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LPFMII-16-0013

PREFERENCE SYSTEMS FOR WOMEN-OWNED BUSINESSES AND SMALL AND MEDIUM ENTERPRISES IN PUBLIC PROCUREMENT

Sri Lanka Short-Term Assistance to Improve Public Financial Management Reform (STAIR)

Leadership in Public Financial Management II (LPFM II)

September 2016

This publication was produced by Verité Research. for review by the United States Agency for International Development.

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ACRONYMS

B-BBEE	Broad-Based Black Economic Empowerment Act (of South Africa)
BDS	Business Development Services
COR	Contracting Officer's Representative
CSI	Cottage and Small Industries
GDP	Gross Domestic Product
HDI	Historically disadvantaged individuals
IDIQ	Indefinite Delivery Indefinite Quantity Contract
LPFM II	Leadership in Public Financial Management II
MNEF	Mexican National Entrepreneur Fund
MSMEs	Micro, Small and Medium Enterprises
MSMED Bhutan)	Micro, Small and Medium Enterprises Development Act (of Bhutan)
NAFIN	Nacional Financiera (Mexican development bank)
NSBA	National Small Business Act (of South Africa)
PFM	Public financial management
PPDA	Public Procurement and Disposal (Preference and Reservations) Act (of Kenya)
PPP	Preferential procurement policy
PRR	Procurement Rules and Regulations
RGoB	Royal Government of Bhutan
SBD	Standard Bidding Documents for Goods and Works
SMEs	Small and medium enterprises
STAIR	Sri Lanka Short-Term Assistance to Improve Public Financial Management Reform
USAID	United States Agency for International Development
USAID/E3	United States Agency for International Development Bureau for Economic Growth, Education and Environment
USD	United States Dollar
USG	United States Government
WHH	Women Headed Households
WOSB	Women Owned Small Business

I. BACKGROUND

PUBLIC PROCUREMENT INCLUDES



GOODS AND SERVICES THAT SUPPORT THE ROUTINE DAY TO DAY WORK OF GOVERNMENT



LARGER-SCALE GOODS AND SERVICES THAT ARE INTEGRAL TO THE FUNCTION OF GOVERNMENT

Public procurement is the process by which public sector organisations acquire goods and services from third parties. In this context, public procurement includes (a) goods and services that support the routine day to day work of government (e.g. stationery, furniture, paper or temporary office staff) and (b) larger-scale good and services that are integral to the function of government (e.g. construction, aircraft carriers and electricity infrastructure).¹

Well-managed public procurement can account for a significant portion of a country's GDP. In developing countries, public sector shares of GDP have been, on average, remarkably stable over the past 20 years – ranging from approximately 28 percent to 24 percent.² This significant contribution to GDP demonstrates the potential for public procurement to act as a driver of domestic economic growth and innovation in the marketplace.³ In order to access these economic benefits of public procurement, a number of countries have instituted mechanisms that create a stronger nexus between public procurement policies and small business.⁴

These mechanisms are termed Preferential Procurement Policies (PPPs). PPPs are commonly introduced in two forms. Namely: (a) targeted assistance; and (b) non-targeted assistance. Targeted assistance involves affirmative policies to stimulate Small Medium and Micro Enterprises (SMEs) and Women-Owned Small Businesses (WOSBs) participation in public procurement. Non-targeted assistance involves removing the barriers to entry that block SMEs and WOSBs from accessing public procurement systems. In Sri Lanka, SMEs are defined by annual turnover and number of employees employed in the manufacturing and service

sectors (see Figure 1). Sri Lanka currently does not have an official definition for WOSBs.

¹Office of Government Commerce, UK, An introduction to public procurement, 2008, p. 3, available at: [http://webarchive.nationalarchives.gov.uk/20110601212617/http://www.ogc.gov.uk/documents/Introduction_to_Public_Procurement.pdf], accessed on: 1 February 2016.

² Cernat and Dimitrova, International Public Procurement: From Scant Facts to Hard Data (April 2015), available at: [<http://www.ippa.org/IPPC5/Proceedings/Part9/PAPER9-6.pdf>] [accessed on: 12 February 2016].

³ Ibid.

⁴ Asian Development Bank, SME Development, Government Procurement and Inclusive Growth, 2012, available at: [<http://www.adb.org/sites/default/files/publication/30070/sme-development.pdf>], accessed on: 1 February 2016.

Figure 1: SME Definition, Sri Lanka

Sector	Criteria	Medium	Small	Micro
Manufacturing	Annual Turnover (USD Mn.)	1.73 – 5.18	0.11 - 250	Less than 0.1
	No. of Employees	51 - 300	11 - 50	Less than 10
Service	Annual Turnover (USD Mn.)	1.73 – 5.18	0.11 - 250	Less than 0.1
	No. of Employees	51 - 200	11 - 50	Less than 10

Source: Ministry of Industry and Commerce, National Policy Framework for Small Medium Enterprise (SME) Development, p. 4.

N.B. All of the above currencies were in local currencies. Converted at: 1 USD = 144.7 LKR on 8th April 2016.

To this end, this Policy Guide will analyse the benefits of unlocking the participation of SMEs and WOSBs in the public procurement framework. The Policy Guide is divided into four parts. First, it will outline the challenges that prevent SMEs and WOSBs from accessing government procurement. Second, the Policy Guide will detail the benefits of integrating SMEs and WOSBs as key stakeholders in government procurement processes. Third, it will examine five country case studies where PPPs have been modelled to link SMEs and WOSBs with government procurement processes. Last, the Policy Guide will draw on this comparative experience to suggest targeted recommendations that enable Sri Lanka’s public procurement framework to transcend its purely administrative function.

2. OBSTRUCTING ACCESS: DE-LINKING SMALL BUSINESS FROM GOVERNMENT PROCUREMENT



In the absence of enabling policy provisions, the participation of SMEs and WOSBs in the public tender process is weak.⁵ This is largely due to the fact that SMEs and WOSBs face significant barriers to entry when attempting to access government procurement processes. These barriers to entry centre around four key factors. They are: (a) restricted access to finance; (b) poor access to procurement opportunities; (c) inflexible and cumbersome regulatory policies; and (d) human resource constraints.

2.1 RESTRICTED ACCESS TO FINANCE

Effect of Fixed Costs

SMEs and WOSBs are subject to a number of financial constraints in public procurement markets. Such financial constraints erode the competitiveness of smaller businesses in the marketplace. These constraints are attributed to fixed costs associated with government procurement, posing a relatively greater burden on SMEs than on larger firms.⁶ Thus, fixed costs associated with government procurement often comprise a greater proportion of the total costs incurred by SMEs and WOSBs.⁷

Restricted Availability of Capital

SMEs and WOSBs often have a limited commercial history. This makes them unattractive and appear risky to commercial lenders.⁸ Further, commercial lenders are less inclined to lend to SMEs and WOSBs due to the high transaction costs associated with each loan.⁹ As such, these smaller businesses have limited access to the working capital necessary to produce the large

⁵ Eight Big Ideas from Mexico, *op. cit.*, p.5.

⁶ International Trade Centre (ITC), SME and export-led growth: Are there roles for public procurement programmes?, p. 17, available at: https://www.wto.org/english/tratop_elgproc_elwkschop_tanz_jan03/itcdemo3_e.pdf, [accessed on: 19 January 2016]

⁷ *Ibid.*

⁸ Eight Big Ideas from Mexico, *op. cit.*, p.5.

⁹ *Ibid.*

volumes required in government tenders.¹⁰

2.2 POOR ACCESS TO PROCUREMENT OPPORTUNITIES

Information Asymmetry

Information on the types of goods and services that are sought by governments are often difficult (and costly) to obtain.¹¹ This information asymmetry weighs disproportionately on SMEs and WOSBs as obtaining information on invitations to tender, tender specifications and drawings are subject to the payment of fees.¹² Such fees are often prohibitive for smaller businesses. Further, larger businesses often have working relationships with public authorities – and often use these channels to gain a ‘first mover advantage’ on tender bids.¹³

Access to Markets

In the event SMEs and WOSBs choose to engage with the procurement process, they face a number of barriers to entry in the marketplace. These barriers include (a) the cost incurred in preparing and submitting tender documents;¹⁴ and (b) the high cost of supplying and transporting small quantities of goods to government authorities.¹⁵ Costs are partly attributed to the fact that SMEs – unlike their larger counterparts - do not benefit from the economies of scale.

Gender Discrimination

Women entrepreneurs face unique challenges as a result of past and current discriminatory practices and attitudes. This discrimination can be evidenced by the fact that WOSBs make up only 1 percent of the USD 15 trillion public procurement market.¹⁶ The cultural stigma associated with women that work, and their caregiving duties at home, dissuade WOSBs from participating in the public procurement marketplace. According to the World Bank, WOSBs tend to: (a) be smaller and less experienced; (b) function in less profitable sectors (e.g. retail sales and services); and (c) have owners who have additional family and care responsibilities.¹⁷ Therefore, in addition to the constraints applicable to male-owned small industries, WOSBs face a ‘double’ barrier to entry to public procurement on account of their gender.

2.3 INFLEXIBLE AND CUMBERSOME REGULATORY POLICIES

Onerous Regulatory Requirements

¹⁰ *Ibid.*

¹¹ ITC, SME and export-led growth, *op. cit.*, p. 19.

¹² *Ibid.*

¹³ *Ibid.*

¹⁴ *Ibid.*

¹⁵ *Ibid.*

¹⁶ Aid and International Development Forum, Women’s Business Organisations, Public Procurement and Sustainable Development, 2015, available at: <http://www.aidforum.org/disaster-relief/womens-business-organisations-public-procurement-and-sustainable-developmen> [accessed on: 3 February 2016].

¹⁷ World Bank, World Development Report (2012).

Certain government procurement policies can place SMEs and WOSBs at a disadvantage. For instance – policies that result in costly registration mechanisms in order to qualify as a government supplier can limit SMEs and WOSBs from participating in public procurement bids.¹⁸ Further, government agencies often mandate that a performance bond or guarantee be given prior to awarding the tender.¹⁹ This condition is often financially prohibitive for SMEs and WOSBs.

Additionally, inflexible evaluation and award procedures result in SMEs and WOSBs being unable to negotiate with procuring authorities on timelines, product requirements and documentation.²⁰ As such, this inflexible process prevents SMEs and WOSBs from entering into a competitive dialogue with government agencies – ultimately limiting their chances at securing the bid.²¹

Contract Aggregation and Payment

Government procurers often favour fewer high-value contracts to avoid higher transaction costs. As such, it is common for government procurers to ‘bundle’ quantities sought in procurements.²² Thus, large contract values create significant disadvantages for SMEs and WOSBs - leading to diminished participation of these businesses in public procurement.²³

2.4 HUMAN RESOURCE CONSTRAINTS

SMEs and WOSBs face considerable impediments to accessing skilled labour. These impediments are due to the fact the SMEs often pay lower wages than larger firms – and therefore, find it difficult to retain and hire skilled labour. Moreover, in some instances, government procurement agencies may seek levels of technology and expertise that are in excess of what SMEs and WOSBs can provide.²⁴ This gap in skilled labour can create barriers to entry for SMEs and WOSBs when accessing public procurement processes.

In some instances, the relative scarcity of skilled labour can be attributed to the socio-economic constraints in a country. For example, in South Africa, discriminatory policies during the apartheid-era resulted in limited opportunities for the development of educational institutions and training programs focused on self-employment and entrepreneurship for the majority (i.e. 87 percent) of the population.²⁵

¹⁸ ITC, SME and export-led growth, *op. cit.*, p. 20.

¹⁹ *Ibid.*

²⁰ *Ibid.*

²¹ *Ibid.*

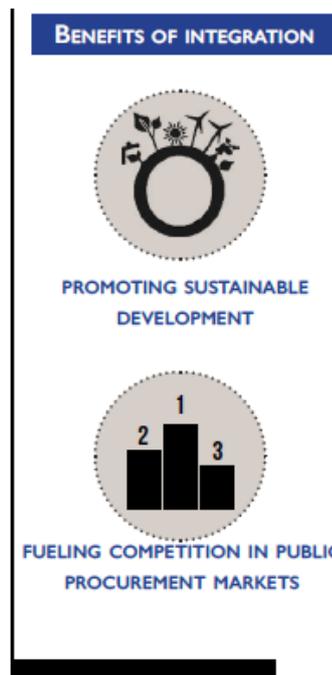
²² *Ibid.*

²³ *Ibid.*

²⁴ *Ibid.* p. 19.

²⁵ *Ibid.*

3. BENEFITS AND CHALLENGES ASSOCIATED WITH UNLOCKING THE PARTICIPATION OF SMES AND WOSBS IN PUBLIC PROCUREMENT



Integrating SMEs and WOSBs into public procurement frameworks has a number of advantages. These advantages are twofold, namely: (a) promoting sustainable development; and (b) fuelling competition in public procurement markets.

3.1 PROMOTING SUSTAINABLE DEVELOPMENT

Value Added Production

Government procurement makes up a substantial portion of the total financial expenditure in economic and market terms.²⁶ By ensuring that SMEs and WOSBs are included in the government supply chain, public procurement has the potential to achieve considerable economic and social benefits.²⁷

The public sector in developing countries is less innovative. As such, governments often miss opportunities to create value in their fiscal spending when its needs are not articulated to the market.²⁸ Further, in developing countries overall, SMEs account for 60 to 70 percent of domestic industrial production and up to 90 percent of employment in the industrial sector.²⁹

In this context, devising strategies for SME driven innovation within the public procurement framework has the potential to enable a country to move from an economy based on the production of low value-added products and services into an economy based on high value-added production.³⁰

Increasing Productivity

The informal sector of the economy is typically not well served by the government.³¹ These sectors often have no access to global markets and limited access to finance.³² Further, it is

²⁶ IISD, *Eight Big Ideas from Mexico*, *op. cit.*, p. 4.

²⁷ *Ibid.* p. 3.

²⁸ *Ibid.* p. 4.

²⁹ ITC, *SME and export-led growth*, *op.cit.*, p. 19.

³⁰ IISD, *Eight Big Ideas from Mexico*, *op. cit.*, p. 4.

³¹ IISD, *Eight Big Ideas from Mexico*, *op. cit.*, p. 2.

³² *Ibid.*

common for these sectors to be populated by low-skilled workers and managers.³³ Unlocking access channels for SMEs and WOSBs in the public procurement marketplace will decrease the gap between the unproductive and productive sections of the economy. As such, this decreasing gap has the potential to fuel entrepreneurship, create skilled jobs, and increase domestic tax revenue – ultimately leading to more robust economic growth.³⁴

Inclusive Growth

The strategic use of public procurement has the opportunity to leverage the purchasing power of the public purse to support a country's broader economic, social and environmental objectives.³⁵ As demonstrated in a number of countries, unlocking the ability for SMEs and WOSBs to participate in the public procurement marketplace has the potential to transform markets and drive sustainable and inclusive industrial growth.³⁶ For example 'green procurement schemes' built into PPPs in countries like Bhutan have enabled the production of sustainable timber, resource efficient buildings, and green roads.³⁷

Further, the implementation of procurement policies that are targeted at SMEs and WOSBs has the potential to mitigate social exclusion and structural discrimination.³⁸ For example, in South Africa and India, public procurement has been utilised to increase the ability for historically disadvantaged racial groups and geographical regions of the country to access business opportunities and capital infrastructure.³⁹

Promoting WOSBs, in particular, may have wider social benefits. Research demonstrates that women invest 90 percent of their earnings in their family and community.⁴⁰ This includes investments in education, health, and food for their families.⁴¹ Men in comparison invest 40 percent of their earnings in their family and community.⁴² Further, women entrepreneurs play a pivotal role in developing countries. For example, in the Southern Africa Development Community (SADC), women make up 70 percent of the intra-SADC trade and account for more than US\$ 4 billion worth of cross-border trading.⁴³ In Uganda, Rwanda and Leo People's Democratic Republic, women make up 38 percent, 60 percent and 68 percent respectively, of the registered small businesses in these countries.⁴⁴ As such, PPPs targeting WOSBs can act as a powerful instrument to achieve economic development and promote inclusive growth in emerging markets.⁴⁵

³³ *Ibid.*

³⁴ *Ibid.*, p. 3.

³⁵ International Institute for Sustainable Development (IISD), *Implementing Sustainable Public Procurement in South Africa: Where to start*, 2014, p. 2, available at: http://www.iisd.org/sites/default/files/publications/implementing_spp_south_africa.pdf [accessed on: 28 January 2016]

³⁶ *Ibid.*, p. 3.

³⁷ *Ibid.*

³⁸ ITC, *SME and export-led growth*, *op. cit.*, p. 28.

³⁹ *Ibid.*, p. 30.

⁴⁰ Aid and International Development Forum, *op. cit.*

⁴¹ *Ibid.*

⁴² *Ibid.*

⁴³ ITC, *Empowering Women Through Public Procurement* (2014).

⁴⁴ *Ibid.*

⁴⁵ *Ibid.*

3.2 FUELLING COMPETITION AND INNOVATION IN THE MARKETPLACE

SMEs and WOSBs can play a central role in the way production is organised in the economy.⁴⁶ This role is attributed to the fact that they have the potential to bring innovation into the marketplace.⁴⁷ The increased flexibility of SMEs in relation to larger firms can result in their faster adaptation to technological changes in the market (e.g. through the use of robotics).⁴⁸

Further, these smaller businesses are typically more willing to accept and manage risk in comparison to larger firms.⁴⁹ Consequently, creating space for SMEs and WOSBs to function effectively in the public procurement marketplace has the ability to promote competition and market dynamism through the introduction of new products and processes.⁵⁰ As such, leveraging the above benefits play an important role in increasing aggregate productivity and fuelling economic growth.

In some instances, SMEs and WOSBs may demonstrate competitive advantages over larger firms. For instance – contracting with localised SMEs and WOSBs can result in more efficient procurement processes. This efficiency is attributed to (a) decentralised supply points that reduce the lag time in transport⁵¹ and (b) better information on sourcing and distribution points in the area of operation.⁵²

However, while SMEs play a role in increasing competition and innovation in the market, larger firms benefit from increased productivity due to their internal coordination and size.⁵³ As such, larger firms typically enjoy greater productivity and a stronger ability to compete in international markets. For example, in Mexico, SMEs make up 99.8 percent of the country's 4.15 million businesses.⁵⁴ Notwithstanding this, SMEs only generate 54 percent of the country's GDP.⁵⁵ This phenomenon is not unique to Mexico and reflects challenges facing SMEs in a number of countries.

In this context, unlocking the benefits of SMEs and WOSBs in the public procurement marketplace will be determined by how procurement policies are able to facilitate their productivity and ability to innovate. These targeted policies rest on the notion that 'value for money' in the procurement process is not dependent on securing the lowest price alternative at the time of commissioning.⁵⁶ Instead, these policies attempt to compute value for money across the asset-life cycle.⁵⁷ Thus, this broader interpretation attempts to bring a

⁴⁶ IISD, *Eight Big Ideas from Mexico*, *op. cit.*, p. 2.

⁴⁷ *Ibid.*

⁴⁸ ITC, *SME and export-led growth*, *op. cit.*, p. 21.

⁴⁹ IISD, *Eight Big Ideas from Mexico*, *op. cit.*, p. 2.

⁵⁰ *Ibid.*

⁵¹ ITC, *SME and export-led growth*, *op. cit.*, p. 21.

⁵² *Ibid.*

⁵³ IISD, *Eight Big Ideas from Mexico*, *op. cit.*, p. 2.

⁵⁴ *Ibid.*

⁵⁵ *Ibid.*

⁵⁶ Value for Money Infrastructure Procurement, *available at:*

http://www.iisd.org/sites/default/files/publications/value_for_money.pdf, [accessed on: 2 February 2016].

⁵⁷ *Ibid.*

country's procurement policies in line with sustainable development by creating room to account for medium- and longer-term efficiency gains during the procurement process.⁵⁸

3.3 STAKEHOLDER BENEFITS

Against this backdrop, Figure 2 below outlines how particular stakeholders are likely to benefit from PPPs.

Figure 2

FIGURE 1: STAKEHOLDER BENEFITS	
<p>GOVERNMENT</p> 	<ul style="list-style-type: none"> • Enhanced choice and competitiveness in public procurement • Increased access to innovative goods and services • Increased productivity in the economy (i.e. by bridging the gap between the productive and unproductive sectors of the economy) • Promote sustainable development (e.g. green procurement) • Target strategic objectives and enhance fiscal spending (e.g. innovation, technological advancement) • Increased Gross Domestic Product • Increased tax revenue
<p>SMEs/WOSBs</p> 	<ul style="list-style-type: none"> • Increased profit margins for SMEs and WOSBs • Increased global competitiveness • Growth in technical and financial management competence • Stronger links between government and small business (e.g. ability to shape policymaking and make policy demands) • Increased access to markets • Reduction in structural discrimination (e.g. vulnerable groups and women) • Access to financing (e.g. through government credit guarantee schemes)
<p>POLITICIANS</p> 	<ul style="list-style-type: none"> • Increased support from constituents as unemployment reduces and productivity increases
<p>PUBLIC</p> 	<ul style="list-style-type: none"> • Increased employment opportunities • Promotion of local products and labor • Shift to high value-added production

⁵⁸ Ibid.

3.4 POTENTIAL CHALLENGES ASSOCIATED WITH PREFERENCE SCHEMES TARGETTED AT BENEFITTING SMALL BUSINESSES

Notwithstanding the above benefits, there are certain challenges associated with PPPs that seek to limit their overall effectiveness. As demonstrated by the case studies presented below, these challenges are largely associated with the implementation of PPPs. A number of countries enacting PPPs encounter weak SME participation in preference schemes. This weak participation is largely attributed to the lack of resources and management expertise of SMEs that inhibit their effective participation in the tender process. For instance, SMEs often lack the expertise as associated with drafting specifications, completing tender applications, and budgeting. Further, in certain instances, SMEs eligible to benefit from PPPs have demonstrated low levels of productivity – despite government investment in SME Business Development Services (e.g. incubation centres, special economic zones, and industrial estates). These low levels of productivity contribute to government reluctance to award tenders to SMEs.

In some countries, contextual factors have posed challenges for PPP implementation. For instance in countries such as Bhutan, its mountainous terrain inhibited the timely supply of goods to procurement entities. Thus, challenges associated with poor transportation networks have the potential to weaken SME participation in PPPs. Additionally, in certain instances the unfavourable political context has weakened the impact of PPPs. For instance, in South Africa, it was reported that there were widespread abuses of PPPs through the use of ‘fronting practices’. These practices involved larger business collaborating with SME’s purely as a method to secure additional benefits in the tendering process. The prevalence of ‘fronting practices’ can frustrate the ability for PPPs to unlock meaningful SME participation in the public procurement marketplace.

As such, governments are advised to design PPPs in a manner that values the importance of creating enabling environment to ensure successful and sustainable SME participation.

4. COUNTRY CASE STUDIES: MODELLING PREFERENTIAL PROCUREMENT POLICIES TARGETED AT SMES AND WOSBS

A number of countries have enacted public procurement policies that attempt to strengthen SME and WOSB participation in the public procurement marketplace (i.e. PPPs). This section will examine PPPs in reference to: (a) Mexico (b) Bhutan (c) India (d) South Africa and (e) Kenya.

These countries were selected as case studies for a range of reasons. Bhutan and India were chosen due to their regional similarity with Sri Lanka. South Africa was included to learn from their approach to using PPPs as a tool to end historical discrimination, which may yield useful lessons learned to address the inequalities in the former conflict zones in the North and East of Sri Lanka. Further, Mexico offers an example of how innovative PPPs can be deployed to increase SME participation in public procurement. Kenya was selected as its PPPs provide a framework for integrating WOSB participation in the public procurement marketplace.

4.1 MEXICO

Context

As illustrated in Figure 3, SMEs in Mexico are defined by their annual turnover and number of employees. SMEs in the country comprise businesses engaged in trade, industry and services. SMEs form the backbone of Mexico's national economy. SME's represent 99.8 percent of Mexico's 4.15 million businesses – yet only contribute to 54 percent of the total GDP.⁵⁹ In addition to the above, the Mexican government spends approximately 78 billion US dollars on public procurement.⁶⁰ Against this backdrop, the government began to design mechanisms to use public spending to increase the productivity of Mexico's SME sectors⁶¹. As such, PPP design in Mexico was fuelled by government impetus to drive sustained economic development. This was an impetus that involved using public procurement as a tool to create a shift from an economy based on the production of low value-added products and services, into an economy based on high value-added production.⁶²

⁵⁹ World Bank, World Development Indicators, 2015, available at: <http://data.worldbank.org/data-catalog/world-development-indicators>, [accessed on: 1 February 2016].

⁶⁰ *Ibid.*

⁶¹ IT World Canada, The real drivers of change in public sector procurement, 2004, available at <http://www.itworldcanada.com/article/the-real-drivers-of-change-in-public-sector-procurement/15966#ixzz3AMmMhxug> [accessed on: 1 February 2016].

⁶² *Ibid.*

Figure 3: SME Definition, Mexico

Sector	Criteria	Medium	Small	Micro
Trade	Annual Turnover (USD. Mn.)	5.63 – 14.07	0.23 – 5.63	Less than 0.23
	No. of Employees	31 – 100	11 – 30	Less than 10
Industry	Annual Turnover (USD. Mn.)	5.63 – 14.07	0.23 – 5.63	Less than 0.23
	No. of Employees	51 – 100	11 – 50	Less than 10
Services	Annual Turnover (USD. Mn.)	5.63 – 14.07	0.23 – 5.63	Less than 0.23
	No. of Employees	51 – 250	11 – 50	Less than 10

Source: OECD, *OECD Studies on SMEs and Entrepreneurship Mexico: Key Issues and Policies*.

N.B. All of the above currencies were in local currencies. Converted at: 1 USD = 17.72 MXN on 8th April 2016.

Enabling PPP Legislation and Policy

Mexico's PPPs are targeted at fostering entrepreneurship and SME empowerment. To this end, the *Law for Development of Competitiveness of Micro and Small Enterprises* sets out to address the structural changes necessary to ensure SME participation in public procurement.⁶³ This instrument mandates that a minimum of 35 percent of the total value of goods, services and public works procured by federal entities are contracted to SMEs.⁶⁴

In addition to the above, the *National Acquisitions Leases and Public Sector Services Act* include several provisions for tendering with SMEs. For instance, Article 8 requires national departments and agencies to design and implement programmes facilitating procurement for SMEs in all areas of frequent spending.⁶⁵

Benefits, Challenges and Modifications

Notwithstanding Mexico's PPPs, the participation of SMEs in public tenders has remained considerably low (i.e. at 15 percent).⁶⁶ This low participation was attributed to (a) the poor implementation of PPPs; and (b) a lack of resources and management expertise in the SME sector to plan, draft and complete tender applications.⁶⁷

Pursuant to these challenges, in 2009 the Mexican Federal Congress approved modification to the *Law on the Acquisition of Goods, Leasings and Rendering of Services for the Public Sector and the Public Works and Related Services* (i.e. Mexico's public procurement law).⁶⁸ These

⁶³ IISD, *Eight Big Ideas from Mexico*, *op. cit.*, p. 4.

⁶⁴ *Ibid.*

⁶⁵ *Ibid.*, p. 5.

⁶⁶ Belaustegui, V. (2011, June). *Las compras públicas sustentables en América Latina. Estado de avance y elementos clave para su desarrollo*. The Inter-American Government Procurement Network (RICG).

⁶⁷ *A tale of two Mexicos: Growth and prosperity in a two-speed economy, 2014*, available at: http://www.mckinsey.com/insights/americas/a_tale_of_two_mexicos, [accessed on: 1 February 2016].

⁶⁸ IISD, *Eight Big Ideas from Mexico*, *op. cit.*, p. 6.

amendments targeted streamlining public procurement procedures to achieve greater participation of SMEs in public procurement.⁶⁹

In addition to the above, Mexico sought to improve the enabling environment for smaller businesses to participate in public procurement by (a) increasing transparency regarding tender procedures; (b) introducing credit guarantee schemes; and (c) funding research and innovation. These features will be discussed briefly in turn.

(a) Increasing transparency regarding tender procedures

In 2009, the Ministry for Public Administration introduced an e-procurement platform – CompraNet.⁷⁰ CompraNet functions as a public procurement database that contains information on open public tenders (e.g. tender procedures, requests for proposals, history of awards, and contracts).⁷¹ Further, CompraNet also acts as an electronic transaction tool where suppliers can access information and submit their bids electronically.⁷² Therefore, CompraNet was a significant step in bridging the information asymmetry between government and SMEs and reducing the transactional costs of public procurement, thereby promoting increased participation and competition in Mexico’s public procurement marketplace.

(b) Introducing Credit Guarantee Schemes

To reduce interest rates offered to SMEs, the Mexican development bank NAFIN established an auctioning system. The system allows commercial banks to bid for portfolios of SME credit guarantees.⁷³ The system then selects the banks offering the highest degree of leverage on credit and the lowest interest rates.⁷⁴ This scheme enables SMEs to benefit from lower interest rates, and commercial lenders to benefit from more secure lending to risky operations.

(c) Funding Research and Innovation

The Mexican National Entrepreneur Fund (MNEF) was established to help finance development and innovation in resource-constrained SMEs.⁷⁵ The MNEF supports a range of activities including training, hiring of consultants, patent registration, and pilot project development for SMEs.⁷⁶

⁶⁹ IISD, *Eight Big Ideas from Mexico*, *op. cit.*, p. 6.

⁷⁰ Organisation for Economic Co-operation and Development (OECD). (2009). *Rethinking e-Government Services: User-centered approaches*. Paris: OECD.

⁷¹ *Ibid.*

⁷² *Ibid.*

⁷³ Klapper, L. (2004). *The Role of “Reverse Factoring” in Supplier Financing of Small and Medium Sized Enterprises*. The World Bank, Washington, available at: http://siteresources.worldbank.org/DEC/Resources/SupplierFinancing_Klapper.pdf, [accessed on: 1 February 2016].

⁷⁴ *Ibid.*

⁷⁵ Secretaria de Economía. (2014). *Convocatoria pública para accesos a los apoyos del fondo nacional emprendedor*. Diario Oficial, available at: www.inadem.gob.mx/docs/convocatorias/1.1.pdf [accessed on: 2 February 2016].

⁷⁶ IISD, *Eight Big Ideas from Mexico*, *op. cit.*, p. 16.

4.2 BHUTAN

Context

SMEs in Bhutan are defined by annual turnover and number of employees in ‘all sectors’ as illustrated in Figure 4. SMEs represent an important part of Bhutan’s economy. SMEs in Bhutan comprise of Cottage and Small Industries (CSIs) and Micro, Small and Medium Enterprises (MSMEs).⁷⁷ In 2013, the country had 14,249 CSIs – 97 percent of which were sole proprietorships (i.e. micro-scale firms).⁷⁸ Further, MSMEs contributed approximately USD 13 million to Bhutan’s total national revenue.⁷⁹ Against this backdrop, the Royal Government of Bhutan (RGoB) developed a Policy Strategy and Action Plan that was targeted at driving sustainable economic growth by increasing the productivity of Bhutan’s SME sector.⁸⁰

Figure 4: SME Definition, Bhutan

Sector	Criteria	Medium	Small	Micro
All Sectors	Annual Turnover (USD Thousands)	150 – 1500	15 – 150	Less than 15
	No. of Employees	20 – 99	5 – 19	1 – 5

Source: Ministry of Labour and Human Resource, Dept. of Employment, MSME Development in Bhutan.

N.B. All of the above currencies were in local currencies. Converted at: 1 USD = 66.57 BTN on 8th April 2016.

Further, from 2008 to 2013, the RGoB and State Owned Enterprises spent 61 percent of the total national budget on public procurement.⁸¹ This figure accounted for 21 percent of the country’s GDP over the same period.⁸²

Enabling PPP Legislation and Policy

The Constitution of the Kingdom of Bhutan mandates that the RGoB secure ‘justifiable economic and social development’.⁸³ Pursuant to this, RGoB’s strategic objectives for SME development include increasing SME ‘access to public procurement opportunities by ensuring that public procurement favours products and services locally produced or provided and that have low ecological footprints’.⁸⁴

The principal public procurement legislation in Bhutan is the *Procurement Rules and Regulations 2009* (PRR). The provisions under the PRR create an enabling environment for

⁷⁷ Green Public Procurement in Bhutan (GPP Bhutan), Supporting Cottage, Small and Medium Enterprises Through Preferential Procurement, 2015, available at: <http://gppbhutan.bt/supporting-cottage-small-and-medium-enterprises-through-preferential-procurement>, [accessed on: 2 February 2016].

⁷⁸ *Ibid.*

⁷⁹ *Ibid.*

⁸⁰ Royal Government of Bhutan, Ministry of Economic Affairs, CSMI Action Plan for 2012-2014.

⁸¹ GPP Bhutan, *op. cit.*

⁸² *Ibid.*

⁸³ Article 5(c) Constitution.

⁸⁴ Royal Government of Bhutan, *op. cit.*

SME participation within the country's public procurement framework. For instance, The *Standard Bidding Documents for Goods and Works (SBD)*, codified under the PRR, provides for a 5 percent margin of preference for 'goods of Bhutanese origin'.⁸⁵ In other words, in the event the price difference in the tender bid between a local and an international supplier does not exceed 5 percent - preference is given to the local bidder.⁸⁶ Further, in applying this preferential margin, procurers are also entitled to include requirements relating to the use of local labour and materials in the conditions of the contract.⁸⁷

Further, Article 1.1.7 of the PRR provides non-targeted assistance to SMEs by permitting the division of procurement contracts. The Article permits the procurement agency to break up the services or work contemplated under the contract into separate components.⁸⁸ This division of work enhances the ability of SMEs to participate more effectively in the public procurement marketplace, as their production capacities are able to better match government demand.⁸⁹

SMEs in Bhutan also benefit from fiscal incentives that enable participation in public procurement. For example, under Section 2 of the *Revised Rules and Regulations on Fiscal Incentives 2010*, SMEs are entitled to certain tax benefits for the production and manufacture of goods. This includes (a) an exemption from sales tax and customs duty for equipment and labour saving devices purchased by artisans and craftsman in rural areas and (b) a 10 year income tax holiday for SMEs involved in the production of goods in remote areas.⁹⁰

Additionally the PRR provides for a 'two-stage process', whereby a government agency can obtain inputs from bidders (stage 1) before finalising the scope of work and relevant specifications (stage 2).⁹¹ This two-stage bidding process increases the flexibility associated with the procurement process.⁹² Such flexibility increases the ability for SMEs to commercialise innovative production methods and new technological solutions during the bidding process.⁹³ Further, this interactive procurement method enables the government to gather market intelligence to determine the feasibility of work on performance-based specifications.⁹⁴

In 2012, the RGoB launched a *Cottage, Small and Medium Industry Action Plan*.⁹⁵ The Plan attempted to simplify rules and regulations governing public procurement to encourage better SME integration into the procurement marketplace.⁹⁶ For instance, e-procurement

⁸⁵ Section 1.1.2.2.a Procurement Rules and Regulations 2009.

⁸⁶ *Ibid.*

⁸⁷ *Ibid.*

⁸⁸ *Ibid.*, Section 1.1.7

⁸⁹ GPP Bhutan, *op. cit.*

⁹⁰ Section 2.1.1, Section 2.1.2, Section 2.1.4 Revised Rules and Regulations on Fiscal Incentives 2010.

⁹¹ GPP Bhutan, *op. cit.*

⁹² *Ibid.*

⁹³ *Ibid.*

⁹⁴ *Ibid.*

⁹⁵ Royal Government of Bhutan, *op. cit.*

⁹⁶ *Ibid.*

and licencing mechanisms were established.⁹⁷ These mechanisms aid in bridging the information asymmetry between SMEs and procurement agencies.⁹⁸

Benefits, Challenges and Modifications

Bhutanese SMEs have benefited from, and been strengthened by, government procurement policies.⁹⁹ This is in part due to the fact that PPPs in Bhutan do not operate in isolation.¹⁰⁰ Instead, they form part of a broader set of strategic plans and objectives that are targeted at maximising the multiplier effect of SMEs in sustainable economic growth.¹⁰¹

However, implementing PPPs in Bhutan has proved to be challenging. These implementation challenges are largely due to the low levels of productivity of the SME sector that have prevented smaller businesses from taking advantage of the preferential system. For instance, the government spent a significant amount of money in Business Development Services (BDS) to fuel SME entrepreneurship. These initiatives included investments in industrial estates, special economic zones and incubation centres.¹⁰² Notwithstanding this, no significant growth in the development of products or services was seen.¹⁰³

Further, the lack of specialised skills and the difficulties associated with transporting goods across Bhutan's mountainous terrain have impeded SME's from accessing and benefiting from the PPPs.¹⁰⁴ Additionally, poor coordination between government agencies, limited development of standards for bid documents, a lack of timely information about public procurement opportunities, and insufficient financial support from the government have created obstacles for SME participation in the country's public procurement marketplace.¹⁰⁵

In view of these challenges, in 2015 the RGoB devised an amended *Cottage, Small and Medium Industry Action Plan*.¹⁰⁶ This Plan focused on (a) increasing SME access to finance (e.g. through micro-finance institutions, public-private partnerships and credit guarantee schemes); (b) strengthening the policy environment governing PPPs (e.g. initiating mechanisms for inter-ministerial coordination and public-private dialogues and enhancing procurement opportunities for SMEs); and (c) setting up Technical Training Institutes to fill the skills gap in the SME sector and train SMEs on sustainable production and consumption.¹⁰⁷ The success of the Plan in unlocking SME participation in public procurement is yet to be determined.

4.3 INDIA

Context

⁹⁷ *Ibid.*

⁹⁸ GPP Bhutan, *op. cit.*

⁹⁹ *Ibid.*

¹⁰⁰ *Ibid.*

¹⁰¹ *Ibid.*

¹⁰² *Ibid.*

¹⁰³ Royal Government of Bhutan. *op. cit.*

¹⁰⁴ *Ibid.*

¹⁰⁵ *Ibid.*

¹⁰⁶ *Ibid.*

¹⁰⁷ *Ibid.*

As demonstrated in Figure 5, SMEs in India are defined by annual turnover. SMEs in the country comprise of businesses engaged in the manufacturing and services sectors. SMEs in India have played a critical role in providing employment opportunities at a comparatively lower capital cost in the last five decades. Further, SMEs have the potential to decrease disparities in regions within the country, and create conditions for balanced and sustainable economic growth. As such, in order to unlock the above benefits, PPPs in India have focused on increasing the integration of SMEs in public procurement.

Figure 5: SME Definition, India

Sector	Criteria	Medium	Small	Micro
Manufacturing	Annual Turnover (USD Thousands)	750 – 150	38 –750	Less than 38
Service	Annual Turnover (USD Thousands)	300 – 75	15 – 300	Less than 15

Source: *Small and medium Business Development Chamber of India.*

N.B. All of the above currencies were in local currencies. Converted at: 1 USD = 66.58 INR on 8th April 2016.

A 2013 survey by the National Sample Survey Office reveals there are 57.7 million SMEs employing 120 million people. Further, persons belonging to ‘Scheduled Castes’ (SC), ‘Scheduled Tribes’ (ST), and ‘Other Backward Castes’ own over 60 percent of SMEs. In this context, PPPs have acted as a tool to remediate past discrimination of SCs and STs by integrating them into the procurement marketplace.

Enabling Legislation

There is no central legislation governing procurement in India. Instead, there are comprehensive rules and directives contained in the *General Financial Rules 2005*, and *Delegation of Financial Powers Rules*.¹⁰⁸ These Rules mandate that every public authority delegated with the financial powers of procuring goods should do so in a manner that is (a) accountable; (b) efficient; (c) transparent; and (d) fair and equitable.

In addition to the above, each state and Union Territory is permitted to have its own rules, guidelines or legislation governing public procurement. Some states such as Tamil Nadu¹⁰⁹ and Karnataka¹¹⁰ have introduced their own legislation on public procurement.

India’s PPPs are enacted by way of an Order¹¹¹ under Section 11 of the *Micro, Small and Medium Enterprises Development Act 2006 (MSMED)*.¹¹² This Order is applicable to SMEs that

¹⁰⁸ Indian Express, Policy in place but PSUs procure very little from Dalit enterprises, available at: <http://indianexpress.com/article/india/india-others/policy-in-place-but-psus-procure-very-little-from-dalit-enterprises/#sthash.nSkj2whK.dpuf>, [accessed on: 9 February 2016].

¹⁰⁹ The Tamil Nadu Transparency in Tenders Act, 1998, available at: <http://annamalaiuniversity.ac.in/download/research/project/Annexure-17.pdf>, [accessed on: 4 February 2016].

¹¹⁰ The Karnataka transparency in Public Procurements Act, 1999, available at: <http://www.finance.kar.nic.in/trans/Trans-Act.pdf>, [accessed on: 4 February 2016].

¹¹¹ Public Procurement Policy for Micro and Small Enterprises (MSEs) Order, 2012, available at: https://eprocure.gov.in/cppp/sites/default/files/ordersandcirculars_contents/ORD_DOC_NO_4/limsme_FinalPressorder.pdf, [accessed on: 8 February 2016].

¹¹² The micro, small and medium enterprises development Act, 2006, Ministry of Law and Justice, Extraordinary Gazette, Part II, Section I, available at: <http://msme.gov.in/WriteReadData/DocumentFile/MSMED2006.pdf>, [accessed on: 29 January 2016].

are registered with (a) the District Industries Centres or Khadi and Village Industries Commission; (b) the Khadi and Village Industries Board or Coir Board or National Small Industries Corporation; or (c) the Directorate of Handicrafts and Handloom or any other body specified by Ministry of Micro, Small and Medium Enterprises.¹¹³

Under the 2012 Order, every procuring entity was mandated to set an annual target in reference to procuring from SMEs. The objective of the above was to ensure that public procurement from SMEs constituted 20 percent of total annual purchases in a period of three years from when the Order was enacted (i.e. from 2012 to 2015).¹¹⁴

As such, in 2015, the reservation of 20 percent for procuring from SMEs was made mandatory (i.e. SME Annual Purchasing Target).¹¹⁵ Further, the 2012 Order provides additional preferencing for SME's owned by SCs and STs. As such, 20 percent of the total SME Annual Purchasing Target is earmarked for procuring from SME's owned by SCs and STs.¹¹⁶ Government agencies that fail to meet this annual target are bound to account for the shortfall to the Review Committee headed by Secretary of Ministry of Micro, Small and Medium Enterprises.¹¹⁷

Moreover, the 2012 Order provides an additional advantage to SMEs through price preferencing at tender stage. To this end, SMEs that quote prices up to 15 percent above the tender with the lowest price will be eligible to supply the procuring agency with 20 percent of the total goods or services purchased under the contract.¹¹⁸

In addition to price preferencing, 358 items have been reserved for exclusive procurement from SMEs. These items include: (a) air/room coolers; (b) dust bins; (c) electronic doorbells; and (d) sanitary plumbing fittings. This policy of allocating reservations for SMEs in the public procurement process is targeted at increasing the productivity of SMEs - including those operating in Khadi and village industries.

Benefits, Challenges and Modifications

A year into the implementation of the 2012 Order, a comprehensive survey of procurement was undertaken by the Indian government to assess the effectiveness of the Order.¹¹⁹ The survey revealed that SMEs accounted for 15 percent of public procurement between 2013 and 2014.¹²⁰ However, procurement from SMEs owned by SCs and STs only constituted 0.51 percent of public procurement.¹²¹ Further, it was revealed that 48 out of 179 government procurement agencies did not purchase from SMEs owned by SCs and STs at all.¹²²

As such, public procurement in India from SMEs and SMEs owned by SCs and STs is below the government target of 20 percent and 4 percent, respectively. In order to increase SME

¹¹³ Order 2012, *op. cit.*

¹¹⁴ *Ibid.*

¹¹⁵ *Ibid.*

¹¹⁶ *Ibid.*

¹¹⁷ *Ibid.*

¹¹⁸ Order, 2012.

¹¹⁹ The Indian Express, Policy in place but PSUs procure very little from Dalit enterprises, 2015, available at: <http://indianexpress.com/article/india/india-others/policy-in-place-but-psus-procure-very-little-from-dalit-enterprises/>, [accessed on: 9 February 2016].

¹²⁰ The Indian Express, *op. cit.*

¹²¹ *Ibid.*

¹²² *Ibid.*

access to public procurement, the government has initiated a number of strategies targeted at increasing the enabling environment for PPPs. For instance, the government launched the Government Tenders and Information System that acts as an interactive database that allows users to search and sort tenders by location, agency, description and value.¹²³ Further, this information gateway can be used to download tender documentation and receive tender notifications.

Public procurement agencies are also tasked with organising Vendor Development Programmes.¹²⁴ These programmes facilitate networking between SME suppliers and procuring agencies.¹²⁵ Additionally, suppliers are given the opportunity to (a) receive guidance and training on becoming government suppliers; and (b) address their needs and wants in terms of public procurement access.¹²⁶

4.4 SOUTH AFRICA

Context

The end of apartheid contributed to the design of PPPs in South Africa. In this context, PPPs focused on reintegrating historically disadvantaged individuals (HDIs) into the economy.¹²⁷ HDIs include (a) individuals who were disenfranchised during the apartheid era; (b) women; and (c) persons with a disability.¹²⁸ More specifically, PPPs in South Africa were designed to integrate SMEs owned by disadvantaged groups into the mainstream economy. These groups accounted for 87 percent of the country's population.¹²⁹ As illustrated in Figure 6, SMEs in South Africa are defined by their annual turnover, number of employees and total gross asset value (excluding fixed property). The definition of SMEs in South Africa comprises businesses engaged in a number of subsectors including agriculture, construction and manufacturing.

Figure 6: MSME Definition, South Africa

Sector or Subsector	Criteria	Medium	Small	Micro
Agriculture	Annual Turnover (USD Thousands)	330	200	13
	No. of Employees	100	50	5
	Total gross asset value (USD Thousands) (fixed property excluded)	330	200	66
Mining and Quarrying	Annual Turnover (USD Thousands)	2590	664	13.29
	No. of Employees	200	50	5
	Total gross asset value (USD.	1528	398.75	6.65

¹²³ ITC, Empowering women through public procurement, *op. cit.* p. 24.

¹²⁴ Ministry of micro, small and medium enterprises, Vendor Development Programmes for Ancillarisation, available at: <http://www.dcmsme.gov.in/VDPA.htm>, [accessed on: 3 February 2016].

¹²⁵ *Ibid.*

¹²⁶ *Ibid.*

¹²⁷ United Nations, Sustainable Development Innovation Briefs (August 2008).

¹²⁸ *Ibid.*

¹²⁹ *Ibid.*

Sector or Subsector	Criteria	Medium	Small	Micro
	Thousands) (fixed property excluded)			
Manufacturing	Annual Turnover (USD Thousands)	3391	864.5	13.3
	No. of Employees	200	50	5
	Total gross asset value (USD Thousands) (fixed property excluded)	1263.5	332.5	6.65
Electricity, Gas and Water	Annual Turnover (USD Thousands)	3391.6	865	13.3
	No. of Employees	200	50	5
	Total gross asset value (USD Thousands) (fixed property excluded)	1264	332.7	6.65
Construction	Annual Turnover (USD Thousands)	1729	400	13.3
	No. of Employees	200	50	5
	Total gross asset value (USD Thousands) (fixed property excluded)	332.4	66.5	33.25
Retail and Motor Trade and Repair Services	Annual Turnover (USD Thousands)	2593	1263	13.3
	No. of Employees	200	50	5
	Total gross asset value (USD Thousands) (fixed property excluded)	400	200	6.65
Wholesale Trade, Commercial Agents and Allied Services	Annual Turnover (USD Thousands)	4259	2130	13.3
	No. of Employees	200	50	5
	Total gross asset value (USD Thousands) (fixed property excluded)	66.55	332.7	6.65
Catering, Accommodation and other Trade	Annual Turnover (USD Thousands)	865	400	13.31
	No. of Employees	200	50	5
	Total gross asset value (USD Thousands) (fixed property excluded)	200	66.5	6.65
Transport, Storage and communications	Annual Turnover (USD Thousands)	1729	865	13.3
	No. of Employees	200	50	5
	Total gross asset value (USD Thousands) (fixed property excluded)	398	200	6.65
Finance and Business Services	Annual Turnover (USD Thousands)	1729	864	13.3
	No. of Employees	200	50	5
	Total gross asset value (USD Thousands) (fixed property excluded)	332	200	6.65
Community, Social and	Annual Turnover (USD Mn.)	864	400	13.3

Sector or Subsector	Criteria	Medium	Small	Micro
Personal Services	No. of Employees	200	50	5
	Total gross asset value (USD Mn.) (fixed property excluded)	400	200	6.65

Source: National Small Business Amendment Act 26 of 2003.

N.B. All of the above currencies were in local currencies. Converted at: 1 USD = 14.99 ZAR on 8th April 2016.

Enabling PPP Legislation and Policy

The framework for public procurement is outlined in South Africa's Constitution. Article 217(1) of the Constitution requires that when an organ of the state contracts for goods and services, it does so in accordance with the principles of fairness, equitability, transparency and cost effectiveness.¹³⁰ Further, Article 217(2) and 217(3) of the Constitution sets out the framework for a preferential procurement policy that advances persons previously disadvantaged by unfair discrimination.¹³¹

In this context, the principal instruments of PPP codification in South Africa are the *Preferential Procurement Framework Act 2000 (PPPFA)*¹³² and the *Broad-Based Black Economic Empowerment Act 2003 (B-BBEE)*.¹³³

The PPPFA contemplates a Preference Point Scoring System. This Preference Point Scoring System was introduced by a Regulation under the PPPFA in 2011.¹³⁴ This Regulation was targeted at simplifying the bid procedure to make it more accessible to SMEs and WOSBs. Therefore, at present, the bid procedure involves a two-step test, where bidders are assessed on (a) price; and (b) functionality.¹³⁵

Under this test - provided that firms belonging to HDIs meet the stipulated requirements on price – they are eligible to be awarded preferential points at tender stage.¹³⁶ The maximum number of points that can be awarded to contractors during tender stage is 100. 80 of these points are allocated on price. The remaining 20 points are awarded based on the firm's preferential points.¹³⁷

The preferential points allocated to firms operated by HDIs are awarded based on the firm's B-BBEE status level. This status level is assessed in accordance with the criteria set out in the B-BBEE.¹³⁸ The term 'black' in the context of B-BBEE refers to black, coloured, Indian and Asian and second-generation Chinese citizens.¹³⁹ The firm's B-BBEE status level is

¹³⁰ South African Constitution, Section 217 (1).

¹³¹ *Ibid.*, Section 217(3).

¹³² Act No. 5 of 2000.

¹³³ Act No. 53 of 2003.

¹³⁴ Preferential Procurement Policy Framework Regulations, 2001.

¹³⁵ Preferential Procurement Policy Framework Regulations, 2001

¹³⁶ Preferential Procurement Policy Framework Regulations, 2001

¹³⁷ International Trade Centre (ITC), Empowering women through public procurement, 2014, available at: <http://www.intracen.org/uploadedFiles/intracenorg/Content/Publications/Women%20procurement%20guide-final-web.pdf> [accessed on: 1 February 2016].

¹³⁸ B-BBEE Act Section 9 (8).

¹³⁹ *Ibid.*, Section 9 (1).

assessed using seven pillars, each with a relative weighting.¹⁴⁰ They include: (a) equity ownership; (b) management; (c) employment equity; (d) skills development; (e) preferential procurement; (f) enterprise development; and (g) socio-economic development.¹⁴¹

In order to substantiate the firm's B-BBEE status level, bidders are required to submit an original and valid B-BBEE Status Level Verification Certificate from an authorised Verification Agency.¹⁴² The South African National Accreditation System (SANAS) has been mandated to accredit B-BBEE Verification Agencies to ensure consistency.¹⁴³

Further, provincial governments have subsequently developed and adopted their own Preferential Procurement Policies that – while aligned with the National PPPFA – set out targets for provincial departments and entities that reflect the economic environment of the province.¹⁴⁴ As such, the PPPFA creates the space for provinces and municipalities to develop databases of pre-qualified suppliers and provides the flexibility to address priorities in order of urgency.¹⁴⁵

In addition to the above, South Africa enacted the *National Small Business Act* in 1996 (NSBA).¹⁴⁶ This Act provides an enabling environment for SMEs when engaging with the public procurement process. The NSBA provides for the establishment of (a) the National Small Business Council and the (b) Ntsika Enterprise Promotion Agency.¹⁴⁷ The National Small Business Council is tasked with driving the policy-making agenda on SME participation in the economy.¹⁴⁸ The Ntsika Enterprise Promotion Agency is tasked with providing resource support (i.e. technical training, financial support) to SMEs.¹⁴⁹ Further, the Agency is also responsible for facilitating SME access to raw materials and other products.¹⁵⁰

Benefits, Challenges and Modifications

The introduction of PPPs in South Africa has managed to leverage the power of the public purse to fuel entrepreneurship and higher productivity amongst SMEs and WOSBs that belong to historically disadvantaged communities.¹⁵¹ Further, PPPs have increased incentives for civil society activism in SME development.¹⁵² For example, organisations such as the Black Business Supplier Development Programme, the Cooperative Incentive Scheme and the Technology and Human Resources for Industry Programme have bolstered the participation of SMEs in public procurement by providing financial incentives and technical

¹⁴⁰ *Ibid.*, Section 9 (8)(Codes 1100-1700).

¹⁴¹ *Ibid.*, Section 9 (8)(Codes 1100-1700).

¹⁴² South African National Accreditation System, List of B-BBEE Verification Agencies, available at: http://www.sanas.co.za/af-directory/bbbee_list.php, [accessed on: 1 February 2016].

¹⁴³ *Ibid.*

¹⁴⁴ IISD, Public procurement in South Africa, *op. cit.*, p. 10.

¹⁴⁵ *Ibid.*

¹⁴⁶ Act No. 102, of 1996.

¹⁴⁷ Chapter 2 and Chapter 3 National Small Business Act No. 102, of 1996.

¹⁴⁸ Section 3(1) National Small Business Act No. 102, of 1996.

¹⁴⁹ Section 10(1) National Small Business Act No. 102, of 1996.

¹⁵⁰ Section 10(1)(ii) National Small Business Act No. 102, of 1996.

¹⁵¹ IISD, Implementing Sustainable Public Procurement in South Africa, available at: http://www.iisd.org/sites/default/files/publications/implementing_spp_south_africa.pdf [accessed on: 2 February 2016].

¹⁵² IISD, Public procurement in South Africa, *op. cit.*, p. 10.

training.¹⁵³ In terms of WOSBs, the Isivande Women's Fund offers 60 percent female owned or managed enterprises, which have operated for two or more years, loans up to 200,000 Rand.¹⁵⁴ A number of WOSBs have utilised these funds to participate in the public procurement marketplace.¹⁵⁵

However, despite the above, some challenges still remain. For example, the implementation of PPPs has faced the issue of 'fronting practices'.¹⁵⁶ These practices involve a business hiring or utilising HDIs simply to elevate their B-BBEE score – and thereby frustrating the purpose of the Act.¹⁵⁷ Consequently, there has been significant misrepresentation, corruption, and misdirection in PPP execution. This practice has been remedied to some extent through the work of the Broad Black Economic Empowerment Commission under the B-BBEE.¹⁵⁸ This Commission is tasked with overseeing and investigating complaints relating to fronting practices and instituting penalties for misrepresentation.¹⁵⁹ Further, the B-BBEE has been amended to give public authorities a right to cancel any contract awarded pursuant to a falsified B-BBEE scorecard.¹⁶⁰

The use of PPPs to incentivise larger businesses to finance smaller firms in order to gain B-BBEE points has been limited.¹⁶¹ This is largely due to the fact that smaller entrepreneurs have demonstrated a preference to buy a portion of a larger business rather than starting their own venture. This practice has resulted in sluggish growth in SME-driven entrepreneurship and innovation.¹⁶² Further, WOSBs are not significantly benefiting from PPPs in South Africa.¹⁶³ This limited benefit is attributed to the fact that there are no specific policies designed to (a) weight WOSBs on the B-BBEE status level; and (b) give WOSBs access to procurement processes.¹⁶⁴

4.5 KENYA

Context

In 2013, the World Economic Forum reported that countries with smaller gender gaps are more competitive internationally; have a higher GDP per capita; and are ranked higher on

¹⁵³ *Ibid.*, p. 41.

¹⁵⁴ *Ibid.*, p. 43.

¹⁵⁵ *Ibid.*, p. 44.

¹⁵⁶ Ambe and Badenhorst-Weiss, Procurement Challenges in the South African Public Sector, Department of Business Management University of South Africa, 2012, p. 12, available at: [<http://www.jtscm.co.za/index.php/jtscm/article/viewFile/63/59>], accessed on: 19 January 2016.

¹⁵⁷ *Ibid.*

¹⁵⁸ Section 13B National Small Business Act No. 102, of 1996.

¹⁵⁹ *Ibid.*, Section 13F.

¹⁶⁰ *Ibid.*, Section 13A.

¹⁶¹ Trade & Industrial Policy Strategies (TIPS), How South Africa can boost support to small businesses: lessons from Brazil and India, 2011, p. 22, available at: [http://www.tips.org.za/files/india_brazil_2011_edit_s_timm.pdf], [accessed on: 25 January 2016]

¹⁶² *Ibid.*

¹⁶³ Frontier Advisory, The Current Status of Policies, Practices, Measures and Barriers regarding Women-owned Businesses in Government Procurement, 2013, p. 18, available at: [http://bwasa.co.za/files/docs/0/52932eba0fbd7_bwa_WOSBs_in_govt_procurement_report_2013.pdf], [accessed on: 25 January 2016].

¹⁶⁴ *Ibid.*

the Human Development Index.¹⁶⁵ Thus, PPPs in Kenya were instituted against a backdrop where promoting women's economic potential through WOSBs was seen as intrinsic to sustained and sustainable development.¹⁶⁶

Enabling PPP Legislation and Policy

In Kenya, the *Public Procurement and Disposal (Preference and Reservations) Act 2005* (PPDA) declares certain objectives for the country's public procurement framework.¹⁶⁷ They are (a) the promotion of transparency and accountability; (b) the facilitation and promotion of local industry and economic development; and (c) integrity and fairness in the public procurement process.¹⁶⁸

In 2011, the Regulations under the PPDA introduced a system of reservations as a form of targeted preferencing within the procurement framework.¹⁶⁹ These reservations involve setting aside procurement opportunities for competition among a preferred category of firms.¹⁷⁰ These preferred categories of firms include (a) small enterprises; (b) disadvantaged groups (i.e. enterprises by women, youth and persons with disabilities); and (c) local contractors.¹⁷¹

In 2013, the government of Kenya amended the 2011 Regulations to reserve 30 percent of the government's procurement spend for the purposes of procuring goods and services from micro and small enterprises owned by 'women, youth and persons with disabilities'.¹⁷² In order to be eligible for this reservation scheme, the WOB has to be a legal entity that is registered with the government. Further, 70 percent of the membership and 100 percent of the leadership of the qualifying entity has to be women, youth, or persons with disabilities.¹⁷³

Benefits, Challenges and Modifications

Kenya's targeted PPPs have increased the participation of WOSBs within its procurement framework.¹⁷⁴ Further, the establishment of funding and training opportunities for WOSBs has further strengthened their access to procurement markets. For example, funds such as the Uwezo Fund provide WOSBs with grants and interest-free loans as well as mentorship opportunities.¹⁷⁵ The Uwezo Fund was established as part of the government's capacity building programme and is targeted at ensuring that the 30 percent preference reservation begins to 'work' for WOSBs.¹⁷⁶

¹⁶⁵ Aid and International Development Forum, *op. cit.*

¹⁶⁶ *Ibid.*

¹⁶⁷ No. 03 of 2005.

¹⁶⁸ Section 2, Procurement and Disposal (Preference and Reservations) Act No. 03 of 2005.

¹⁶⁹ Public Procurement and Disposal Regulations, 2011, Regulation 29.

¹⁷⁰ *Ibid.*

¹⁷¹ *Ibid.*

¹⁷² Public Procurement and Disposal (Amendment) Regulations, 2013, Regulations 31 & 32

¹⁷³ *Ibid.*

¹⁷⁴ Aid and International Development Forum, *op. cit.*

¹⁷⁵ Uwezo Oversight Board, available at: <http://www.uwezo.go.ke/en/index.php> [accessed on 12 February 2016].

¹⁷⁶ *Ibid.*

Further, the government has also undertaken measures to standardise the tender process and its accompanying documentation.¹⁷⁷ These measures are focused on simplifying the procurement process, reducing information asymmetry, and lowering transaction costs.¹⁷⁸ As such, this process of standardisation increases the ability for WOSBs to access and take advantage of Kenya's PPPs.

¹⁷⁷ Public Procurement and Disposal Regulations, 2011, Regulation 29 (Kenya).

¹⁷⁸ ITC, Empowering women through public procurement, *op. cit.* p. 26.

5. RECOMMENDATIONS FOR PPP DESIGN IN SRI LANKA



Sri Lanka is currently embarking on governance reforms targeted at increasing the transparency, fairness, and economic efficiency of its public procurement systems. In this context, PPPs have the potential to assist the government to meet these objectives. As demonstrated through the comparative study above, PPPs targeting SMEs and WOSBs are well suited to: (a) increase competition in public procurement markets; (b) bring about sustainable and inclusive development; and (c) promote innovation and entrepreneurship.

5.1 CONTEXTUAL BACKGROUND

SMEs in Sri Lanka account for approximately 75 percent of the total number of enterprises, and provide 45 percent of the employment in the country.¹⁷⁹ Additionally, SMEs contribute to 52 percent of Sri Lanka's GDP.¹⁸⁰ As such, the SME sector has been identified as an important strategic sector by the government of Sri Lanka. To this end, the National Policy Framework for SME Development aims to develop a roadmap for Sri Lankan SMEs to be globally competitive, dynamic, innovative and eco-friendly.¹⁸¹ The Policy also recognises SME capability to reduce urban-rural imbalances and facilitate job creation.

According to national accounts data from the Department of Census and Statistics, the North and East have kept pace with economic growth of the country (7 percent). However, the Northern Province lags behind the rest of the provinces in all three main sectors of the economy. Its contribution to GDP is the lowest at 3.6 percent.¹⁸² Further it is the poorest province with a GDP per capita of LKR 338,249 compared to the country average of LKR 495,499.¹⁸³ The Eastern Province has performed marginally better with a contribution of 5.8 percent to GDP and a per capita GDP of LKR 374,365.¹⁸⁴ According to the Household Income and Expenditure Survey 2012/13, mean household income is lowest in the North and East.¹⁸⁵

¹⁷⁹ National Policy Framework for Small Medium Enterprise Development.

¹⁸⁰ *Ibid.*

¹⁸¹ *Ibid.*

¹⁸² Central Bank of Sri Lanka, Press Release (October 2015) available at: http://www.cbsl.gov.lk/pics_n_docs/latest_news/press_20151028eb.pdf [accessed on: 12 February 2016].

¹⁸³ *Ibid.*

¹⁸⁴ *Ibid.*

Female labour force participation in Sri Lanka is low. At present, female labour force participation stands at 35.5 percent.¹⁸⁶ Thus, creating enhanced opportunities for women to enter the labour force is critical to Sri Lanka's economic growth. Further, in the aftermath of Sri Lanka's ethnic conflict, a number of women have emerged as primary caregivers in their households. According to the Ministry of Child Development and Women's Affairs there are 59,501 Women Headed Households (WHH) in the North and East of Sri Lanka. These women often face significant livelihood challenges and income shortages.¹⁸⁷

Therefore, in light of the above, PPPs targeted at SMEs and WOSBs can be utilised to (a) strengthen the strategic interests of government in relation to the SME sector; and (b) reduce the particular vulnerabilities and economic disenfranchisement of disadvantaged groups.

5.2 RECOMMENDATIONS FOR PPP DESIGN

Introducing PPP reforms into Sri Lanka's public procurement framework will require procuring agencies to move beyond considering the purchase price of a good or service, and to embrace the financial and non-financial gains that are offered by socially and environmentally preferable assets.

Against this backdrop, this section will utilise the case studies above, to inform recommendations in relation to PPP design in Sri Lanka. These recommendations will be designed and modified in accordance with Sri Lanka's contextual background and particular vulnerabilities within its SME and WOSB sectors. The recommendations will suggest interventions that should be prioritised from the standpoint of (a) non-targeted PPP assistance; and (b) targeted PPP assistance.

5.2.1 Non-Targeted Assistance

The following recommendations on non-targeted PPPs attempt to remove the barriers to entry that SMEs and WOSBs face when engaging with the different phases of public procurement processes.

Increased Transparency: E-Procurement Platform

Due to the lack of transparency in Sri Lanka's public procurement system, SMEs and WOSBs are obstructed from gathering timely information on tendering requests and procedures. Further, SMEs and WOSBs have limited access to public procurement entities and agents. These information barriers to entry create prohibitively high costs for SMEs and WOSBs when engaging in the public procurement marketplace.

To this end, launching an e-procurement platform for the tendering process can increase efficiency, transparency and cost-effectiveness associated with public procurement. The platform has the potential to narrow the information gap between SMEs and public

¹⁸⁵ Department of Census and Statistics, Household Income and Expenditure Survey (2012 – 2013) available at: http://www.statistics.gov.lk/HIES/HIES2012_13FinalReport.pdf [accessed on: 12 February 2016].

¹⁸⁶ Ministry of Finance and Planning, Labour Force Survey (2014).

¹⁸⁷ FOKUS, Shadow Report to the Human Rights Committee (2014).

procurement agencies. As such, the platform should be accessible free of charge to the general public and include searchable information on (a) tender procedures; (b) requests for proposals; (c) history of awards; and (d) previous contracts.

Further, the e-procurement platform should also have information on tendering authorities, including the contact details of relevant officials. Eventually, the platform should function as an electronic transaction tool where suppliers can submit bids electronically. This electronic gateway will reduce the transaction costs for SMEs and WOSBs during the tendering process.

Streamlining the Tender Qualification Process

Sri Lanka's public procurement procedures are often complex, burdensome and costly. There is currently no overarching national procurement law that governs procurement processes across public institutions. This creates considerable obscurity for suppliers that wish to engage the public procurement marketplace. As such, these obscurities often dissuade SMEs and WOSBs from participating in public procurement. As such, streamlining the tender process is critical to ensuring increased SME participation. Such streamlining can include (a) standardising tender documentation; (b) simplifying pre-qualification procedures; and (c) permitting teaming arrangements.

(a) Standardising Tender Documentation

A number of countries have introduced standardised terms and conditions across public procurement agencies. For example, in South Africa, procurement regulations mandate that its procuring entities use standard bidding documents.¹⁸⁸ This standardisation can result in increased familiarity and certainty for suppliers when engaging with public procurement. As such, it has the potential to increase cost effectiveness (in financial and human terms) for SMEs and WOSBs participating in public procurement processes.

(b) Simplifying Pre-Qualification Procedures

In Sri Lanka, pre-qualification proceedings are used as part of a multi-step procurement process. At these proceedings – prior to being permitted to progress in the tender process - firms are required to demonstrate that they meet the minimum technical, financial, legal and other qualifications for a particular project. Unfortunately, many SMEs and WOSBs are reluctant to participate in this process due to the complexity and onerous nature of pre-qualification requests.

In order to overcome the barriers created by pre-qualification procedures, regulations can be enacted to permit one government procurement entity to utilise the pre-qualification findings of another entity. This process of information sharing will reduce the administrative burden on SMEs and WOSBs in public procurement processes. Further, regulation can also be enacted to restrict the pre-qualification criteria to those that are essential to assess the legal, financial, technical and commercial abilities of the supplier. As such, this 'rationalisation process' will prevent SMEs and WOSBs from being barred from the tender process on ancillary grounds (e.g. not previously contracted by the procuring entity).

¹⁸⁸ Aid and International Development Forum, *op. cit.*

Additionally, the government can create a specialised agency to determine whether SMEs and WOSBs are qualified to perform particular contracts. Similar to the process in the United States of America, suppliers can be certified by an agency that conducts a detailed review of the firm's capabilities to perform a contract. This agency will ensure that SMEs and WOSBs are given a fair opportunity to compete for and receive government contracts.

(c) Permitting and Promoting Teaming Arrangements

At present, in Sri Lanka, government tendering requirements are structured in a manner that requires suppliers to supply large volumes of goods and services. These requirements prevent SMEs and WOSBs from engaging in the public procurement market - as they cannot compete with the stipulated volume of supply. Government agencies can make procurement opportunities more accessible to SMEs and WOSBs by permitting teaming arrangements. This arrangement involves two or more firms tendering together for a procurement contract. As such - in the event the individual SME does not meet the technical and financial qualification requirements of the bid - teaming arrangements will allow SMEs to progress in the tendering process using their collective resources, and may improve the overall competitiveness of the government procurement system.

Sri Lanka could indeed take this idea a step further and provide incentives for prime contractors to include SMEs and WOSBs in their consortiums – such as providing specific points in scoring of proposals for inclusion of SMEs and WOSBs.

Leveraging Financial Incentives for Better Outcomes

Based on implementation and outcome challenges in India, it is critical that PPPs are positioned to advance certain measurable strategic interests of government.

In Sri Lanka, SMEs and WOSBs often face severe credit restrictions that can impede their participation in public procurement markets. As such, establishing credit guarantee schemes can reduce the burdens faced by SMEs and WOSBs when applying for loans and obtaining favourable interest rates. These schemes can be strategically designed to target innovation and increase productivity within Sri Lanka's SME sector.

For example, in Mexico, the government together with the Mexican development bank (NAFIN) established the National Credit Guarantee System.¹⁸⁹ This system substituted collateral with government guarantees – helping to facilitate SME access to bank credit on the grounds that it was utilised for the purposes of modernisation, technological development projects, and environmental improvement.

Further, the government can drive innovation and productivity in the SME sector by leveraging government grants. For example, grants can be awarded to SMEs and WOSBs depending on the project's ability to generate economic impacts that will strengthen the competitive position of their region, sector, or domestic supply base. Additionally, the award of grants should be accompanied with a final evaluation report conducted by the government in order to measure productivity increases (e.g. increases in public

¹⁸⁹ IISD, *Eight Big Ideas from Mexico*, *op. cit.*, p. 16.

procurement contracts, relative percentage increases in jobs, and increases in total productivity).

Enhanced Capacity to Participate

In Sri Lanka, SMEs and WOSBs suppliers suffer from a lack of capacity to participate in public procurement systems. This capacity gap can be addressed through the development of programmes and workshops to improve (a) financial management; (b) start-up preparation; (c) marketing; and (d) compliance with procurement guidelines and purchase processes.

Further, the government can organise 'procurement forums' where suppliers can receive guidance and training on government procurement priorities, and discuss solutions to existing problems. These forums are likely to increase connectivity both amongst SMEs and procurement entities, and between SMEs participating in the procurement marketplace.

Such procurement forums should also address the particular vulnerabilities of WOSBs. These interventions could involve providing additional technical support to WOSBs, such as best cost accounting and financial literacy; and training on how to work with procuring officials and entities.

Government might also organize mentor-protégé programs that include SMEs and WOSBs that pair experienced government contractors with SMEs and WOSBs to assist them in developing their products, skills, business planning practices and marketing techniques.

5.2.2 Targeted Assistance

Modelling Targeted Assistance

Given the minimal participation of SMEs and WOSBs in Sri Lanka's public procurement marketplace, the country can use targeted strategies to encourage the participation of smaller businesses in public procurement. These strategies envision a national policy framework that includes marginalised groups in public procurement through the use of affirmative action policies. To this end, the most common forms of targeted assistance are (a) preference schemes for SMEs; and (b) reservations for SME allocations.

(a) Preference Schemes

Preference schemes involve enacting legislation that grants SMEs a price preference (or other preferential treatment) when competing against larger firms. For example, as demonstrated in the case studies above, this could involve setting a price margin (i.e. 15 percent) that SMEs can benefit from during tender stage. In other words, in the event a bid submitted by a SME is up to 15 percent higher than the lowest bid in the tender, the procuring authority would be mandated to award the SME the contract.

(b) Reservations

Reservations involve setting aside procurement opportunities for certain groups. For instance, this could involve setting aside a minimum threshold (i.e. 20 percent) of public

procurement contracts that have to be awarded to SMEs. Further, drawing on the experience of India, Sri Lanka can consider introducing sub-reservations (i.e. 20 percent of the total reservation for SMEs) within this minimum threshold. These sub-reservations can be targeted at improving the socio-economic status of marginalised groups and regions (e.g. SMEs in the North and East of the country). As such, this strategy is likely to address some of the challenges associated with the country's regional disparity in economic growth. Additionally, given the low labour force participation of women in Sri Lanka, PPPs can include a sub-reservation for WOSBs. This sub reservation is likely to increase female entrepreneurship in the public procurement marketplace.

Building Resilience in Targeted PPPs

Given governance issues in public procurement in Sri Lanka, if targeted PPPs are to meet their objectives, the government will have to put certain implementation safeguards in place. These safeguards include: (a) strategic targeting of goods and services; (b) safeguards against abuse; (c) monitoring mechanisms; and (d) schemes to transfer institutional knowledge.

(a) Strategic Targeting of Goods and Services

In order for PPPs to translate into sustainable economic growth, it is critical that SMEs are able to take advantage of the preferential policy framework. Therefore, applying targeted PPPs to certain types of goods and services (i.e. catering services, fittings, and electronics) may stimulate better integration into the public procurement marketplace. To this end, this specificity in targeted assistance has the potential to better match the supply of goods and services by SMEs to the demand of public procuring agencies.

(b) Avoiding Abuses

Targeted PPPs are often susceptible to abuse, and illicit practices such as fronting. Fronting practices divert resources and undermine these affirmative action policies. Therefore, drawing on the South African experience, it is critical that targeted PPPs in Sri Lanka are accompanied by mechanisms to address and proscribe fronting.¹⁹⁰ For example, these mechanisms can include (a) prosecuting transactions and arrangements that directly undermine targeted PPPs; (b) the right to cancel the contract in the event fronting takes place; and (c) the regular assessment of the status of firms in relation to their composition and codes of good practice.

(c) Monitoring Mechanisms

Monitoring and evaluation of PPPs is necessary to ensure compliance with preferential policies and programmes. PPPs should be regularly assessed on their ability to contribute towards (a) economic growth; (b) a reduction in regional disparities; and (c) increased participation by SMEs and WOSBs in the government supply chain.

This process of regular assessment will ensure that the government is able to measure the progress of PPPs and make adjustments where necessary, thereby enabling a results-based management approach to PPPs.

¹⁹⁰ ¹⁹⁰ IISD, *Eight Big Ideas from Mexico*, *op. cit.*, p. 16.

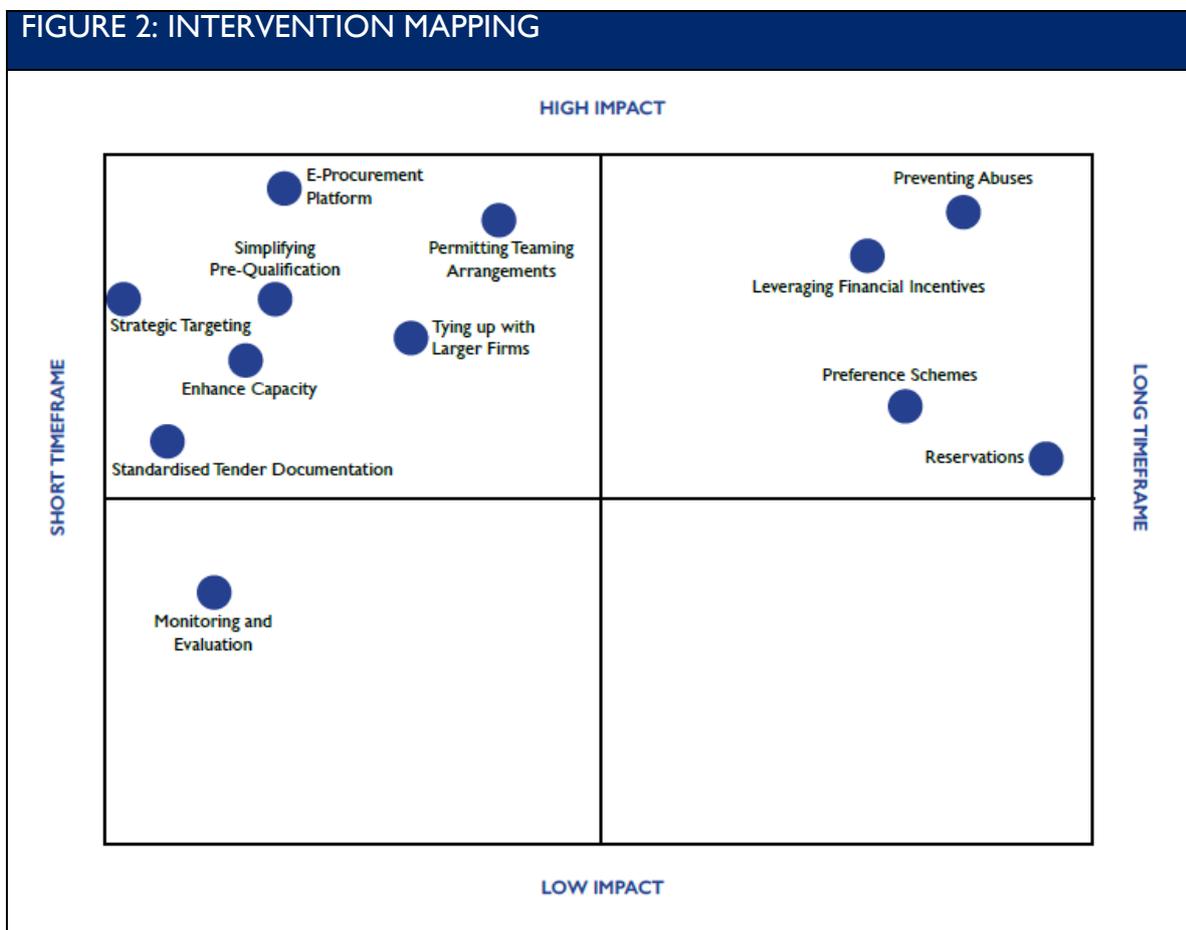
(d) Transfer of Institutional Knowledge

PPPs could also be accompanied with incentives for SMEs to form linkages with larger firms. These linkages could be incentivised by way of preferences being allotted to larger businesses that submit joint bids with SMEs. As such, this process is likely to equip SMEs with increased skills training, business efficacy practices, management techniques, and marketing strategies. Further, these linkages are also likely to increase SME access to and participation in larger procurement contracts.

5.2.3 Intervention Mapping

Instituting effective preferential public procurement policies in Sri Lanka will require a combination of targeted and non-targeted assistance. To this end, the recommendations above will be mapped along two axes. They are: (a) time-frame; and (b) impact. In this context ‘time-frame’ axis computes the estimated duration taken to implement an intervention. For instance, it is anticipated that interventions that require legislative amendments will typically take longer to implement than an intervention that relates to the introduction of an administrative process (e.g. standardised tender documentation). The ‘impact’ axis assesses the gravity of the particular intervention within the public procurement landscape. Thus, interventions that are plotted along this axis are plotted in relation to their ability to meaningfully increase the participation of SMEs and WOSBs in Sri Lanka’s public procurement marketplace.

Figure 7: Intervention Mapping



Therefore, the intervention mapping above presents opportunities for strategic policy-making targeted at transforming preferential public procurement systems. In this context, interventions that *both* have a high impact *and* a short time frame should be prioritised. Interventions that *either* have a high impact *or* a short time frame should be prioritised to a lesser degree. Finally, interventions that have *neither* a high impact *nor* a short time frame should be excluded from preferential public procurement policy interventions.

In this context, it is expected that an e-procurement platform will introduce increased transparency and functionality into Sri Lanka's public procurement processes. This increased transparency will significantly reduce existing costs and difficulties associated with obtaining information on tender bids and specifications. This in turn will have a high impact on SME participation in public procurement. Moreover, at present, the financial and technical threshold for engagement in Sri Lanka's public procurement is high. This results in individual SMEs and WOSBs being unable to match the technical and financial requirements of the tender bids. Consequently, permitting teaming arrangements is likely to increase SME and WOSB participation in public procurement.

Further, SMEs and WOSBs in Sri Lanka lack the management and financial skills required to deliver on public procurement contracts. Therefore, interventions that create opportunities for SMEs to take advantage of skills based training (e.g. through collaborations with larger firms and government training workshops) are likely to bridge this capacity deficit.

SMEs and WOSBs in Sri Lanka face challenges with regard to gaining access to capital. These challenges prevent their ability to compete and participate in public procurement. Therefore, the creation of financial incentives that are offered to SMEs engaging in public procurement is critical to unlock their potential in the market. Pursuant to this, the creation of financial incentives targeted at SMEs in public procurement can be justified notwithstanding the fact that the implementation of such incentives is likely to involve a longer time frame.

As evidenced by the country studies, preference schemes and reservations are often slow to implement, as they require an overhaul of government policy and significant management and technical resources. Further, their impact is often dependent on a favourable operating environment for SME and WOSB participation in public procurement. Against this backdrop, it is recommended that these interventions be phased into the public procurement framework – rather than foregrounding the reform process.