The public procurement market is a very significant market for the small and medium sized enterprises (**SME**) sector. Expenditure on the procurement of goods, works and services by public authorities in the EU represents approximately 19% of EU GDP which equates to €2.1 trillion. In Ireland, public procurement expenditure is estimated at between 10% and 12% of GDP. In todays terms that equates to approximately €9.5 billion. Given the value and variety of goods, works and services procured by public authorities, the public procurement market provides significant opportunities for SMEs. However, according to European Commission data, SME participation in the public procurement market remains lower than their importance in the economy. Access to the market is perceived by SMEs as being overly complex and burdensome. Factors which are consistently cited as representing barriers to SMEs’ full participation in the public procurement market include disproportionate financial criteria, the large size of contracts being tendered, excessive paper work, over-emphasis on price, bid costs and insufficient time to bid. One of the difficulties is looking at the SME sector is the fact that majority of these enterprises are Micro Enterprises and the factors that apply to companies with in excess of 50 people do not apply to companies with less than 10 people.

In Ireland for the last threes years, both DCU and the OGP (previously the NPS) have conducted surveys annually through the e-tenders website. We are currently finishing off this years survey and the top-level results don’t seem to be too far from previous years. Let me take you through the top headlines

The following table illustrates the response rates over the last three years

|  |  |  |  |
| --- | --- | --- | --- |
|  | 2011/12 | 2012/13 | 2013/14 |
| Supplier response | 4236 | 5211 | 5881 |
| Buyer Response | 608 | 776 | 338 |

The following table gives a summary of top-level statistics governing the makeup and locations of the companies using e tenders

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  | 2011/12 | 2012/13 | 2013/14 |
| Staff | 1-9 | 51.2 | 50.8 | 54.8 |
|  | 10-49 | 23.7 | 24.7 | 23.3 |
|  | >49 | 25.1 | 24.5 | 21.9 |
|  |  |  |  |  |
| Turnover | <2 million | 62.6 | 61.8 | 64.5 |
|  | 2-10 million | 17.5 | 19.1 | 17.2 |
|  | >10 million | 19.9 | 19.1 | 18.3 |
|  |  |  |  |  |
| Home Location | Ireland | 80 | 75.8 | 76.8 |
|  | Northern Irl | 10.5 | 3.8 | 3.7 |
|  | Britain | 7.3 | 12.7 | 13.1 |
|  | Rest of World | 2.2 | 7.7 | 6.4 |
|  |  |  |  |  |
| Marketplace | Within 30 Km | 13.3 | 13.5 | 15.4 |
|  | Within 120km | 17 | 16.6 | 17 |
|  | National | 49.7 | 48.2 | 45.6 |
|  | International | 20 | 21.7 | 22 |
|  |  |  |  |  |
| Value of Contracts Tendered for | <25,000 | 25.4 | 32.6 | 34.9 |
|  | 25-130,000 | 37.4 | 37.6 | 38.2 |
|  | >130,000 | 37.2 | 29.8 | 26.9 |
|  |  |  |  |  |
|  |  |  |  |  |

It is recognized that the large size of public contracts is often a disincentive for SME participation in the procurement process. Four mechanisms have been set out that could be considered by large contracting authorities in order to encourage SME participation regardless of the large size of the contract namely (i) sub-dividing contracts into lots; (ii) combinations of contractors in order to facilitate reliance on mutual financial and technical capabilities – setting up collaborative mechanisms and consortia; (iii) framework agreements and (iv) sub-contracting. Although these are actively encouraged they are seldom practiced to the extent that they can be seen as being effective at having any increased participation levels for micro- enterprises. In the UK the use of the local multiplier (LM3) methodology and the setting of targets of 75 % for local SME participation has forced the appliance of these mechanisms rather than the optional adoption that is available in Ireland.

The requirements for selection criteria should be proportionate and objective. An example of criterion, which raises issues for SMEs would be, a criterion, which evaluates experience, acquired in dealing with the public sector only. It is noted that such a criterion is irrelevant and limits competition. It should also be noted that disproportionate financial guarantees (e.g. high qualification levels and financial requirements) constitute an obstacle to the participation of SMEs in public procurement. Although Circular 10/14 goes some way to acknowledging changes to be put in place again it should be noted that this is a guidance document and in no way ensures that practices will change as there are no penalties to enforcement

I noted recently that the CPO Paul Quinn was appearing before the Department of Finance committee. There were a plethora of references to Circular 10/14 with notable skepticism coming from Deputy McDonald that spoke of the difficulties of many SME’s and Micro Enterprises forming consortia and I would echo her concerns of the limited impact that circular has without the proper support for implementation.

In a recent review carried out for Enterprise Ireland I noted that there has been no follow up to this policy implementation nor have there been any KPI’s included in any recent procurement policies to ensure that any of the practices to date can be measured. This is surely wrong.

Although this note is about what is trying to be achieved to date none of the above have been actively managed. In the Program for Public Sector Reform published in January 2014, there is less than 1 paragraph out of four pages of text on public procurement that refers to SME participation. In that paragraph it states that the Office of Government Procurement will only address policy – to date this is the circular 10/14, which means nothing else need be actioned before the end of 2016 – the end of the reform plan.

In July 2008, the Department of Enterprise, Trade & Employment established the Procurement Innovation Group comprising representatives of industry, academia, government departments and State agencies. The Group’s objectives were to (a) raise awareness of the benefits of using public procurement to stimulate research and innovation; (b) identify obstacles or problems in the current procurement process which impede opportunities for innovation;(c) examine the potential of the Public Procurement Directives to ensure a level playing field for all innovative companies wishing to participate in public tendering; (d) create an environment in which the potential of innovation for public procurement can be realized; and (e) make recommendations on how objectives may be achieved. The work of the Group culminated in the publication of *Using Public Procurement to Stimulate Innovation and SME Access to Public Contracts* (July 2009) and *The 10 Step Guide to SMART Procurement and SME Access to Public Contracts* (2009)[[1]](#footnote-1). The Guide outlined the importance of the SME sector in the Irish economy as follows: -

*“The SME sector plays a fundamental role in contributing to economic growth and employment in Ireland. The public sector is a particularly important market for small businesses, so improving our public procurement practices by removing obstacles and boosting the involvement of SMEs is a key priority.*

*Developing a more SME-friendly approach to public procurement will allow SMEs to make the most of their potential for job creation, growth and innovation. An increased involvement of SMEs into public purchasing will also result in higher competition for public contracts, leading to better value for money and efficiencies for contracting authorities.”*

The Guide reflected a large number of the initiatives and mechanisms outlined in the *European Code of Best Practices facilitating Access By SMEs to Public Procurement Contracts.*

We are still facing the same issues 6 years later and I would point to the report published last year “SME’s access to public procurement markets and Aggregation of Demand in the EU”[[2]](#footnote-2) where on page 69 many of the same barriers to innovation that were identified 8 years ago are still in place in many EU countries as well as Ireland today. Mr. Quinn spoke of 11 pilots in the area of social clauses and I know that EI is only on its 2nd pilot for SBRI projects. I sometimes despair at the lack of pace that is clearly evident in how we implement best practice in public procurement.

The current Directives refers to EU measures aimed at combating late payments and providing for a default level of interest for late payments and recovery procedures. In Hungary the tenderer is entitled to collect the money directly from the contracting authority’s bank account where it is not paid within 30 days following performance. In the UK, Government Departments and their agencies must publish the proportion of bills paid within 30 days or another agreed credit period and to consider whether staggered or interim payments are appropriate

In the Irish Examiner recently (Monday 30th of June last year) it was stated that

“Credit conditions for SMEs are deteriorating, with the time it takes for firms to receive payments getting longer, according to ISME’s latest Credit Watch Survey.

The main findings from 826 respondents in the final week of June include: \* Average payment period for SMEs in the second quarter of 2014 deteriorated from 60 to 63 days.

\* 28% are experiencing delays of three months or more; a deterioration on the 25% in the first quarter.

\* 6% are waiting over 120 days, up from 5% in the first quarter; and a net 16% of businesses are waiting longer compared with 14% in the first quarter.

\* Late interest is charged by less than 2% of micro and small businesses, while 8% of medium-sized businesses charge it.

\* Munster businesses wait longest, at 66 days, while Connaught is best at 51.

\* Distribution businesses wait on average 69 days while construction is shortest at 55 days.

\* 84% of SMEs favor a statutory 30-day payments regime, with no opt-out.

ISME chief executive Mark Fielding said: “This Government is forever spinning the yarn that they are ‘SME-focused’ while their inaction on late payments would state the opposite.

“They allow big business and Government agencies to continue to abuse their dominant position to contract out of the legislation. The figures prove it. The average credit period prior to legislation was 52 days; today it has deteriorated to 63 days.” “

I don’t think this has changed enormously in the last six months and in fact given the current focus on structural reform a focus on day to day business for SME’s and Micro Enterprises does not seem to be at the heart of what our current centralized procurement groupings are doing.

I do want to finish on one aspect that I have picked up over the last few year in both working in this area and in research it as well. Firstly is the short term thinking that impacts both our part-time and full-time political establishment?

Procurement and particularly strategic procurement is a policy tool and as such we need to use it to drive social change. When I read as Mr. Quinn noted his description of value for money is more than price alone and then he goes on to explain how it involves the quality of the goods or services, the management of risk, management of the financial stability of the providers, nowhere in these descriptions do I hear of the value for being based on outcomes for the citizens on whose behalf the money is spent. Nowhere have I seen measures such that the benefits are accruing to the local economy such as I mentioned earlier. Page 21 of the e EU report I mentioned earlier talks of the worrying trend in the degree of competition in the market place may be declining and it goes on to show how. I don’t see how we can expect to have social cohesion if we do not have local businesses to deliver the products and services for us. We can’t have these businesses if the largest spender in the state continues to ignore the direct impact of localized spend and does not include this as part of its KPI’s. Maybe this is where we need to direct our questions in future rather than accepting a circular will do the job.

1. All the Guidance Notes are available on [www.etenders.gov.ie](http://www.etenders.gov.ie) [↑](#footnote-ref-1)
2. [↑](#footnote-ref-2)