automation and standardisation of the procurement process, thus bringing about efficiency benefits for suppliers and the public sector. They could also support effective implementation and monitoring of policies by facilitating data and information collection.

Countries have indeed underlined the benefits to SMEs of the increased efficiency and reduction of administrative burdens that result from standardising and integrating processes. Calls for tender that take a structured format, shorten procurement process times, and reduce administrative burden by removing paper and envelopes and allowing for electronic submission of bids also reduce transaction costs for SMEs in doing business with the public sector.

Electronic submission of invoices also delivers major improvements not only in payment timescales but also in reducing transaction costs. There is an academic study that establishes the link between the low involvement of SMEs in state procurement with a lack of electronic systems in order processing and invoicing (Karjalainen and Kemppainen, 2008[29]). At the OECD level, only about one-third of countries have enabled the electronic submission of invoices through central e-procurement systems (Figure 2.4). Measures to implement electronic invoicing are gradually being devised by European governments for public authority contracts under procurement legislation. (European Commission, 2016[30]).
2.5. CPBs as further enablers of SME participation in public procurement

Centralisation of procurement activities and the aggregation of needs are observed across all OECD countries. Central purchasing bodies are increasingly established in order to reap the benefits of aggregation of demands and outputs of procurement activities (OECD, 2017[2]). The benefits of centralised purchasing activities – such as better prices through economies of scale, lower transaction costs and improved capacity and expertise – are widely acknowledged.

Figure 2.6. The role(s) of the central purchasing bodies

Source: 2016 and 2014 OECD Surveys on Public Procurement.

While these changes suggest that larger-scale procurement projects may adversely affect SME participation on the surface, governments and central purchasing bodies devote efforts to ensure that SMEs have their fair chance of participating amidst the aggregation of procurement volumes. Encouraging partitioning of CPBs’ contracts into lots is one of the most widely used approaches to facilitate SME participation in CPBs’ procurement opportunities.

Dividing contracts into lots in European countries, as discussed in the previous chapter, is a legal obligation, such that when there is a decision to do otherwise it needs to be justified. In line with this, CPBs in European countries partition contracts into lots geographically and according to procurement objects, taking into consideration the characteristics of the need and the market. In the case of Public Services and Procurement Canada, that country’s central purchasing body, PSPC structures procurements where trade agreements permit, to allow for the possibility of bidding on specific geographic areas, as opposed to requiring that goods/services be provided over large geographic areas by a sole supplier. The commitment of CPBs to engage SMEs in their activities is sometimes embodied in their institutional goals. For instance, the Act concerning the establishment of Austria’s central purchasing body, BBG (Bundesgesetz über die Errichtung einer Bundesbeschaffung Gesellschaft mit beschränkter Haftung) sets out its institutional objectives as the following:

In order to take account of the special role of the small and medium-sized supplier structure, the central purchasing body has to advertise services at NUTS 3 Region-
Level in those cases where this is practical [...] in such a way that even micro-enterprises are able to participate in tenders (eligibility criteria), taking particular account of the local supply structure.

The role that public procurement can play in supporting SMEs is sometimes the main motivation behind establishing the CPB. In Ireland, for instance, the Programme for Government identified the critical role that public procurement plays in allowing greater access for SMEs, including micro enterprises, to the public procurement market. As part of the Public Service Reform Plan, the Government established the Office of Government Procurement (OGP) to drive a consolidated and integrated approach to public procurement. The OGP is committed to ensuring that SMEs are fully engaged with public sector procurement and the opportunities it presents. In conjunction with the Department of Jobs, Enterprise and Innovation, the OGP has set up a high-level group on SME access to public procurement. Apart from promoting access, the group is linked to the Government’s Action Plan for Jobs, and specifically those actions aimed at maximising procurement opportunities for SMEs in the public sector.

An additional example of the specific consideration given to SMEs within centralised purchasing activities can be found in SKI, the central purchasing body of Denmark. SKI has set up a specific policy for SME inclusion. When designing tenders, it analyses the supply structure relevant to the contract and identifies the role SMEs could play in the tender. Subsequently, the tender is conceived in a way that facilitates the participation of SMEs. In addition, SKI regularly organises seminars for SMEs on how to participate in public procurement. Along the same lines, the procurement portal is an online feature that helps SMEs find consortium partners for joint bids.

Consip, as the national central purchasing body of Italy, runs the Programme for the Rationalisation of Public Purchases on behalf of the Ministry of Economy and Finance, by performing framework agreements and dynamic purchasing systems (DPS), and managing the public digital marketplace (MePA), for the benefit of the entire public administration. Consip has developed an inclusive business strategy based on a diversified and comprehensive offer of different kinds of procedures, according to product and service characteristics (standard or customised goods) and to the concentration or fragmentation of the supplier market. SMEs are indeed strongly attracted by those procedures that address specific needs of the CA (customised goods and services) in a fragmented market environment, such as the MePA and the DPS call-offs.

Box 2.14 provides an example of a project implemented by Consip, together with the Suppliers Associations, to facilitate and increase SMEs’ participation in public procurement market by providing training and education that reduce resistance.
Box 2.14. Supplier Training Desks (Sportelli in rete) – Consip, Italy

Since 2004, Consip has strengthened its co-operation with the suppliers’ institutional representatives by setting up Supplier Training Desks (“Sportelli in Rete Project”) at the enterprise associations’ territorial offices. The main objectives of this project are to facilitate the participation of SMEs in public procurement offered by the Programme for the Rationalisation of Public Purchases; improve their familiarity with ICT tools; provide training in the use of e-procurement tools; and support them in qualifying and operating on the MePA. The business model, see Figure 2.7, involves the institutional actors of the market, each of them with a defined role. Consip trains people from the associations who in turn train the local SMEs.

Figure 2.7. Business model of Consip’s Supplier Training Desks

Source: Information provided by Consip, Italy.

Some of the main challenges in implementing the project included:

- overcoming SMEs’ initial resistance to using ICT tools
- increasing their participation in Consip’s activities, especially at the local and regional level, to support them in the use of eProcurement tools
- training in the use of the MEPA and in the opportunities it offers (“multiplication effect”)
- supporting SMEs during their first use of the MEPA (registering with the platform, eCatalogue creation, reply to a RfQ, etc.).

Capacity building, education and training are core activities of the project, in addition to modifying management activities to overcome the initial resistance shown by SMEs.
towards the use of electronic means of negotiation when dealing with public procurement.

Today there are more than 370 Training Desks all over the country that support thousands of Italian small and micro enterprises, at local and regional levels. Consip provides these Desks with free assistance and training in the benefits of a fair and transparent public procurement system, achieved among other things through digitalisation.

*Source:* Country responses to the 2017 OECD survey on the strategic use of public procurement to support SME; and [www.acquistinretepa.it/opencms/opencms/sportelli_in_rete.html#](http://www.acquistinretepa.it/opencms/opencms/sportelli_in_rete.html#).

**Notes**


2. Belgium, Bulgaria, Cyprus, the Czech Republic, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Latvia, Lithuania, Malta, Poland, Portugal, Romania, Spain, and the United Kingdom.

3. Article 102 para 2.

4. Article 250 para 2.

5. [www.ris.bka.gv.at/GeltendeFassung.wxe?Abfrage=Bundesnormen&Gesetzesnummer=20004547](http://www.ris.bka.gv.at/GeltendeFassung.wxe?Abfrage=Bundesnormen&Gesetzesnummer=20004547)

6. Article 2 Para (1a) of Act concerning the establishment of the central purchasing body, BBG. [https://www.ris.bka.gv.at/GeltendeFassung.wxe?Abfrage=Bundesnormen&Gesetzesnummer=20001270&ShowPrintPreview=True](https://www.ris.bka.gv.at/GeltendeFassung.wxe?Abfrage=Bundesnormen&Gesetzesnummer=20001270&ShowPrintPreview=True)

2. ENSURING A PUBLIC PROCUREMENT ENVIRONMENT CONducive TO SME PARTICIPATION

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