

*Challenges of Small and Micro Enterprise on Public
Procurement: The Case of Adigrat City*

Michaele Tewodros¹

(Corresponding Author)

Department of Logistics & Supply Chain Management
Adigrat University, Adigrat, Ethiopia.

Ahferom Teklay²

Department of Logistics & Supply Chain Management
Adigrat University, Adigrat, Ethiopia.

Abstract:

Aim: the main objective of the study is to identify the main challenges of public procurement practice for small and micro enterprises in Adigrat city.

Methodology: the researcher used descriptive methodology of research, which is one type of qualitative research methodology. The population of the study area is public procurement practitioners of Adigrat city, finance and economic development and trade and industry offices. The sample size for this study amounts to 80 individuals. The data was collected using questionnaire and unstructured interview. Finally, the data was analyzed using simple excel. In addition descriptive statistical data analysis method was used for both secondary and primary data sources. Moreover, data is presented in the form of percentages, tables, figures and graphs as well as narrative followed by discussions, conclusion and recommendations.

Conclusion of the Finding: It can be concluded all the public procurement principles such as transparency, accountability and effectiveness are not prevalent in the procurement process. Besides, majority of the respondents accepted that there is lack of compliance to the procurement principles in Adigrat city administration. Even if the government has effective policy on SMEs specifically public procurement on SMEs has betterment in the eyes of the government policy. There are still a number of challenges as lack of information about tender, lack of knowledge about public procurement procedures by SMEs, lack of competition/corruption, unclear selection criteria, there seem more problem and challenge in staff to cooperate SMEs during tender, SMEs feel that the public sector prefers bigger contracts as a result of searching for economies of scale, tender forms and guidance are often worded in specialist, unclear and overly complex jargon, and there is a limited knowledge and expertise on procurement officials with regards to their understanding of SMEs and how they operate.

Keywords: *SMEs, Public Procurement, Challenges, competition, preference.*

I. INTRODUCTION

The development of micro and small scale enterprises is the central focus of the industrial development strategy. In 2011/12, one of the primary task was to comprehensively overhaul the small and micro enterprises development strategy based on the experience gained so far in Ethiopia and the experience of others successful countries. Accordingly, a comprehensive micro and small enterprises development strategy was devised and approved by the government in consultation with all relevant actors. In addition, the federal executive agency responsible for the execution of the strategy was recognized to strengthen its institutional capacity (Nicholas and Müller (2017)). A strategy was also devised to ensure that all public programs are executed

in such a way that they create productive employment opportunities a nature skill development and promote the development of competitive micro and small enterprises. These targets of employment generation, skill and business development were in particular planned to be realized through the construction, road, development, train network development powers generation schemes, and cobblestone development activities (all mentioned here is public procurement). Accordingly detailed implementations manuals and guidelines have been prepared in relation to these strategies (GTP annual progress report 2011/12, p.35).

II. STATEMENT OF THE PROBLEM

Ensuring efficiency, accountability and transparency in public procurement is critical to sustainable development public procurement is a key tool to the overall achievement of development goals such as reducing poverty and providing health, infrastructure, education and other services hence immensely contribute to best utilization of public resources. The limited public resources in developing countries especially in the sub-Saharan Africa should be properly managed to get the most out of these resources. studies have shown that out of total public resources, procurement of goods, services and works account for about 70% of public expenditure (Gizachew Abebe, 2010).

SMEs are often excluded from public procurement contracts because of administrative requirements for mandatory bidding process, their inadequate size or capacity to deliver. This is despite the advantages that accrue from their inclusion. This research will analytically distinguish strategic and management interventions that can enable SMEs in Tigray Regional State especially in Adigrat obtain public procurement contracts to maximize sustainability in the context of development.

The advocacy for SMEs access to public procurement contracts are hence driven by status discrimination, equality and sustainable development, particularly the use of procurement to advance social justice i.e. affirmative action in employment, and the use of sustainable procurement as a method to help stimulate increased entrepreneurial activity by disadvantaged groups.

In the year 2002, ministry of trade and industry of Ethiopia identified the following problems that SMEs face: insufficient knowledge of the formal tendering process; no feedback was made available about previous unsuccessful tenders; lack of opportunity to meet the public procure; small company size to service large contracts; lengthy procurement process; payment terms offered not suitable and recently that registration becomes on obligation to participate in bid.

The basic problem arises here is that the relationship that exist between public procurement and small and micro enterprises has not been adequately studied previously. Presently, in the heat of the controversies of inept public procurement process for SMEs, Ethiopia as a developing economy and Adigrat in particular has to gather its resources for effective development utilization to achieve national and regional development objectives. The need for public procurement for SMEs development becomes more very imperative. Hence, it is essential to study the role and challenges of public procurement on the performance of SME. So that SMEs access public contracts for their empowerment and growth there by aligning procurement strategies and management to social and economic goals to make it functional. Therefore, this paper focuses on public procurement on the success of SMEs in Adigrat city in Tigray Regional State as a case study.

III. OBJECTIVE OF THE STUDY

3.1. General Objective

The general objective of the paper is to assess the challenges of public procurement in the success of SMEs in Adigrat City.

3.2. Specific Objectives

- To assess the practice of public procurement principles on SMEs
- To identify major challenging factors for SMEs not to enhance their participation in public procurement

IV. LITERATURE REVIEW

4.1 The Definition of Public Procurement

Public procurement is the process whereby public sector organizations acquire goods, services and works from third parties. It includes much that supports the work of government and ranges from routine items (e.g. stationery, temporary office staff, furniture or printed forms), to complex spend areas (e.g. construction, Private Finance Initiative projects, aircraft carriers or support to major change initiatives). It also includes a growing spend where the private and third sectors provide key services directly to citizens in areas such as welfare-to-work, further education, social care and health. Such services may also be provided by the public sector directly, and in some cases even this public provision can be handled through procurement mechanisms. A public body may bid for government work against private sector firms through a formal competitive process (Michael Eßig and Andreas H. Glas (2016).

Governments can use public procurement to achieve policy objectives. Although tenders and contracts share certain similarities, we have brought together public procurement contracts to go beyond simply getting tenders. We extend it to include the definition of the contract, the qualifications of the contractors, and the criteria for the award of the contract (McCrudden, 2004). Government can participate in the market as a purchaser and at the same time regulating it through the use of its purchasing power to advance conceptions of social justice. (ibid)

4.2 Key Principles Governing Public Procurement

A modern public procurement system requires high standards of efficiency, accountability and transparency because public procurement serves public interests. Out of the total public resources utilized, procurement constitutes a major share (about 70%) of public expenditure.

4.2.1 Efficiency in Public Procurement

Public procurement has to be practiced based on ensuring value for money. Driven by considerations of value for money, governments have put increasing efforts into rationalizing and increasing efficiency of procurement. There has been recognition that procurement officials need to be equipped with adequate tools for improving planning and management and that their decisions need to be well informed (OECD, 2007, P.13) so as to enhance efficiency in procurement.

Efficient public procurement practices contribute towards the sound management of public expenditure (Evenett, Simon J. and & Hoekman, Bernard, M., 2005) which in turn can contribute towards the effectiveness of public sector management, and promoting the private sector. Besides, the objective of public procurement is to provide quality goods and services through open and fair competition in the exact quantity and proper quality as specified, and has to be delivered at the time and place where needed (Basheka, 2008,).

4.2.2 Accountability in Public Procurement

Accountability is a standard of public life, where holders of public office are accountable for their decisions and actions to the public and must submit themselves to whatever scrutiny is appropriate to their offices (Armstrong, 2005). A central theme of any procurement reform is the commitment to high standards for professional conduct of the public officers involved in procurement. The bid challenge system is one way to assure fairness to contractors and suppliers in the procurement process. Competition can also be promoted in many ways. From international best practices, we can identify the following important factors for measuring the level of accountability: clear chain of responsibility together with effective control mechanisms; handling complaints from suppliers; public review and scrutiny of procurement actions (OECD, 2009); commitments of public officers to high standards for professional conducts and principles; good conducts of suppliers and contractors; fairness and competition. (Efficiency, accountability and transparency in pp., 2011, p.5)

4.2.3 Transparency in Public Procurement

MoFED, GoE (2010), transparency, which has long been accepted as a tool for tackling corruption through a number of international agreements, is also an effective to online addressing challenges SMEs face in public procurement. Without transparency, “open competition can not prevail, corrupt dealings can proliferate, and other failings in the procurement process may be covered up, so weakening accountability”.

Going back to the public procurement life cycle, efforts to improve transparency in this context include: well-defined regulations, guidelines and procedures that are enforceable and open to public scrutiny, transparent advertising of opportunities, equitable access, clear and standardized tender documents and guidelines, clear and public selection criteria (quality, value, experience...), disclosure of awards, rationale behind awards, mechanisms for appeal and information requests.

The benefits of these efforts for SMEs are two-fold. On the one hand, greater transparency is linked to tangible results such as saving time and money on finding and processing bids. On the other, transparency has a role in deterring a culture of corruption and creating conditions for open competition.

4.3 The Definition of SMEs

Those small scale industries are distinguished from large scale industries establishment by the amount of fixed capital investment, the amount of employee, the volume of output produced, the type of management and technology applied. However, the definition criteria differ from one researcher to another depending on the level of industrial development of the country under consideration (Berihu et al, 2014).

In recognition of the important role of MSEs in creating employment opportunities and generating income, hence reducing poverty, the government introduced its first Micro and Small Enterprise Development Strategy in 1997 (MoTI, 1997). Measures those sup- ports the development of the private sector, including many measures to support the development of small enterprises were taken. Provision of incentives to the creation and development of micro-entrepreneurial activities is considered as one of the main components of economic growth and poverty reduction promotion strategies by the government and other development stakeholders. For the purpose of directing its policy and program support, the Ministry of Trade and Industry (MoTI) adopted definition of micro, small and medium enterprises based on paid up capital. The definitions outlined in the MSED strategy (1997) are as follows:

- Micro enterprises are those business enterprises with a paid up capital of less than birr 20,000 and excluding high-tech consultancy firms and technology establishments.
- Small enterprises are those business enterprises with a paid up capital of above birr 20,000 and not exceeding birr 500,000, and excluding high-tech consultancy firms and technology establishments.
- Medium and large enterprises, by default, are those with more than birr 500,000 in paid up capital

Other working definitions that were in use classify firms into different size categories based on number of workers as criteria. For example, according to the CSA, a micro enterprise is one with fewer than 10 workers; those with 10-50 workers constitute small enterprises while medium and large scale enterprises are those with more than 50 employees. According to CSA (2007) classified manufacturing establishments as : (i) Large & medium scale that engage 10 or more persons and use power driven machines; (ii) Small scale manufacturing establishments engaging less than 10 persons and use power driven machines; and (iii) Cottage/handicraft manufacturing establishments performing their activities by hand (i.e. using non-power driven machines/hand tools).

Table 1 Classification of enterprises by paid-up capital and number of employees

Type of enterprise	Paid up capital	No. of workers
Microenterprises	Less than Birr 20,000	Under10
Small enterprise	Birr 20,000– 500,000	10-50
Medium and large enterprises	More than 500,000	Over 50

Source-Support for Growth-oriented Women Entrepreneurs in Ethiopia, ILO 2005

4.4 Challenges of SMES to Access Public Procurement

The SMEs have the potential to grow into large companies that support the Growth Domestic Product (GDP) growth and check unemployment if they are encouraged by the government policy or public procurement authority. According to (King, 2002) education is one of the factors that impact positively on growth of firms. The entrepreneurs with larger stocks of human capital, in terms of education and (or) vocational training, are better placed to adapt their enterprises to constantly changing business environments (King & McGrath, 1998). Infrastructure which relates to provision of accessible roads, adequate power, water, sewerage and telecommunication has been a major constraint in the development of SMEs which depend largely on the state of the infrastructure (Bokea, Dondo & Mutiso, 1999).

According to Matovu and Obura (2011), SMEs need to have access to adequate information to enhance productivity and to facilitate market access. The establishment of an active SMEs sector and the effective utilization of quality business information - has been identified as crucial in attaining long-term and sustainable economic growth for developed and developing countries, alike Corps (2005). According to Strong, Lee and Wang (1997), poor information quality can create chaos. Unless its root cause is diagnosed, efforts to address it can be worthless. According to Ladzani (2001), the priority ranking of the SMEs needs, clearly puts information provision at the top of the list of services to be provided. The SMEs development is hampered by an “information-poor” environment (Matovu & Obura, 2011)

Despite actions taken at both national and EU level, there are still many obstacles which discourage SMEs from responding to tenders. Respondents to our inquiry identified several main difficulties: (Report on SMEs access to public procurement, 2009,p.6) That the procurement pipeline is opaque and there are basic difficulties in finding information about tenders.10 Information is particularly hard for SMEs to obtain, as they do not normally have the capacity to conduct extensive research for new tenders. SMEs lack knowledge about the correct procedures for bidding. The deadline for responding to calls to tender are too short. SMEs generally need more time to prepare competitive offers due to staff constraints.The costs of responding are too high. Since many tendering costs are fixed, SMEs face disproportionately high costs in comparison with larger enterprises. Tender forms and guidance are often worded in specialist, unclear and overly complex jargon.

The increased complexity of procurement, including form filling, and excessive and complex documentation for small contracts, places an additional administrative burden on SMEs¹⁵ which often lack the staff capacity to engage properly with the process. High levels of complexity also mean that SMEs do not have the time to work with other agencies on a joint bid by forming a consortium. SMEs feel that the public sector prefers bigger contracts as a result of searching for economies of scale. This results in smaller numbers of suppliers being granted contracts. Price is over-emphasized by awarding authorities. There are suggestions that prices are being driven down as a result of this approach, and that some procurers are interested only in the ‘bottom line’ rather than an analysis of both cost and quality. Public buyers may be reluctant to consider new suppliers as they have established relationships with existing suppliers.

V. RESEARCH METHODOLOGY

5.1 Research design

To deal with the research problems and to answer the research question, the researcher used descriptive methodology of research, which is one type of qualitative research methodology. The rationale to use descriptive research method is since;

descriptive research methodology studies are those studies which are concerned with describing the characteristics of a particular individual, or of a group, specific predictions, with narration of facts and characteristics concerning individual, group or Situation” (C.R. Kothari, 2004). So that, in this studies the challenges of public procurement in the success of small and micro enterprises will be analyzed and described.

5.2 Sampling method

The population of the study area is public procurement practitioners of Adigrat city, finance and economic development and trade and industry offices. The sample size for this study amounts to 80 individuals. These respondents were selected from three core work process. Namely development and planning, finance and procurement and asset management core work process. Besides four individuals that include the head of the three mentioned core work process and Adigrat finance and economy development head will be selected for interview.

5.3 Data collection instrument

The data collection instrument used in this study will be structured questionnaire which will be distributed to purposively selected from city administration of Adigrat. The survey questionnaire was designed based on the objectives of the study which is to assess the major challenges of public procurement on the success of SMEs. On this survey a questionnaire was cautiously be developed to get the opinion and understanding respondents regarding the role public procurement on the success of SMEs.

5.4 Methods of data analysis

The process of data analysis was assisted by making use of the computer aided software available mainly for analyzing the primary data. The relevant software data to be used was Microsoft excel. In addition descriptive statistical data analysis method was used for both secondary and primary data sources. Moreover, data is presented in the form of percentages, tables, figures and graphs as well as narrative followed by discussions, conclusion and recommendations.

VI. DATA FINDINGS AND DISCUSSIONS

6.1 Public Procurement Principles

The findings of the survey among procurement practitioners in the study area confirmed that transparency and accountability are key for enhancing integrity throughout the whole procurement cycle, including in needs assessment and contract management. It also revealed that public procurement is regarded increasingly as a strategic profession that plays a central role in preventing mismanagement and minimizing the potential of corruption in the use of public funds.

The respondents reply to the question on the public procurement principles used by the procuring entities of the Adigrat as follows:

Table 6.1 Public Procurement Principles Used in the Zone.

Does your organization guarantee the pervasiveness of the following	Response			Total
	Yes	No	Do not know	
	%	%	%	%
Transparency	20%	60%	20%	100%
Accountability	25%	65%	15%	100%
Effectiveness	22%	50.5%	27.5%	100%

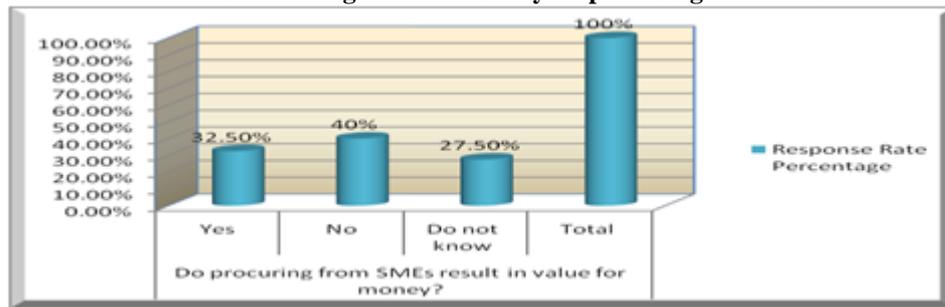
Source: Field survey, 2018

According to the analysis in Table 6.1 above, all the public procurement principles such as transparency, accountability and effectiveness are not prevalent in the procurement process. On the whole, majority of the respondents accepted that there is lack of compliance to the procurement principles in Adigrat.

6.2 Value for Money of Procuring from SMEs

To assess the respondents' responsiveness about the achievement of value for money by procuring from SMEs, the research intended to ask respondents and got finding as follows.

Chart 6.1 Achieving value for money on procuring from SMEs



Source: field survey 2018

According to chart 6.1, 32.5% of the respondents respond "Yes" and 40% replied "No" while the remaining 27.5% respond "Do not know" to the question addressed. This indicates that procurement of goods, services and works from SMEs could not achieve value for money, because they have no experience and are not well trained in providing bulky items but the intended aim of the government is promoting SMEs.

6.3 Government Policy in Supporting SMEs

The study tried to assess how the government policy is effective in public procurement. As a result the survey finds the following data from respondents as depicted in the table below.

Table 6.2 Effectiveness of Government Policy in Supporting SMEs

No.	Description	Alternative	Response Rate
			Percentage
1.	How effective are government policies in promoting SMEs in public procurement?	Very effective	27.5%
		Effective	30%
		Somewhat effective	22.5%
		Not effective	20%
		Don't know	0
		Total	100%

Source: field survey 2018

As tabularized in the above table 4.9, from the total respondents 27.5% very effective, 30%, 22.5% somewhat effective and the remaining 20% said not effective to the idea. Hence, the finding can be concluded that government has effective policy on SMEs specifically public procurement on SMEs has betterment in the eyes of the government policy.

6.4 Challenges of SMEs in winning Public Procurement contracts

Accordingly for the purpose of simplicity, the respondents were asked to level each challenges as: 4 for the most challenging, 3 for the second most challenging, 2 third most challenging factor and 1 for the fourth challenging factor.

Table 6.3 The Challenges faced by SMEs in winning Public Procurement contracts.

S. No	Factors	4	3	2	1
1	Information is particularly hard for SMEs to obtain as they do not normally have the capacity to conduct extensive research for new tenders	55%	20%	15%	10%
2	SMEs lack knowledge about the correct procedures for bidding	35%	22.5%	25%	17.5%
3	SMEs generally need more time to prepare competitive offers due to staff constraints	42.5%	27.5%	12.5%	17.5%
4	SMEs feel that the public sector prefers bigger contracts as a result of searching for economies of scale	32.5%	32.5%	20%	15%
5	Tender forms and guidance are often worded in specialist, unclear and overly complex jargon	32.5%	25%	22.5%	20%
6	There is a limited knowledge and expertise on procurement officials with regards to their understanding of SMEs and how they operate	57.5%	27.5%	12.5%	5%
7	Pre-qualification requirements can often act as a barrier for tendering	30%	32.5%	17.5%	20%

8	Public buyers are reluctant to consider SMEs as they have established relationships with existing suppliers	22.5%	25%	20%	32.5%
9	Lack of clear regulatory frame work and guide lines open to public inquiry and supported by adequate enforcement mechanism	42.5%	27.5%	12.55	17.55
10	Inadequate advertising of opportunities	17.5%	12.5%	32.5%	37.5%
11	Excessive bureaucracy and documentation	32.5%	37.5%	17.5%	12.5%
12	Lack of capability on the procurers' side	27.5%	30%	20%	22.5%
13	Unclear selection criteria	67.5%	25%	7.5%	
14	Lack of competition/corruption	12.5%	25%	15%	47.5%

Source: Field Survey 2018

VII. CONCLUSION

From the research it can be conclude as transparency and accountability are key for enhancing integrity throughout the whole procurement cycle, including in needs assessment and contract management. The study revealed that public procurement is regarded increasingly a strategic profession have significance in preventing mismanagement and minimizing the potential of corruption in the use of public funds. However, all the public procurement principles such as transparency, accountability and effectiveness are not prevalent in the procurement process. Besides, majority of the respondents accepted that there is lack of compliance to the procurement principles in Adigrat city administration.

Value for money is the core principle underpinning procurements all over the world. This principle requires comparative analysis of all relevant costs and benefits of each proposal throughout the whole procurement cycle (whole of life costing). Accordingly, the procurement of goods, services and works from SMEs could not achieve value for money, because they have no experience and are not well trained in providing bulky items but the intended aim of the government is promoting SMEs.

Even if the government has effective policy on SMEs specifically public procurement on SMEs has betterment in the eyes of the government policy. There are still a number of challenges as lack of information about tender, lack of knowledge about public procurement procedures by SMEs, lack of competition/corruption, unclear selection criteria, there seem more problem and challenge in staff to cooperate SMEs during tender,

SMEs feel that the public sector prefers bigger contracts as a result of searching for economies of scale, tender forms and guidance are often worded in specialist, unclear and overly complex jargon, and there is a limited knowledge and expertise on procurement officials with regards to their understanding of SMEs and how they operate.

References

1. Armstrong, E.(2005). Integrity, Transparency And Accountability In Public Administration: Recent Trends, Regional And International Developments And Emerging Issues.[Online]. Available At www.google.com. [Retrieved December 7, 2011].
2. Basheka, B.C. (2008). "Procurement Planning And Accountability Of Local Government Procurement Systems In Developing Countries: Evidence From Uganda." *Journal Of Public Procurement*, 8 (3) Pp 379-406.
3. Berihu Assefa, Abebawzerfu, And Biruk Tekle Research Report 18 On Identifying Key Success Factors And Constraints In Ethiopia's Mse Development: An Exploratory Research. Addis Ababa, Ethiopia October 2014
4. Caroline Nicholas And Anna Caroline Müller (2017) *Small And Medium-Sized Enterprises In International Economic Law*.Oxford University Press
5. Csa (2007), Central Statistical Agency Census Report Of The Ethiopian Population, Addis Ababa, Ethiopia
6. Evenette, Simon J. & Hoekman, Bernard (2005)." International Cooperation And The Reform Of Public Procurement." World Bank Policy Research Working Paper, No. 3720
7. Gizachew Abebe (2010), *Efficiency, Accountability Andtransparency In Public Procurement: The Level Of Compliance In Africa (Ethiopian Case)*
8. Growth And Transformation Plan Annual Progress Report Of 2011/12, July 2012, Mofed, Aa Ethiopia
9. Kothari, C.R. (2004). *Research Methods And Techniques*, New Age Publishers, New Delhi.
10. Michael Eßig And Andreas H. Glas (2016) *Bundeswehr University Munich*, © Springer International Publishing Switzerland, *Logistics Management, Lecture Notes In Logistics*,
11. Mofed, Goe (2010)." Federal Public Procurement Directive 2010." Addis Ababa. [Online]. Available At www.ppa.gov.et
12. Oecd (2007)." Integrity In Public Procurement: Good Practices From A To Z". Paris France
13. Oecd (2009). "Oecd Principles For Integrity In Public Procurement." Author.
14. Support For Growth-Oriented Women Entrepreneurs In Ethiopia, Ilo 2005.