



Asia-Pacific
Economic Cooperation

Report of the APEC-GPEG Workshop

Developing Strategies to Overcome Challenges Faced by SMEs in Accessing Government Procurement Markets in the Asia-Pacific Region

**Committee on Trade and Investment
Government Procurement Experts Group**

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Executive Summary

Dr John Breen and Mr Peter Demediuk were contracted by APEC to conduct two workshops designed to consider Small and Medium Enterprise (SME) access to government procurement markets in the Asia-Pacific region. The key deliverables expected from the workshops was to identify inhibitors facing SMEs when seeking access to government procurement markets within the Asia-Pacific region and to identify possible solutions to the impediments identified. The workshop outcomes were to inform the GPEG group and to provide some tangible ideas for them to consider for future implementation.

The Workshops

The workshops were designed as interactive sessions to capture the knowledge, experience and priorities of the participants. Feedback from the participants about the workshops indicate that they provided a positive learning and networking experience. Participants immersed themselves in the activities, offered numerous ideas and examples, discussed the various issues raised and genuinely supported one another in developing their understanding of the interaction of the government procurement market and the SME sector.

Inhibitors to SME access to government markets

A number of inhibitors to good procurement access were identified, with the priority areas being:

- Awarding tenders to the lowest bidder
- Aggregation, creating larger contracts
- Difficulty in accessing information
- Pre-qualification criteria

The most significant learning occurred while debating the possible solutions and strategies to overcome the identified inhibitors. Participants were able to suggest innovative or untested ideas as well as describe successful local solutions or examples of good practice that had been developed elsewhere. The workshop structure allowed participants to share experiences, be exposed to new ideas and gain access to the people who had tried different solutions and strategies for similar problems.

Suggested Solutions

A number of solutions were identified for the main inhibitors to good procurement access for SMEs, with the priority strategies being to:

- Use 'value for money' evaluation criteria in a more genuine and robust manner
- Improve the procurement skills of government personnel
- Develop networks to nurture and support SMEs in the procurement process

Issues for APEC to consider

The two workshop groups were consistent in their overall recommendations to APEC concerning improved access for SMEs to government procurement markets. The main areas for future attention should be:

- Access by SMEs to information about contracts
- Support for SME network development
- ‘Value for money’ (VFM) evaluations
- Aggregation of contracts

The participants’ views could be summarised as follows:

If contracts are not too large, if the SME sector is encouraged to network and build alliances, if adequate information is available to all potential suppliers, and if value for money is the chief evaluation criteria then the procurement market is likely to be a more level playing field. The benefits of a more level playing field is that access to government markets will be shared more equally across the business sectors and governments will be rewarded with value for money.

Recommendations

The following recommendations have been developed to advance the outcomes of the workshop. The recommendations reflect various aspects of the collective ideas of the workshop participants.

Developing good practice case studies

During the workshops the participants identified a number of good practices. It is vital that APEC leverage the participants’ expertise that was present at the workshops by enlisting their support in the development of good practice case studies. It is recommended that:

1. APEC fosters the development of specific case studies that demonstrate good practice in government procurement from the perspective of government.
2. APEC also fosters the development of specific case studies that demonstrate good practice in SME access to government contracts.

Effective communication and linkages

The importance of effective communication of good practice is critical to ongoing learning for procurement officials. It is also important that information about government purchasing activity is available to as wide an audience as possible. Therefore it is recommended that:

3. The case studies material should be available on the APEC GPEG web site with links to the people involved in the cases.
4. APEC should encourage member economies to encourage the development of hot links from industry association web sites directly to the GPEG web site.

Making existing knowledge accessible

There is a plethora of publications on the topic of government procurement, but they tend to be fragmented and produced in isolation. In order to engage a more effective debate and promote greater understanding of this topic it is recommended that:

5. APEC should develop a summary of the numerous studies and publications in the area of government procurement and SMEs and provide details of where they can be accessed.

Improving procurement strategies

Government contracts are a significant segment of most economies and they offer a prime opportunity to build the economic capacity of SMEs. It is important that government officials are made aware of the strategic role that government procurement can play and ensure that procurement practices are proactive. It is recommended that:

6. APEC must support education to promote the understanding of good procurement practices at all levels of government.
7. APEC undertake research of VFM practices to inform the education of procurement officers.
8. Economies need to become aware of the more innovative approaches to providing access to information about government procurement including holding supplier briefings, open days and help desks.

Building SME capacity

SMEs are an important source of employment generation while contributing to sustainable development and social progress. Government procurement activities can provide opportunities for SME growth and expansion. The current trend towards the aggregation of contracts can make it difficult for SMEs in isolation to access government markets. Therefore it is recommended that:

9. Economies need to promote network development among SMEs.
10. APEC needs to encourage economies to nurture the capabilities of SMEs.

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1. Introduction

Dr John Breen and Mr Peter Demediuk of Victoria University in Melbourne, Australia were contracted to conduct two workshops designed to consider Small and Medium Enterprise (SME) access to government procurement markets in the Asia-Pacific region. These workshops were conducted in Bangkok, Thailand on August 13, 2003 to coincide with the APEC meeting of the Government Procurement Experts Group (GPEG). The key deliverables expected from the workshops were articulated as follows:

- Identify inhibitors facing SMEs when seeking access to government procurement markets within the Asia-Pacific region and to identify possible solutions to the impediments identified
- Develop strategies and provide possible solutions to overcome inhibitors to work towards liberalisation of Trade and greater access to member economies' Government procurement markets
- Identification of future capacity building initiatives
- A report containing case studies
- Strategies for providing information and advice to other APEC fora on SMEs.

The workshop outcomes were to inform the GPEG group and to provide some tangible ideas for them to consider for future implementation. The three hour workshops were attended by interested parties from across the APEC region, including government policy makers interested in procurement practices, government policy makers interested in SME policy, academics, and members of the GPEG group.

2. Background

The 1994 Bogor Declaration called for free trade in the APEC region:

- by 2010 for Developed Economies
- by 2020 for Developing Economies.

In 1995 as part of the Osaka Action Agenda (OAA) Government procurement was listed as one of the areas where leaders committed their economies to take steps to help achieve the goals of Bogor.

The November 1995 Osaka Action Agenda commits APEC economies to "develop a common understanding on government procurement policies and systems" and to "achieve liberalization of government procurement markets throughout the Asia-Pacific region in accordance with the principles and objectives of the Bogor Declaration". (Wiggins 2003).

The OAA commits APEC members to:
develop a common understanding on government

- procurement policies and systems, as well as on each APEC economy's government procurement practices; *and*
- achieve liberalization of government procurement markets throughout the Asia-Pacific region in accordance with the principles and objectives of the Bogor

Declaration, contributing in the process to the evolution of work on government procurement in other multilateral fora.

In 1995 the Government Procurement Experts Group (GPEG) was established. GPEG's aims are to develop a common understanding of government procurement policies and systems and to achieve liberalization of government procurement markets throughout the Asia-Pacific region.

Some examples of work carried out by GPEG include the establishment of a home page to report on members' existing government procurement systems as part of the enhancement of transparency. Since 1995 GPEG has encouraged regular surveys of government procurement practices and systems.

In 1999 APEC identified and agreed a collective action plan for government procurement. A key component of the plan was to develop a set of non-binding or voluntary principles on government procurement.

In August 1999, under the convenorship of Hong Kong, China, the GPEG completed the development of the non-binding principles, including elements of and illustrative practices (Wiggins 2003).

The six Non Binding Principles (NBPs) that were developed included:

1. transparency
2. value for money
3. open and effective competition
4. fair dealing
5. accountability and due process
6. non-discrimination

Each non-binding principle addresses the elements of:

- general operational environment
- procurement opportunities
- purchase requirements
- bid evaluation criteria
- award of contracts

A detailed explanation of the NBPs can be found via the GPEG website (APEC GPEG. 1999)

By 2001 a majority of GPEG members had completed their voluntary review and reports of their GP systems against the Non Binding principle of Transparency. At the 2002 meeting in Mexico APEC member economies agreed to begin voluntary reviews of the next principle – 'Value for Money' in 2003. It was also agreed that the group would continue educational and information sharing activities.

The GPEG group also agreed in Mexico to work more closely with two other APEC groups, namely:

- the Small and Medium Enterprises Working Group
- the Electronic Commerce Steering Group

As a result of this collaboration GPEG developed a proposal for a workshop focusing on strategies to improve SME access to government procurement markets.

3. The Economic Contribution of SMEs

SMEs "... are a dynamic force for sustained economic growth and job creation. They are a valid crucial component of a vibrant industrial society. SMEs stimulate private ownership and entrepreneurial skills; they are flexible and can adapt quickly to changing market demand and supply conditions; they generate employment, help diversify economic activities and make significant contribution to export and trade (MFT 2001)".

Definitions of SMEs differ from economy to economy, and are based on specific criteria such as the number of employees, level of assets or turnover. However the *economic* and *social* contributions of SMEs that are common across economies are their ability to:

1. create jobs with low capital costs
2. create conditions for development and introduction of new technologies
3. function as subcontractors for large corporations
4. adapt faster to the demands and fluctuations of the market place
5. fill marginal areas of the market, which are not targeted by large corporations
6. decentralize business activity and help foster faster development of regions, small towns and rural communities
7. alleviate the negative impact of structural changes (MFT 2001).

SMEs make up a large proportion of economic activity and are an important resource for government procurement. However the relative size of the SME sector is often not matched by SMEs share of the government procurement market. For example in Australia:

- 99.76% of all non-agricultural private sector businesses are SMEs and they employ about 74% of that workforce - but their voice is frequently small and fragmented (Prestney 2003).
- SMEs make up in excess of 20% of primary contracts by value (all procurement) and also have a substantial involvement as subcontractors (Loudon 2003).

Globalisation poses special challenges and opportunities for SMEs. The Bologna OECD Charter 2000 on SME policies recognizes (OECD 2000):

- the increasing importance of small and medium-sized enterprises (SMEs) in economic growth, job creation, regional and local development, and social cohesion, also through the role played by women and young entrepreneurs
- that entrepreneurship and a dynamic SME sector are important for restructuring economies and for combating poverty
- that globalisation, the acceleration of technological change and innovation create opportunities for SMEs but also involve transition costs and new challenges and that globalisation should lead to higher living standards for all and that its benefits should be accessible to all on an equitable basis
- that SME policies need to be tailored to the circumstances and priorities of individual countries and sectors, while contributing to sustainable development and social progress
- the work on SMEs by the OECD and other international institutions encourages continued multilateral exchange of experience and best practice policies with a view to strengthening partnership and co-operation among SMEs in OECD and non-OECD countries.

SMEs are the engine of the economy (BRTF 2003) and a powerhouse of innovation and employment (NOIE 2003). An economy's overall economic health and well being can be measured by the growth of SMEs - so it is vital to enhance the capacity of SMEs to compete domestically, nationally and internationally (APPC 1999).

Despite their importance, SMEs face many barriers to being sustainable in local and overseas markets. Government strategies to assist SMEs will vary, depending upon the country's stage of development (MFT 2001). Some of the barriers that SMEs face are (World Bank 2003):

1. expensive and time-consuming regulatory, licensing and permit requirements
2. lack of legal framework for commercial transactions and dispute resolution
3. inadequate protection of business and intellectual property
4. tax structures that distort incentives and discriminate against small firms
5. barriers to accessing information
6. insufficient internet access
7. labour market rigidities that make hiring and firing workers difficult and expensive
8. official and unofficial levies
9. government procurement procedures that discourage successful bidding by SMEs.

4. Government Procurement and SMEs

As one response to these barriers faced by SMEs, governments have the option to use their buying power to build the business capabilities of SMEs (APPC 1999). A key strategy in fostering economic growth is ensuring that the public sector market is opened up to SMEs (BRTF 2003).

Identifying the inhibitors that restrict SME access to government procurement markets in the APEC region, and developing strategies and solutions to reduce these barriers, is a capacity building activity that supports the principles and objectives of the APEC Bogor goals (APEC GPEG 2003b).

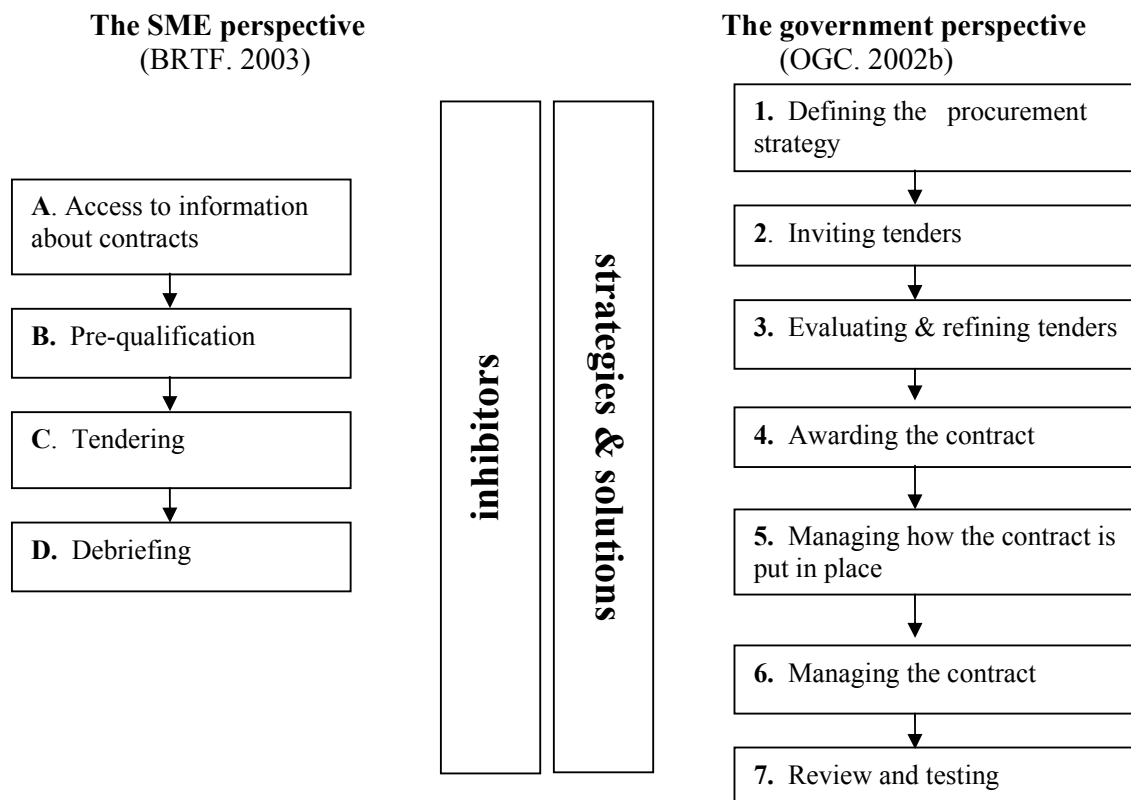
4.1 Procurement perspectives of SMEs and government

The following diagram provides two different views of the steps in the government procurement process:

- the view to the left shows the process from the perspective of an SME.
- the view to the right shows the process from the perspective of a government.

Whilst it is possible to have other equally valid interpretations of the steps involved, the steps listed below were selected for use in the workshop. Most of the inhibitors to SME access to government procurement markets are found within the steps outlined. The solutions and strategies required to overcome such inhibitors will generally target the steps identified.

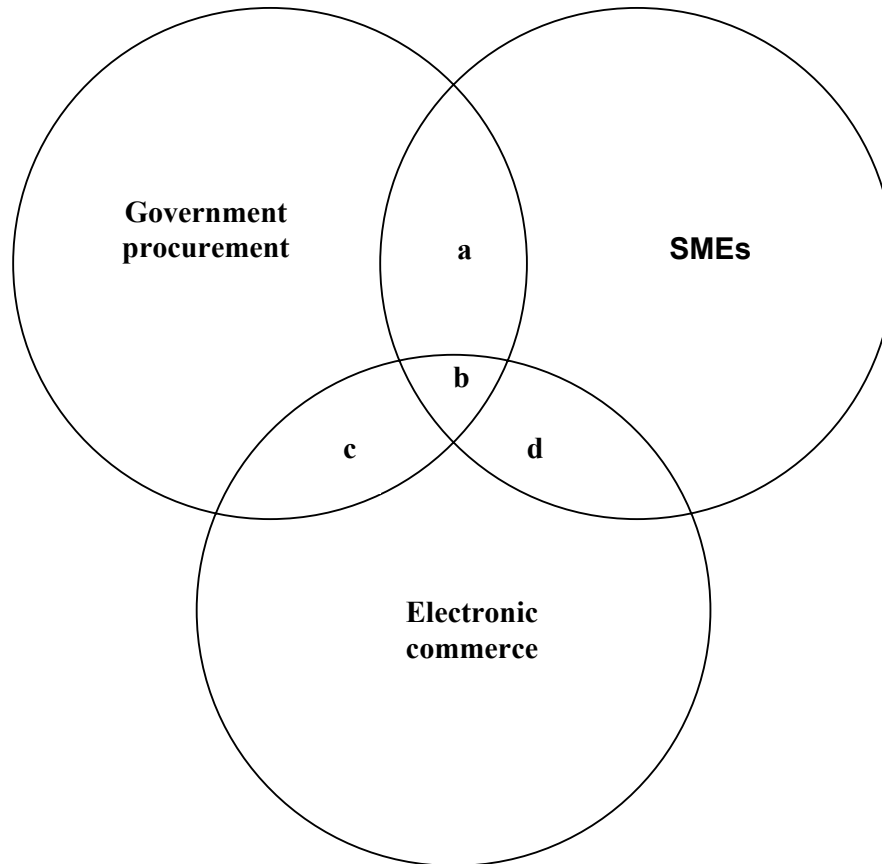
Figure 1: Perspectives of the government procurement process



4.2 The ‘opportunity space’ for SMEs in the GP market

Figure 2 below uses three circles to represent the intersecting interests of three APEC groups, namely: GPEG, the Small and Medium Enterprises Working Group, and the Electronic Commerce Steering Group. The workshop was designed to identify *solutions* and *strategies* to maximize the intersection ‘a’ – the *opportunity space* for SMEs in the government procurement (GP) market.

Figure 2: Intersecting interests



Intersection	What it tells us
a	the <i>opportunity space</i> for SMEs in the government procurement market
b	that part of the <i>opportunity space</i> for SMEs in the government procurement market that is facilitated by e-commerce - so ‘b’ is a subset of ‘a’
c	any government procurement that is facilitated by e-commerce
d	any SME activity that is facilitated by e-commerce

Inhibitors limit the *opportunity space* for SMEs in the government procurement market. The workshop identified some of these problems.

This workshop provided an opportunity to identify both public and private sector actions to help SMEs develop their access to government procurement markets. Access to these markets enables SMEs to build on their local strengths while capturing the benefits of globalisation and trade liberalisation.

5. Workshop Methodology

There were two three-hour workshops held on Wednesday 13 August 2003. The workshop methodology utilised a voting process to tap into the collective knowledge of the participants in the group and to take into consideration the different views, priorities and backgrounds of the delegates.

The presentation schedule that describes the workshop activities is set out in Appendix 4. The workshop commenced with an introduction to the topic of government procurement and the importance of the SME sector. The Venn diagram (figure 2) was used to demonstrate the overlap between the SME sector, the field of government procurement, and the use of E Commerce. The diagram provided a useful pictorial view of the interrelationship between the three segments and helped to demonstrate the opportunity space available when changes occur in the priorities of the various segments.

A cause and effect model in the form of a fishbone diagram (see appendix 5) was used to visually demonstrate the potential inhibitors to increasing SME access to government procurement markets. A large series of posters depicting the fishbone model was placed on the wall to provide a visual stimulus for the participants.

Participants were involved in group discussions to identify specific inhibitors under more generalised headings. The *Central Consulting* case study (see appendix 6) was used to stimulate debate around the issues and participants were also encouraged to draw upon their own experiences. These lists of inhibitors were then placed on the walls for viewing by participants. A complete picture of the possible inhibitors to SME participation in government procurement was thereby developed.

All participants were then invited to cast a series of votes to identify the most important inhibitors in their view. The working groups were then invited to consider possible solutions to overcome the most important inhibitors. These lists of solutions were then posted on the display posters. Finally the participants voted again to recommend the most important solution to be considered by the GPEG group.

6. Workshop Output

There were two workshops conducted, so the output from each workshop has been reported separately.

6.1 First Impressions

In order to encourage involvement in the workshops, and gauge the first impressions of the participants, we asked them to consider the steps in the government procurement process (see figure 1). Participants recorded their views on which steps contained the most serious inhibitors – firstly from the SME perspective and then from the government perspective. The results of these views for workshop one (W/S 1) and workshop two (W/S 2) are set out in the table below.

Table 1: First impressions of the steps containing the most serious inhibitors

SME Perspective	W/S 1	W/S 2	Government Perspective	W/S 1	W/S 2
Access to information about contracts	47%	46%	Defining the procurement strategy	27%	46%
Pre-qualification	40%	36%	Inviting tenders		
Tendering	13%	9%	Evaluating and refining tenders	60%	18%
Debriefing		9%	Awarding contracts		
			Managing how the contract is put in place		
			Managing the contract	13%	36%
			Review and testing		

When considering the SME perspective both workshop groups demonstrated a consistent view and considered two issues as more important than any others. The issue considered as most important was *access to information about contracts*, while the issue of *prequalification* was a close second.

Anecdotal evidence suggests that SMEs have difficulty in finding information about public sector contract opportunities. They perceive the process to be long and complex and lack the experience to deal with the documentation. Many SMEs do not know how to search databases and do not know where to look for procurement opportunities.

Prequalification often requires a track record and several years of audited accounts. Many SMEs are relatively young businesses and find it difficult to meet these requirements.

With respect to the government perspective there was overall agreement on the three issues considered important, but the order of importance varied between the two workshop groups. The first group considered *evaluating and refining tenders* as the most important issue, while the second group identified the issue of *defining the procurement strategy* as the most important.

In terms of evaluating tenders there is an ongoing debate between the simple to administer ‘lowest cost’ and the more complex ‘value for money’ concept. While value for money describes a perfect solution in theory, it is more difficult to deliver in practice and relies on skilled evaluators.

If the procurement strategy is clearly articulated from the beginning of the process it usually means that there is sufficient time to provide information and advice to potential bidders from all business sectors. The difficulty is having experienced personnel and a broad time horizon to deliver the complete strategy.

6.2 Identifying the inhibitors

The workshop groups spent time identifying and discussing the range of inhibitors to SME participation in government procurement. In order to assist in the development of

a coherent list, sub-headings were used to categorise the inhibitors. The sub-headings used were: access to information, pre-qualification, tender-contract scale, tender-contract criteria, and international activities.

The full list of inhibitors under their sub-headings is set out in Appendix 1. The following is a brief discussion of the contents of the tables.

Table 4: Pre-qualification and feedback

Both workshops identified the unlimited liability often found in government contracts as a major inhibitor due to the difficulties of arranging adequate and affordable insurance coverage. Other issues under this heading included the requirement for excessive detail and unrealistic specifications with respect to their previous track record. Both of these examples can be seen as indicators of excessive risk aversion on behalf of government procurement systems or staff. Furthermore there were references to inconsistent information requirements by different government agencies that add complexity and make the tender process more difficult for SMEs given their limited resources.

Table 5: Access to information

One common theme in this category was the availability, cost and user-friendliness of the technology required to access the information. SMEs can be disadvantaged through the lack of resources, time and expertise to manage the technology interface. Furthermore there was evidence of the lack of information on small-scale contracts in government publications or websites. Given the attraction of SMEs to smaller contracts, this limits their access to government work. Participants also noted that it was often difficult to get the levels of commitment and responses from government officials that encouraged SMEs to succeed in procurement markets.

Table 6: Tendering Contract Criteria

The participants believe that SME comparative advantage is not so much in terms of cost but more in terms of quality of service, innovativeness and flexibility. While many contract criteria is expressed in such terms, the reality is that much of the evaluation that results in the awarding of contracts either over-emphasises the cost dimension or is unable to effectively deal with these more qualitative dimensions. As a consequence many SMEs do not win contracts that would provide the best value outcomes for the community. Issues of government payment procedures were also listed as a concern for SMEs, specifically in terms of the impact on their cash flow. A further concern was the lack of certainty about how intellectual property issues would be treated and resolved.

Table 7: Tendering Contract Scale

The participants were concerned with the tendency for government contracts to become larger in scale due to the aggregation of previously separate contracts or the outsourcing of whole areas of government activity. This causes a mismatch of the resources required by the contract scale with the resources that can be applied by SMEs. The tendency towards larger scale contracts means that SMEs are forced to consider either sub-contracting or consortia options. Participants noted that both of these options are difficult to establish and sustain.

Table 8: Overseas/ International Activities

In this category participants noted the lack of availability of market intelligence when entering overseas markets. In addition, a poor understanding of different cultures often led to inappropriate practices and processes that compromised the chances of success. Furthermore, difficulties with unfamiliar legal systems were highlighted as a barrier to participate in overseas markets. Other issues mentioned included difficulties in monetary transfers and taxation arrangements.

6.2.1 Major Inhibitors

Once the entire list was developed (see Appendix 1), the workshop group then prioritised the inhibitors. The major inhibitors identified by the workshop groups are set out below with the sub-heading category in brackets.

Table 2: Major Inhibitors that restrict SME access to government markets

Major Inhibitors Identified (in priority order)	
Workshop 1	Workshop 2
Awarding to the lowest bidder (contract criteria)	Aggregation of contracts (contract scale)
Mismatch of resources (contract scale)	Evaluation detail (contract criteria)
Infrastructure (access to information)	Unlimited liability (prequalification)
Lack of Networking (contract scale)	Difficulty to compete due to capital required (contract scale)
Pre qualification criteria (contract/prequal)	Lack of government risk assessment skill (contract criteria)
Quality certification (prequalification)	Lack of clarity in tender information (access to information)

In Workshop group one the concept of **awarding contracts to the lowest bidder** was identified as the major inhibitor to SME participation, indicating that SMEs cannot compete on price alone.

A second major inhibitor referred to the **mismatch of resources** - the fact that many government contracts are of such a large scale that they prevent SMEs from being involved in the tender process. The third major inhibitor identified was the **lack of infrastructure** that created difficulty in access to information by SMEs.

The second workshop group identified the **aggregation of contracts** as the major inhibitor to SME participation in government procurement. This was followed by **evaluation detail** as the second major inhibitor and the **policy of requiring unlimited liability** as a pre-qualification condition was the next most frequent inhibitor.

In summary both workshop groups expressed concerns about the **size of contracts** as an inhibitor to SME participation and also referred to concerns with the **methods of evaluation** of tender proposals, particularly when selection is made on the basis of the lowest bidder. The use of larger contracts in government procurement is often driven

by the need for greater efficiency. These larger contracts require less staff to manage them and there is a single point of contact for dealing with problems. However the contracts generally result in a reduced number of larger suppliers, effectively ruling out smaller firms.

6.3 Suggested Solutions/Strategies to Overcome the Inhibitors

The workshop groups were asked to identify and discuss some suggested solutions for the major inhibitors (refer table 2).

A complete list of the suggested solutions is contained the tables in Appendix 2. A brief discussion of the proposed solutions follows.

Table 9: Award to Lowest Bidder

Participants considered the issue of awarding tenders to the lowest bidder. The first solution suggested was to change government procurement policy to ***value for money*** (VFM) and to consider quality as part of the evaluation criteria. An allied suggestion involved working to ***change the mindset of government procurement officials***. Another suggestion on this common theme included ***ensuring that procurement officers were trained in the evaluation tasks***, particularly in assessing value for money. Similarly there was a recommendation that ***government agencies only employ qualified procurement officers***.

Table 10: Infrastructure Deficiencies

The major recommended solution to the difficulties faced by SMEs due to the lack of infrastructure was to ***provide training for SMEs*** to encourage them to embrace technology. It was acknowledged that it may be a costly exercise and some SMEs may not be willing to participate, however it was seen as a method of increasing the competitiveness of SMEs relative to larger organisations. Another suggestion involved the ***government providing access to information*** in a way that was transparent and fair to business of all sizes. Finally it was recommended that governments ***hold pre-bid conferences*** to improve dissemination of information and create awareness of tender opportunities to overcome the problem of unequal access to information.

Table 11: Lack of Clarity in Tender Documentation

The ***use of standard bid documents*** and specifications was posed as a suggested solution to the problem of lack of clarity in tender documentation. It was argued that reducing the variation between bid documents would improve evaluation as it allowed the comparison of apples with apples. A further suggestion was to ***hold regular briefings before bid closure*** to enable any uncertainty to be sorted out before lodgement of the documentation.

Table 12: Unfair Competition from Big Business

The concern about unfair competition being an inhibitor for SME involvement in government markets was addressed with several possible solutions. Firstly there was the idea to **foster strategic alliances among SMEs** to allow them to pool their resources and share expertise in order to compete more equally with larger businesses. It was acknowledged that such alliances may cause conflicts of interest and have coordination problems. An alternative solution was to **loosen the tender requirements for SMEs** and allow them less stringent qualification criteria. Finally a more general solution posed was to **nurture the capabilities of SMEs**, in effect improving their procurement capacities and bidding expertise. Such a solution would be more longer term.

Table 13: Pre-qualification Criteria

It was suggested that governments should **remove policies that discriminate against SMEs**, for example by relaxing the overly stringent financial and track record criteria. While such a move would improve the opportunities for SMEs it creates greater risk for government. Governments through the use of appropriately qualified evaluators could manage this risk, but it would require more education of their procurement officials. Another possible solution is to **provide more support systems for SMEs** in the procurement market. For example have readily accessible help desks and provide training activities to strengthen SME skills in this area.

Table 14: Aggregation of Contracts

One solution to the impediment of aggregation of contracts recommends **all information and rules relating to government procurement are openly available to all** to ensure governments are accountable for following the rules that have been established. A further solution involves gaining a better understanding of the number of contracts that are aggregated. The suggestion is to **conduct research to assess big contracts** and if it is identified as a serious impediment, then there should be a process to promote alternatives to aggregation such as the unbundling of contracts. Finally it was suggested that governments **work to establish networks to help bring potential partners together** and also to create a voice and common platform for bringing issues to the notice of government.

Table 15: Mismatch of Resources

It was recommended that governments should **break up contracts into smaller parts** to make them more accessible to SMEs that have limited resources and are at a disadvantage when dealing with large contracts. Governments should **develop a pre-procurement plan** that encourages all sized firms to bid for contracts so that value for money can be assessed rather than similar bids only differentiating themselves on price. An alternative suggestion to encourage smaller firms to bid for larger contracts involves facilitating the formation of consortia. An appropriate time to promote such activity would be during the pre-bid briefings. A final solution that ensures that SMEs are not left out of larger contracts is to make it **mandatory for bidders to include SMEs in a sub contracting role**.

6.4 Good Practice Examples

As well as recommending some potential solutions to the major inhibitors, the workshop groups were asked to suggest some good practice examples that could be used for reference by those governments looking for some direction.

Value for Money

The first workshop group provided examples of where ‘value for money’ is being used. The examples referred to were European economies, Australia, and the World Bank where they refer to “evaluated and responsive solutions”.

Access to Information

Singapore is a leader in internet promotion for its SME population. The New South Wales regional government in Australia organises a meet the buyer event as part of its procurement strategy.

SME Network Development

The second workshop provided examples of developing networks to improve the level of involvement of SMEs in government markets. The first example described where Malaysia uses strategic alliances to improve access for SMEs. It develops contracts with industry associations who then sub-contract with individual SMEs.

Mandate SME Share of Contracts

A second example involving Malaysia is the vendor development program where 30% of procurement activity is reserved for SMEs who have been involved in this program. Once the SMEs have established some procurement activity then new SMEs are introduced to the vendor development program. Other examples of regulations that require a set percentage of contracts in particular industries must go to SMEs can be found in Australia, Thailand and China.

SME Support

A further good practice example involves Thailand utilising a SME promotion office to encourage their involvement in procurement activity. Singapore provides training for SMEs in the use of web sites.

Further good practice examples are contained in Appendix 3.

6.5 Recommendation for APEC Consideration

Finally the workshop participants were asked to record their top three solutions for APEC - GPEG group to consider.

The first workshop group recommended that future attention should focus on:

- Introducing ‘value for money’ evaluations
- Making information more accessible
- Providing support systems for SMEs

The second workshop group determined that future attention should be directed to:

- Reconsidering procurement strategy, particularly the aggregation of contracts
- Developing strategies to form networks and industry alliances to help SMEs to access procurement markets, that is a strategy of nurturing and supporting SMEs
- Improving access to information for SMEs.

Although the suggestions are different across the two workshop groups, they have the common themes of improving information access for SMEs and developing strategies that are supportive of SMEs in accessing procurement markets. The suggestions were also in line with the priority inhibitors identified in section 6.2.

7. Conclusion and Recommendations

The workshops involved participants with a range of experiences in the government procurement process and from a number of economies across the APEC region. The contribution from the participants enabled the workshops to be a positive learning experience. The participants involved themselves in the activities, discussed numerous ideas, considered the various issues raised and genuinely supported one another in developing their understanding of the interaction of the government procurement market and the SME sector.

The workshops enabled a sharing of experiences, both in terms of difficulties faced and practices used to overcome the difficulties. While there have been several studies carried out to identify the inhibitors to SME participation in government procurement, the workshop provided an opportunity to share that information with the participants.

It was in the area of possible solutions and strategies that the greatest amount of learning took place. Participants were able to articulate their local solutions that had been successful as well as point to good practices that had been developed elsewhere. It was the sharing of experiences with respect to solutions that helped others develop new ideas and have access to the people who have implemented solutions elsewhere. These contacts developed during the workshops are an ongoing resource that the participants were able to take away with them.

7.1 Summary of Workshop Outcomes

The table below provides a comparative summary of the outcomes of the two workshop groups in terms of the main issues discussed. It demonstrates that each group had different priorities in terms of the major inhibitor and suggested solution. Group One saw tender evaluation as a priority and posed as its most important solution the implementation of VFM, a direct solution to their major inhibitor. Similarly Group Two saw procurement strategy as its priority and developed a solution to deal with that issue.

Table 3: Summary of workshop outcomes

	Group One	Group Two
Initial Vote	Evaluate tenders	Procurement strategy
Priority Inhibitor	Use of lowest bidder	Aggregation
No 1 Solution	Implement VFM	Network development
Good Practice	Europe Australia World Bank	Malaysia

The solutions posed by the two workshop groups involve genuine strategies to provide greater access to government procurement markets for SMEs. The use of VFM in assessing tenders allows for the consideration of factors other than simply price. This assists SMEs to promote their flexibility and to discuss innovative solutions to procurement supply. Similarly the development of networks among SMEs allows for greater information sharing and provides the opportunity for their involvement in larger projects.

7.2 Recommendations: The Way Forward for APEC

7.2.1 APEC foster the development of specific case studies that demonstrate good practice in government procurement from the perspective of government.

7.2.2 APEC also foster the development of specific case studies that demonstrate good practice in SME access to government contracts.

Given the range of inhibitors identified at the workshops there is a need to provide positive examples of how those inhibitors have been overcome in particular economies. We recommend the development of specific case studies that demonstrate success in involving SMEs in government procurement. Such cases need to demonstrate good practice in encouraging SME access as well as good government procurement practices so that it will be persuasive to both SMEs and individual economies.

These cases need to demonstrate the processes involved in getting to the level of good practice. At the government level they should include a consideration of:

- how procurement is used in a strategic manner in government
- the amount and type of training involved for procurement staff
- the level of communication with SMEs
- the use of open days, supplier briefing sessions, help-desk support
- the provision of timely information
- the provision of documents that are jargon free
- the development of user friendly web sites
- encouragement of the development of consortiums
- keeping the prequalification requirements to a realistic level
- a focus on outputs
- the provision of useful feedback.

At the SME level there is a need to describe:

- how the business became aware of the government contract
- how the business developed its track record
- the level of communication that took place with the government officials
- the SME characteristics that were promoted to help win the contract
- the level of association with other contractors
- the networks with which the SME is involved.

7.2.3 The case study materials should be available on the APEC GPEG web site with links to the people involved in the cases.

The importance of effective communication of good practice is critical to ongoing learning for procurement officials. It is also important that information about government purchasing activity is available to as wide an audience as possible. The contact persons who can describe the process followed and warn of possible difficulties

will be a valuable resource to all those involved in the procurement industry. The ability to make contact with and be able to discuss issues with key players involved in good procurement practice is an important aspect of sharing the knowledge about good practice.

7.2.4 APEC should encourage member economies to promote the development of hot links from industry association web sites directly to the GPEG web site.

Industry associations are a conduit to SMEs and governments need to use them to pass on information to SMEs about procurement activities. Governments need to foster regular communication with industry associations to gain a better understanding of the SME sector. Likewise they should encourage industry associations to link to the GPEG web site to improve SME access to information about government procurement markets in the Asia-Pacific Region.

7.2.5 APEC should develop a summary of the numerous studies and publications in the area of government procurement and SMEs.

There is much that has already been learned about the topic of SME involvement in government procurement. However it is generally produced in isolation and has not been gathered together to provide a significant body of knowledge. A summary of the numerous studies kept in one location would provide useful information to inform procurement officials and will avoid the necessity of individual economies *re-inventing the wheel*.

7.2.6 APEC must support education to promote the understanding of good procurement practices at all levels of government.

Government contracts are a significant segment of most economies and they offer a prime opportunity to build the economic capacity of SMEs. In order to maximise the benefits from these opportunities there is a need for a greater level of understanding of procurement issues at all levels of government. This involves educational activities for all those involved in procurement, from those charged with the development of strategies through to those who carry out the purchasing. Clear policies need to be written so that practices do not change when staff move on.

7.2.7 APEC undertake research of VFM practices to inform the education of procurement officers.

VFM is seen as one key solution for greater SME involvement in government procurement. VFM assessment practices are more complex and require a greater application of skill by government officials. To develop the appropriate level of skill among procurement officers and a clear understanding of VFM principles there needs to be an investment in the education and training of procurement officers. To help inform this education process, there needs to be a greater understanding of the significance of VFM activity and the economic benefits gained. Research into VFM activity will provide the knowledge to drive the education process.

7.2.8 Economies need to become aware of the more innovative approaches to providing access to information about government procurement including holding supplier briefings, open days and help desks.

It is important that government procurement practices are proactive. There are many examples of innovative approaches to information dissemination that are cost effective and inclusive of all potential suppliers. These include holding supplier briefings and open days to promote procurement opportunities. Help desks can be used to support those new to procurement markets. More recently the use of web sites for the dissemination of procurement information is growing dramatically. Economies need to ensure that SMEs have the level of skill and equipment to be able to access these sites.

7.2.9 Economies need to promote network development among SMEs.

Government procurement activities can provide opportunities for SME growth and expansion. Current procurement trends towards larger contracts can make it difficult for SMEs in isolation to access government markets. It is therefore imperative that economies provide the basis upon which SMEs can form alliances to bid for these aggregated contracts. The formation of networks where SMEs can share ideas and skills promotes the opportunity for developing relationships in order to bid for larger contracts. There is a role here for the APEC SME group.

7.2.10 APEC needs to encourage economies to nurture the capabilities of SMEs.

SMEs are an important source of employment generation and they contribute to sustainable development and social progress. The SMEs that provide this economic contribution are usually driven by highly skilled entrepreneurs. Governments have a role to play in promoting skill development among SME operators. To encourage greater participation in government procurement activities economies need to train SMEs to better promote themselves and to develop their proposal writing skills.

7.3 Conclusion

Government procurement has become a key platform in APEC to help deliver free trade in the region. It is well understood that SMEs are a driving force for economic development and employment generation, but their positive attributes of efficiency and innovative practices often make it difficult for them to compete in the more rigid environment of government procurement. It is argued that if governments are able to encourage the interaction of their procurement activity with SME capability they will reap the benefits of trade liberalisation and economic and social development.

Two workshops were delivered with the objective of considering strategies to encourage SME access to government procurement markets in the Asia-Pacific Region. The workshop participants had a keen interest in either government procurement or SME policy and came from across the APEC Region. The *Central* case study was used to stimulate debate around the issues and participants were also encouraged to draw on their own experiences.

The participants were firstly encouraged to identify the range of inhibitors to SME participation in government procurement activities. These inhibitors were then ranked in terms of significance. The workshop participants in groups then worked to determine some possible solutions to overcome the inhibitors. Next, some good practice examples were identified as potential sources of encouragement for those who were new to the procurement field. Finally the participants provided some recommendations for APEC to consider.

This process has allowed for a considerable increase in the understanding of the issues surrounding SME access to government procurement activity. This report contains much of the output produced during the workshops. It demonstrates the range of ideas and strategies that are available to governments, and provides encouragement to those who believe that government procurement can be an effective tool for economic development.

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Appendix 1: Inhibitors to SME Involvement in Government Procurement

Table 4: Inhibitor - Prequalification and Feedback

Workshop 1	Workshop 2
<ul style="list-style-type: none"> • Unlimited Liability • Too much detail required, takes time and money • Irrational detail <ul style="list-style-type: none"> ○ Financial ○ Experience ○ Track record • Inconsistent information • Lack of risk assessment skills • Personnel are risk averse • Public risk averse (policy wise) • Poor feedback • Quality requirement – certification 	<ul style="list-style-type: none"> • Unlimited liability • Too much detail required <ul style="list-style-type: none"> ○ Time, dollars • Irrational detail required <ul style="list-style-type: none"> ○ Financials ○ Track record • Inconsistent information required across different departments • Poor feedback • Lack of government risk assessment skill <ul style="list-style-type: none"> ○ Personnel are risk averse (practice) ○ Public risk averse (policy) • Quality certification required

Table 5: Inhibitor - Access to Information

Workshop 1	Workshop 2
<ul style="list-style-type: none"> • Content <ul style="list-style-type: none"> ○ Not clear or concise ○ Inconsistent government web pages ○ Lacks user-friendliness • Financial <ul style="list-style-type: none"> ○ Cost to upgrade equipment and manpower ○ Cost to register as government supplier • Promotional strategy <ul style="list-style-type: none"> ○ Cannot rely on word of mouth • Infrastructure <ul style="list-style-type: none"> ○ Technology limitations (equipment and speed) • Language within country and states • Accessibility of information <ul style="list-style-type: none"> ○ Lack of information on small jobs ○ Connections and contacts to obtain information • Response from government <ul style="list-style-type: none"> ○ Lack of response ○ Lack of information from officials ○ Lack of commitment from government 	<ul style="list-style-type: none"> • Access to internet is a problem • Downloading pdf files is a problem • Information provided is often not clear and sometimes deliberately vague • Extremely important to have a local agent • Timelines <ul style="list-style-type: none"> ○ Bid submission times often too short on complex contracts • Unequal Communication <ul style="list-style-type: none"> ○ Often bid clarifications only provided to some bidders ○ Unreasonable/unfair bid conditions ○ Often included by government, rarely queried by potential bidders

Table 6: Inhibitor - Tendering Contract Criteria

Workshop 1	Workshop 2
<ul style="list-style-type: none"> • Payment Schedule <ul style="list-style-type: none"> ○ Slow payment ○ Lack of project financing • Lack of contacts • Less number of experts • Less experience <ul style="list-style-type: none"> ○ Lack of confidence • Pre-qualification criteria discriminates against SME • Awards to lowest bidder • Unclear outcomes • Prescriptive procedures <ul style="list-style-type: none"> ○ Buyer risk averse • No scope for innovation • Vague evaluation criteria • No IP right protection 	<ul style="list-style-type: none"> • Evaluation Detail <ul style="list-style-type: none"> ○ Lack of clarity and transparency on tender assessment ○ Lack of confidence and ‘know how’ on responding to tender criteria • Intellectual Property (IP) <ul style="list-style-type: none"> ○ Different perspective and legislation of IP in different countries ○ Lack of emphasis on confidentiality of information • Payments <ul style="list-style-type: none"> ○ Bureaucratic payment procedures of government ○ SMEs facing difficulties managing cash flows between projects • Value for Money <ul style="list-style-type: none"> ○ Most of decision criteria is based on the lowest cost quoted ○ SMEs have limitations in competing with larger businesses in terms of capital requirements ○ Unclear project specification • Task Detail <ul style="list-style-type: none"> ○ Lack of uniformity between government agencies ○ Focus on process rather than expected outcome ○ Difficulty with variation orders

Table 7: Inhibitor - Tendering Contract Scale

<p>Workshop 1</p> <ul style="list-style-type: none"> • Mismatch of resources <ul style="list-style-type: none"> ○ Time scale ○ Contract value ○ Location of the work ○ Manpower • Misperception in volume and value • Irrelevant experience • Networking • Lack of communication between buyers and purchasers • Insufficient time to form consortium 	<p>Workshop 2</p> <ul style="list-style-type: none"> • Aggregation of contracts <ul style="list-style-type: none"> ○ Need for financial backing ○ Risk aversion • Openness <ul style="list-style-type: none"> ○ Timing ○ Planning • Consortium <ul style="list-style-type: none"> ○ Timing to arrange ○ Agreements on IP ○ Rivalry issues ○ Liability ○ Size/structure • Sub Contracting <ul style="list-style-type: none"> ○ Local partner needed ○ Profit sharing/margins needed ○ Management problems ○ Opportunity to establish • Maintaining competitiveness <ul style="list-style-type: none"> ○ Staying in the race • Follow up contracts <ul style="list-style-type: none"> ○ Amalgamated contracts
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Table 8: Inhibitor - Overseas/International Activities

<p>Workshop 1</p> <ul style="list-style-type: none"> • Overconfidence • Cultural difficulties <ul style="list-style-type: none"> ○ Don't understand ○ Don't accept ○ Cant change practices • Contractual <ul style="list-style-type: none"> ○ Procedures ○ Outcomes ○ Handling • Manpower • Context • Infrastructure • Clear policy • Supply chain • IP • Legal system • Lack market intelligence • Competition • Financial <ul style="list-style-type: none"> ○ Cash flow ○ Getting money in and out of country ○ Taxation 	<p>Workshop 2</p> <ul style="list-style-type: none"> • Lack of market intelligence • Contractual arrangements <ul style="list-style-type: none"> ○ Specify processes ○ Specify outcomes ○ Dispute arrangements • Financial <ul style="list-style-type: none"> ○ Timing of cash flows ○ Transfer of money overseas has some problems eg tax • Intellectual property • Culture <ul style="list-style-type: none"> ○ Understanding ○ Acceptance ○ Adjust practices • Confidence <ul style="list-style-type: none"> ○ Both over and under • Need for in-context track record • No government behind you
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Appendix 2: Suggested Solutions and Strategies to the Major Inhibitors

Table 9: Suggested Solutions to Inhibitor – Award to lowest bidder

Method	Objective / Advantages	Disadvantages
Change govt procurement policy	<ul style="list-style-type: none"> To award based on VFM Quality solution Track record Allow for innovation More opportunities for SMEs Financial saving in the long run 	<ul style="list-style-type: none"> VFM is subjective More costly in short term Risk for government Initial resistance
Provide training to Change the mindset	<ul style="list-style-type: none"> To operationalize policy change Consistent procurement policy execution 	<ul style="list-style-type: none"> L-T process High training cost
Employ qualified procurement officers		<ul style="list-style-type: none"> High risk of losing people to private sector
Standardize qualification criteria	<ul style="list-style-type: none"> To facilitate SME participation Easier to evaluate and manage SME participation 	<ul style="list-style-type: none"> Time consuming and tedious exercise Resistance among agencies

Table 10: Suggested Solutions to Inhibitor – Infrastructure Deficiencies

Method	Objective / Advantages	Disadvantages
Provide training for SMEs to embrace technology	<ul style="list-style-type: none"> To be competitive 	<ul style="list-style-type: none"> High cost maybe lack of willingness to participate
Government provide access to information	<ul style="list-style-type: none"> Fair and transparent competition 	<ul style="list-style-type: none"> Increased cost Better skill required
Improve understanding of language and culture	<ul style="list-style-type: none"> Better understanding 	<ul style="list-style-type: none"> Poor motivation Lack of participation
Pre bid conference	<ul style="list-style-type: none"> Improve dissemination of information from govt Create awareness 	<ul style="list-style-type: none"> Short time availability within the tender process

Table 11: Suggested Solutions to Inhibitor – Lack of Clarity in Tender Documentation

Method	Objective / Advantages	Disadvantages
Standard bid documents and specifications	<ul style="list-style-type: none"> • To reduce variation between bid documents • During evaluations compare apples with apples 	<ul style="list-style-type: none"> • Sometimes may be too rigid
Briefings to provide clarification before bid closure	<ul style="list-style-type: none"> • Better bids • SMEs encouraged to seek clarification 	

Table 12: Suggested Solutions to Inhibitor - Unfair Competition from Big Businesses

Method	Objective / Advantages	Disadvantages
<ul style="list-style-type: none"> • Strategic alliances among SMEs 	<ul style="list-style-type: none"> • Pool resources and share expertise • Knowledge transfer 	<ul style="list-style-type: none"> • Coordination • Conflicts of interest
Loosening tender requirements for SMEs	<ul style="list-style-type: none"> • Increase SME participation 	<ul style="list-style-type: none"> • Decrease SME competitiveness
Nurture capabilities of SMEs	<ul style="list-style-type: none"> • Bidding expertise • More resilient globally 	<ul style="list-style-type: none"> • Increase government cost
Inter agencies collaboration i.e. working together	<ul style="list-style-type: none"> • Effective and efficient outcomes 	

Table 13: Suggested Solutions to Inhibitor - Prequalification Criteria

Method	Objective / Advantages	Disadvantages
Remove policies that discriminate against SMEs i.e. relax overly stringent financial and track record criteria	<ul style="list-style-type: none"> • More open for SMEs • More competitive 	<ul style="list-style-type: none"> • Risk for government • Require more qualified evaluators more qualified more costly • More time consuming
Provide support system for SMEs i.e. training, help desk, publication, web site	<ul style="list-style-type: none"> • Provide information and awareness • Strengthen SMEs 	<ul style="list-style-type: none"> • More investment required

Table 14: Suggested Solutions to Inhibitor - Aggregation of Contracts

Method	Objective / Advantages	Disadvantages
Provide access to information on rules and regulations for government procurement	<ul style="list-style-type: none"> • To keep the government honest and within the rules • Allow SMEs to understand the rationale 	<ul style="list-style-type: none"> • Possible black listing or bad reputation with government
Unbundling of contracts	<ul style="list-style-type: none"> • Maximise the opportunities 	<ul style="list-style-type: none"> • Possible efficiency loss
Establish networks	<ul style="list-style-type: none"> • Bring potential partners together • Provide financing sources • Create voice/ common platform 	<ul style="list-style-type: none"> • Increased costs • Loss of IP • Lobbying can lead to skewing of decisions
Promote alternatives to aggregation eg case studies	<ul style="list-style-type: none"> • Avoid stockpiling • Achieve flexibility eg JIT 	<ul style="list-style-type: none"> • Unforeseen circumstances
Promote transparency and communication	<ul style="list-style-type: none"> • Provide information on alternative opportunities 	

Table 15: Suggested Solutions to Inhibitor - Mismatch of Resources

Method	Objective / Advantages	Disadvantages
Break up contracts into smaller parts	<ul style="list-style-type: none"> • Allow SMEs to bid on contracts 	<ul style="list-style-type: none"> • Increase operating costs to government as a whole
Government develop a pre procurement plan	<ul style="list-style-type: none"> • Inform SMEs on govt purchasing plans ahead of time to allow them to form consortiums and find partners 	<ul style="list-style-type: none"> • Waste of resources and time if plans do not materialise • Costs to government and suppliers to collate information
Form consortium	<ul style="list-style-type: none"> • Allow SMEs to bid on contracts 	<ul style="list-style-type: none"> • Not enough time to find partners • Greater risk
Require govt to Make sub contracting to SMEs mandatory	<ul style="list-style-type: none"> • Allow SMEs to bid on contracts 	<ul style="list-style-type: none"> • SMEs may not be more efficient • SMEs may not be paid on time or at all by main contractor • Increased cost as main contractor will factor in higher risk into bid price • Difficult to remove SME reliance on govt work

Appendix 3: Good Practice Examples

Value For Money

- European economies
- Australia
- World Bank “evaluated response”

SMEs embrace technology

- Australia in the Customs sector
- Singapore Tradelink

Access information

- World Bank and ADB Lead time on line
- Singapore Internet promotion
- Australia – NSW government organises Meet the Buyer events

Pre Qualification Criteria

- Mongolia, Laos, Cambodia
- World Bank recommended removal of 10% security bid

Mandate SME % of contract (or sub contract)

- China
- Australia in the ICT
- Thailand (Maintenance of computers mandated to be local)
- Malaysia -centralisation of contracts via zones
Cost greater but quality is better

Support Systems for SMEs

- Singapore training for SMEs to use web sites
- Thailand SME promotion office

Strategic Alliances

- Malaysia Contracts with industry associations who then sub contract to members

Innovative Contract Criteria

- Australia Grouped agencies, poorer outcomes, changed to individual agencies (Humphries Report)
- Hong Kong, China large core of standardised projects; can then focus on variations eg civil works pipelines
- Mongolia Two stage bidding process
- Malaysia Concept proposals where aspects vary between bidders (eg demonstration)
- Malaysia Vendor development program

Appendix 4: Presentation Schedule

APEC-GPEG Workshop

Developing strategies to overcome challenges faced by SMEs in accessing government procurement markets in the Asia-Pacific region

John Breen and Peter Demediuk

Presentation Schedule

During this workshop participants will:

- Overview SMEs and the government procurement market
- Identify inhibitors that restrict SME access to government procurement markets
- Develop strategies and solutions to overcome inhibitors

Overview of SMEs and the government procurement market

1. **Setting the context:** Discuss workshop notes pp. 1-9.

Identify inhibitors that restrict SME access to government procurement markets

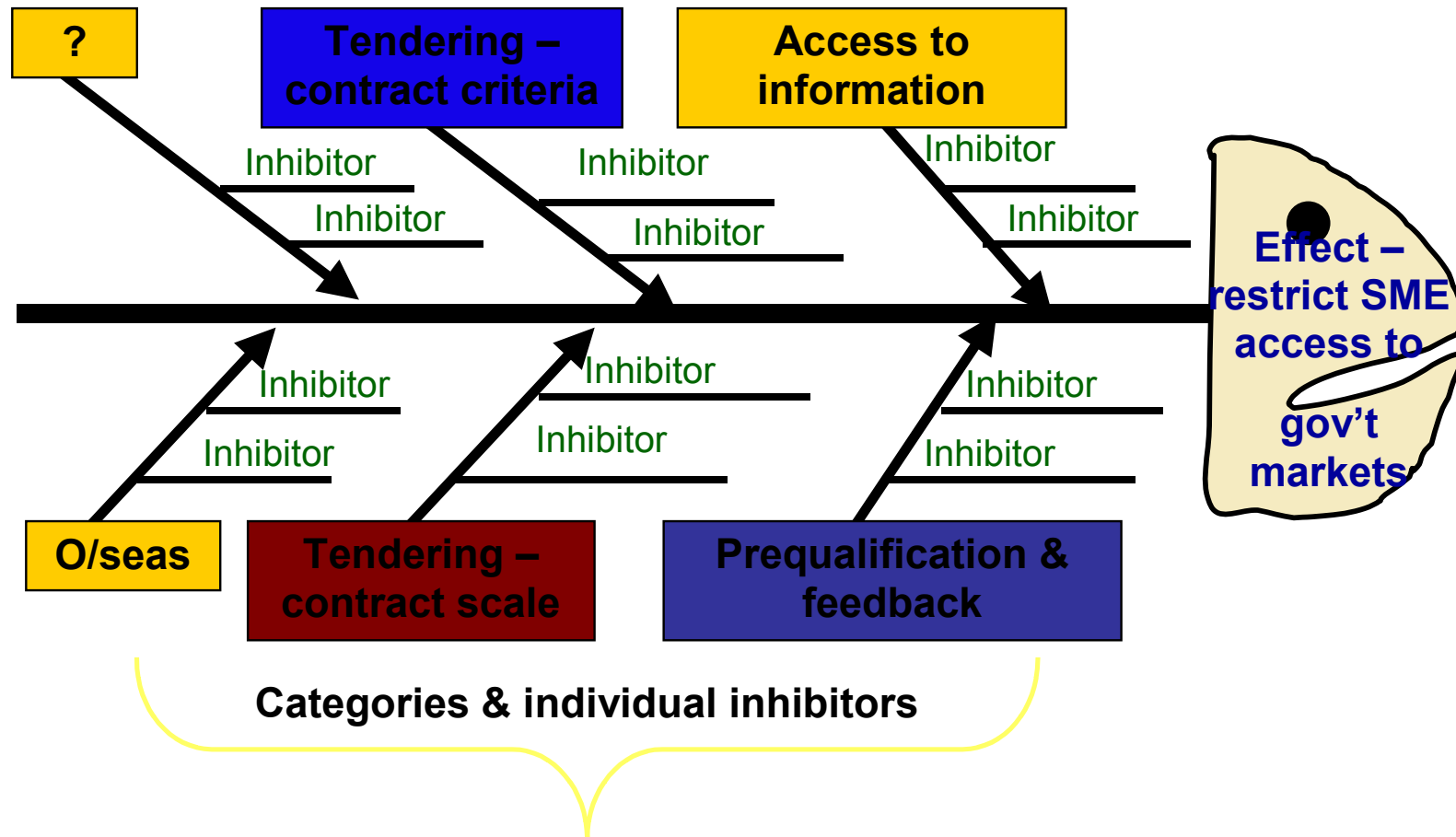
2. **Gathering your first impressions:** Think about the perspectives on page 10. Walk over to the BIG poster of p. 10:
 - Imagine you are an SME. In which one of the four steps (A to D) in ‘the SME perspective’ would you expect the most serious inhibitors to be found? Place **one red sticker** on that step.
 - Imagine you are a government organisation. In which one of the seven steps (1 to 7) in ‘the government perspective’ would you expect the most serious inhibitors to be found? Place **one red sticker** on that step.
3. **Introducing the case study:** We will use a ‘fishbone’ cause-effect model (Appendix 1) to highlight the inhibitors that restrict the access of our case study (*Central*) and other SMEs to the government procurement market. As background, we will all read **Section 1** (pp. 12-14) of the ‘Central Consulting’ case study.
4. **Demonstrate the model:** John & Peter will apply part **iv** of Section 1 ‘International activities’ (pp. 13-14) to the ‘fishbone’ model to determine inhibitors that may form around international initiatives.
5. **Forming discussion groups:** We will divide into four ‘colour-coded’ activity groups. Each group is allocated the following **section** of the *Central* Case to read:
 - **Pink:** Section 2. *Access to information about contracts*. pp. 15-16
 - **Green:** Section 3. *Prequalification & debriefing*, pp. 17-18
 - **Yellow:** Section 4. *Tendering – contract criteria*, pp. 19-20
 - **Blue:** Section 5. *Tendering – contract scale*, pp. 21-22

6. **Identifying inhibitors:** Each group unpins the BIG SHEET for their section from ‘the fish’ and takes it back to their group table. The group then writes down on the big sheet, the inhibitors experienced by *Central*. Also write down any other inhibitors that are not found in the case but relate to your section (mark these with an **X** – for eXtra).
7. **Finalising the inhibitors list:** Each group pins their completed BIG SHEET back on the ‘fish’. But have we ‘caught’ the whole fish? Discuss the inhibitors identified by each group and add any extra ones.
8. **Prioritising the inhibitors list:** We will vote for the inhibitors that we consider need priority action. Use 3 of your stickers here. Each sticker is worth one vote. Either place **3** stickers on *one* inhibitor **or** spread your stickers across *multiple* inhibitors.

Develop strategies and solutions to overcome inhibitors

9. **Allocating inhibitors:** The ‘top 8’ inhibitors are allocated to each group as follows:
 - **Pink:** Inhibitor 1 & 8
 - **Green:** Inhibitor 2 & 7
 - **Yellow:** Inhibitor 3 & 6
 - **Blue:** Inhibitor 4 & 5
10. **Developing solutions and strategies:** For the *highest* number inhibitor that your group is allocated, brainstorm solutions (the *what*) and strategies (the *how*). On the BIG SHEET ‘**Solutions and strategies for inhibitor.....**’, for each solution or strategy record the **method** (the *what* or the *how*), the **benefits** expected, and any **concerns** (such as adverse or unintended consequences, or implementation difficulties). Pin your completed sheet up. Repeat the process for your other allocated inhibitor if you have time.
11. **Gathering more solutions and strategies:** Walk around the pinned-up BIG SHEETS for ‘**Solutions and strategies**’ and add additional methods that you consider will help overcome the listed inhibitor (write on sticky pad and put under the relevant BIG SHEET).
12. **Identifying good practice examples:** Everyone to discuss actual ‘good practice’ examples of our recommended solutions & strategies.
13. **Revisiting our first impressions:** How do the solutions and strategies that we ended up developing match with our first impressions (in #2 above), of where the problem areas lie from SME and government perspectives?
14. **The number one priority:** Identify the number one solution or strategy that you think APEC should be pursuing/facilitating/championing. Place one sticker on your priority.

Appendix 5: Fishbone model



Appendix 6: Case Study: Central Consulting

6.1 Introduction

Central Consulting is an SME that provides a wide range of consulting services. *Central's* services extend across diverse areas such as ergonomic design, occupational health and safety assessments, process planning and evaluation, and managerial training. *Central* has worked for government, NGOs, private sector and industry bodies.

Examples of *Central's* wide-ranging tasks include designing or assessing:

- building fire safety and evacuation plans
- meat and seafood plant preparation processes
- furniture ergonomic design requirements for educational institutions
- correctional-institution practices
- emergency rescue procedures
- managerial change management training.

Central is based in one state, but contracts across its home country. It has had one experience with the international government procurement market.

Central has a core staff of three professional consultants and two support staff. The owner is the principal consultant, and is aided by the two associate consultants. Occasionally, *Central* calls in outside consultants to assist in projects on a short-term basis. *Central* has downsized from 5 consultants to 3. This was in part due to issues of profitability and overcapacity, but in part because the principal consultant recognised the benefits of operating at the 'coalface' rather than getting and organising work for others.

6.1.1 Central's strengths as an SME

Central's business plan lists a number of perceived strengths that differentiate it as a small business from larger competitors:

We are a small and agile specialist consultancy, which offers highly skilled expertise and creative, cost-effective and better quality outcomes through:

- ***creative solutions***
 - we find, discuss, and exploit new ideas and technology faster and better than market competitors.
- ***responsiveness***
 - we respond in fresh ways to meet initial outcome requirements, and we respond quickly and directly to ongoing change in requirements.
- ***service quality***
 - we offer personal levels of service and strong relationships that come from every client being significant to our business.
- ***cost & efficiency***
 - we offer cost and efficiency advantages which mean better value for clients.

6.1.2 Overall assessment of Central's experiences with government procurement

Central sees government procurement business as being critical for its sustainability.

Central has found that contracts are generally increasing in size and complexity. *Central's* limited financial and human resources compared to the demands of these 'bigger' contracts reduces its ability to win tenders on its own.

Even with contracts that it believes it could handle, *Central* is frustrated by prequalification demands for financial, competency and experience capabilities that go beyond what it thinks are realistic requirements for the task.

Central believes that many of the smaller tenders are not made visible enough, not even by the new e-commerce portals.

Central believes that its future in the government procurement market is dependent on maintaining a competitive advantage and somehow also getting a partial share of larger contracts:

“We get the impression that governments are, in principle, trying to give businesses like ours fair and open access ... but in practice the obstacles are numerous, often unseen and I think largely unintended. For us government contracting is an opportunity and not a waste of time, but that may not be the case for some newer players or those without a track record or some real point of difference to offer ...”.

6.1.3 International Activities

Central has attempted one foray into the international government procurement arena. It is not an experience that *Central* intends to pursue again without adequate legal, cultural and financial background investigation.

Central became involved in a joint government-private sector initiative that concerned the development of a helicopter rescue training facility in an APEC member country.

Central failed to comprehend the real role of the overseas government in the project, and became convinced that government participation assured continuity of the project and certainty of payment.

The contacts entered into were loosely bound because of the organic nature of the project. In retrospect, the legal issues about contract performance from both sides and *Central's* unfamiliarity with the local legal system led to much dissatisfaction all round:

“In essence we had to walk away from the project with a large financial loss - not to mention the opportunity cost of other business we passed over.

Our biggest mistake was not insisting on a contract direct with the government, or finding some other solution.

Our second mistake was in not nailing down progress payments to coincide with the input of our intellectual capital into the business. Our input of ideas, plans and documentation was not matched by cash flow. Subsequently another contractor did the work, using our framework.

It was a case of ‘fools rush in’...we did too much talking and did not really listen to some good advice we had been given by our own government’s export advisors and others”

Central cites a number of other issues to do with the international GP arena, which in hindsight, they failed to recognise and deal with properly:

- differences in language and culture
- misunderstandings about desired time and quality performance standards
- complex web of operational, legal and financial regulations
- lack of real market intelligence

Central might seek future expansion into the international market by:

“...piggybacking as a subcontractor to a multinational by an extension of the work we do domestically...or as a strategic alliance partner with a group of SMEs.

It’s a matter of finding where the rewards are – where the work is...and then balancing that potential against the risk of working in unfamiliar territory with new associates and clients, while establishing a compatible working relationship”.

6.2 Access to information about contracts

6.2.1 Websites

Central’s experience in searching WebPages for opportunities has been patchy, and ranged from productive to time-consuming and frustrating. Some websites have helped demystify a tendering process, whilst others have added a layer of complexity.

Central has no real problem with network infrastructure from its office as it has access to ADSL broadband, but when ‘on the road’ in rural and regional areas internet access, speed and reliability has been an issue.

One state’s e-tendering site in particular has been a useful source of tender information. *Central’s* biggest contract to date, a training course for public sector managers from local, state and national agencies was retrieved from the site in 2001.

Central has thus far found most of the different websites to be simple enough in themselves, but all have different graphics, menus, capabilities and requirements so:

“... it is really hard work checking various local, state and federal government procurement web resources.

Some sites get us to download PDF files, which we can't even type onto. We have to reconstruct them in word and email or fax them back. Other sites allow on-line responses, but the available 'answer boxes' don't always match the logic of how we need to respond ...

... the more sites we have to access on an infrequent basis, the harder it is to cope with the mixture of approaches ...

Some local governments are good, their sites have a clear link to business opportunities, and give clear contact information ... for others you need a sixth sense to find what you are looking for and still may find nothing.

But the biggest problem of all is that the smaller jobs that are a good fit for us often don't seem to appear anywhere.

Having sufficient time, computing competencies and IT equipment to cope with tendering in GP markets may become more of an issue for *Central* as electronic portals multiply and increase in sophistication:

"We have had a look at a new electronic system at the state government level called 'smart buying' or something like that, but have not taken that much further as I need to set aside some time to try to understand what it does and what it requires ... and we are supposed to have Pentium 3 to use that site, but we hope our existing Pentium 2 laptops and PCs will handle it OK".

6.2.2 Search providers

Central checks tenders in the local and national newspapers, and have, on and off, paid for a tender search service when business is slow:

"This is a pretty hit and miss affair because it's poor at capturing the smaller jobs which are a good entrée into the bigger stuff that's out there ... and its not cheap for us as we pay the same as our large competitors".

6.2.3 Referrals and direct requests to submit a tender

Central has a good reputation, and has been invited to tender for contracts, some of which it did not find out about during its own searches. However *Central* realises it cannot rely on 'word of mouth':

"There has been a lot of churn in management (positions) at regular government clients. People who knew about us, knew how good our work was, have either left, or been repositioned, or have no hands-on role in the tendering process any more ... so the referrals we would have expected to get haven't come our way ..."

6.2.4 Direct approaches by *Central*

Central has attempted to be proactive in identifying prospective projects and buyers, but success has been mixed:

“We have invested a lot of time sitting on a couple of government sponsored task forces and committees ... (this) has been a good way to make connections and get detail on some future directions and projects. But direct approaches to get to know agencies and (their) people and projects have not been so productive or even welcomed. Our local government here gave us support as a small business in signage and directory listings ... but when we ‘cold-called’ to introduce our services and find out the potential to provide services, no one really had the time or inclination or maybe even the knowledge to usefully brief us on their needs or connect us to staff who may have use for our services ...”

6.3 Pre-qualification & Debriefing

6.3.1 Pre-qualification

In *Central's* early days, pre-qualifications were a nightmare from the point of view of the amount of information to be documented and the hurdles set for various credentials.

Central was forced to ‘cut its teeth’ in private sector or NGO (non-government organisation) work in order to get the track record that was often necessary to qualify for government business.

Central still finds pre-qualification a resource consuming and difficult process, as tasks and model documents differ across clients.

Central believes that financial and experience requirements are often arbitrary or inconsistent:

“Before we had built up a track record with government, our lack of public sector experience counted too much against us. I can never work out the pre-occupation with where you had done something, rather than what you can do.

It is public money, we understand that ... we don't mind being tested out on our abilities, but the requirements and documentation could and should be simpler.

Some of the financial ‘rules of thumb’ applied - like contact price as a percentage of turnover and financial statement expectations - seem to be set without reason and discretion. Strong and justifiable cash flow forecasts should be what matters most ...”

Central has found that information required for qualification is sometimes out of keeping with the type of work to be performed:

“We have had to supply information to qualify for government tenders which required providing OH&S (occupational health and safety) information at levels more befitting a manufacturer using asbestos than a consulting business ...”.

It doesn't appear to *Central* that web technology has made the pre-qualifications work any easier or less repetitive. If anything, the electronic format seems to increase the ability of some procurement sections to demand an even greater depth of information.

If *Central* is short-listed for contracts, and is then asked for subsequent presentations or expanded proposals, it now carefully considers the costs and benefits of proceeding:

“...sometimes we get a feeling that the decision is more or less already made, and we are just being asked along to make it look like there is some real competition going on...”.

6.3.2 Guarantees and Liability

Financial guarantees have not been a problem for *Central*. However the rise in insurance premiums, ex-September 11 and after the collapse of a local major insurer, has placed a large financial burden on professional indemnity and general liability insurance. This has tripled in the last two years. *Central* is of the view that government contracts all too often do not have liability limits set at realistic levels.

6.3.3 Learning from feedback

Central has tried to gain an insight into better future practice by accessing feedback on what went wrong with failed tender bids, and what could be done better next time:

“In about 25% of the cases the responses provided really excellent feedback with concrete suggestions about why our bid was unsuccessful. Debriefing helps us read between the lines of future tenders, figure out what's really needed, whether we want to be in the race at all and write responses...(we now)...discriminate better...and we go for far less contracts.

However, in a lot of cases the responses are not all that illuminating or helpful, and you wonder why...”.

6.4 Tendering – Contract Criteria

This section of the case concerns *Central's* experiences with the contract criteria of tenders.

6.4.1 Value for money (VFM)

The tendency for contracts to be awarded more on the basis of value for money rather than cost alone has in large part worked to the advantage of *Central* as they can use their competitive edge in promoting quality, innovative ideas and benefits of the product/service. The larger competition had often beaten *Central* on price alone:

“Sometimes because of economies of scale we just can’t match the price of bigger players. Other times I suspect their costs are not much different to ours, but they can absorb thin or negative margins on one job to keep in the loop for the next bit of business that comes along ... we are too small to cross-subsidize jobs.”

Central has found that value for money requirements can take a short-term orientation that revolves around budgeted cash availability. Here, what is advocated as a VFM exercise really becomes a ‘cost driven’ decision. The problem for *Central* is determining, when it frames its tender, whether the real decision is likely to be based on genuine value for money considerations or on cost alone:

“To us, providing value for money means getting the mix of costs and quality right to meet the client’s needs ... but to get that mix right, the client needs to both have and communicate a clear view of what they want ...”

6.4.2 Task Detail

Central has often struggled to fully understand the requirements of the bid in terms of exactly what ‘deliverable’ is wanted, and how the information response should be framed. The lack of uniformity between government agencies presents an additional hurdle.

Central has experienced a tendency by many agencies to be more prescriptive and certain about the processes required than the outcomes. Where processes are heavily prescribed, *Central* loses a competitive edge:

“Where we can’t play our ‘innovation card’ to get the outcomes that the government wants, we become less useful and less competitive.

A lot of managers read the idea of risk wrongly ... it can be more risky for government in getting cost-effective outcomes to over-specify processes rather than if they under-specified them ... the less the processes are pre-specified, the more value we can add by applying our ‘magic’ ...”

6.4.3 Evaluation Detail

A lack of clarity and transparency in the parameters used to assess VFM has frustrated *Central* in its ability to respond to tenders. *Central* also has doubts about how qualitative factors, such as its ability to quickly adapt in innovative ways to meet evolving needs of projects, are considered in the evaluation process.

6.4.4 Intellectual property

Central has had some unsatisfactory experiences with intellectual property in the tendering process and feels it’s good reputation has led it to be an unpaid ‘sounding board’:

“We tendered for a process mapping job, and specified our methodology and procedures. We missed out on that contract, but we heard that the chosen party

was later told ‘hey, have you thought about adding *this*’...and the *this* was part of the (*Central’s*) proposed model in our losing bid.

At other times, we have had reason to believe that our ideas in an unsuccessful bid have resurfaced in the tender specifications documents next time around...”

6.4.5 Payment

With the exception of a couple of local government contracts, *Central* has not experienced significant problems in accessing payment in most of its government procurement experiences. Unlike suppliers of goods, *Central* does not have any significant front-end materials costs. The private sector do not pay more quickly on the bigger jobs, but they often settle smaller jobs more promptly by credit card payment on invoice.

6.5 Tendering – Contract Scale

This section of the case relates to *Central’s* experiences with the scale of contracts.

6.5.1 Contract size

Central faces two main challenges regarding contract scale:

- many lower value contracts are hard to find out about, and openness is an issue
- many contracts that were previously in *Central’s* do-able range are being aggregated into contracts that are unmanageable given the company’s resources.

Central has experienced a tendency for state and federal government contracts to be set up for larger amounts of work over a longer time. Also, additional ‘follow-up’ elements are being built into the original contract, whereas these tasks would previously have been tendered out on the open market at a later time.

Central’s management feels that aggregation may also be an issue with local government contracts if ‘buying groups’ of councils emerge as predicted.

The trend to aggregation is propelled by two forces:

- rationalization of the supplier base to reduce obvious administrative transaction costs
- policies to outsource large parts of ‘non-core’ activities.

The trend to bigger contracts has often pushed *Central* out of contention because of the volume of work relative to its resources. This has led to *Central* seeking more industry, NGO and local government work.

Central acknowledges that larger contracts with fewer suppliers can reduce some transaction costs and make sense for activities where there is strong competition between major players. But *Central* believes that aggregation also removes smaller players from providing price-competitive and creative solutions in critical areas where an innovative approach and continual improvement are required:

“I think governments need to maintain supplier diversity and real long term competition.

We did a number of separate contracts for assessing building fire safety and evacuation plans for various agencies. That work led to further contracts on improving those plans and execution. The feedback on our ideas and documentation was excellent.

Then the latest fire safety assessment tender to come out is for multiple sites at multiple centres ... its just too big for us to handle, and additional improvement work has now been put inside the main contract.

So we are effectively locked out of the assessments and the improvement work as well. We don't really reckon there would be much in it (for the government) from a cost angle, and there is no way that (*company name deleted*) can give better value for money.

I know the senior procurement manager understands the value we provide, but obviously not some of the policy or operational people...”

6.5.2 Consortia

Where *Central* does not have the resources or financial backing to undertake the increasingly larger scale contracts, consortia bids have not proven to be a satisfactory option. In a couple of cases where contract size narrowed the market down to large local or multinational competitors, *Central* looked at direct bidding through a consortia:

“The advance notice needed to get a consortia together was just not possible given tender timeframes.

... besides, the potential partners are our natural competitors, so in the long run maybe it is just not viable in some of our specialist knowledge based work to go down the consortia road.

... but if SMEs which submit initial expressions could be somehow put into contact with each other in a timely fashion, who knows ...

It is in a government's long term best interest to promote a successful and enduring competitive marketplace that's got a range of innovative companies in the bidding”.

6.5.3 Subcontracting

Subcontracting is also problematic. *Central* believes that in the future much more of its work will have to be via subcontracts, but it would prefer to win contracts in its own right. *Central* maintains that profit margins tend to be less when they are subcontractors.

For *Central* there are issues of certainty and timing of payments and potential loss of intellectual capital. These factors, combined with the absence of a system that brings

parties together to negotiate subcontracting possibilities at an early stage, has limited *Central's* participation as subcontractor:

“Early on we lost a bid for process mapping at a correctional facility on the basis of our lack of a company financial profile and because we had done little in the public sector. No way would we have been overstretched doing that contract ... yet we were seen as a risk compared to a big name provider.

The irony is that, by invitation of (*company deleted*) we ended up subcontracting. The (*government agency deleted*) really got us anyway and paid lots more for the privilege...and they would have got a better result if we had control over how the actually work was done”.

6.6 Concluding Comments

Central is operating in a new context of aggregated local contracts, new information technology connectivities and opportunities for regional expansion. However *Central* has yet to develop concrete strategies that can turn these new developments into opportunities for sustainability and growth. At the same time *Central* has had to contend with continuing issues to do with overly stringent pre-qualification and guarantee hurdles, a lack of robustness in tender evaluation practices, difficulties in accessing information on small-scale contracts, the retention of intellectual property and the inability of small business to speak with a coherent and unified voice.

The management at *Central* believe that barriers to government procurement markets need to be addressed in the development of its own strategies, but also by governments recognizing and reacting to any unintended consequences for SMEs resulting from the new ways of doing procurement business.