

## THE PUBLIC PROCUREMENT MARKET AS A PLATFORM FOR SME AND NATIONAL ECONOMIC GROWTH

Stephen Seth Normanyo, Joseph Ansah and David Asante

Takoradi Polytechnic, School of Business, P.O. Box 256, Takoradi , Ghana

---

**Abstract:** *Economic development reflects in the social and economic progress of a nation's citizenry and is largely influenced by economic growth depicted by increased employment, improved living standards and subsequent GDP growth. Most governments directly employ only a minute percentage of the citizenry of employable age so see growth of the private business sector particularly SMEs as a catalyst for economic growth. The study focuses on SMEs and the public procurement market because SMEs contribute to local economies, by employing more labour per unit capital than large enterprises and the public procurement market is recognized to be the largest single market in most economies and directly under the influence of governments. Governments facilitating access to the public procurement market is seen as a platform for SME survival and growth as SMEs struggle to survive the business environment and collapse before their tenth year. The study thus seeks to assess the business opportunities in the public procurement market, examine the factors that hinder access to and evaluate interventions that can promote SME access to the market. The researcher adopted a combination of exploratory and descriptive research approaches and purposively sampled sixty based on their eligibility to participate in public procurement and who operate from Takoradi, the third largest commercial city and one of two cities with a sea port in Ghana. Primary data was collected through survey questionnaires, and the data collected was analyzed both quantitatively qualitatively. Success rates in SME participation was observed to be low and mainly attributed to a combination of inherent disadvantages by virtue of their size, unfriendly business environment and unfavourable legislation on public procurement. The researcher recommends SME facilitation in areas such as managerial capacity, access to information on public procurement, clarity of legislation, provision of structured schemes such as set-asides and reduction of the administratively disproportionate legislative requirements. It can be concluded from the study that SME growth is crucial to the growth of an economy and the public procurement market is a potential platform for SME access to business and ultimate growth,*

**KEYWORDS:** Public Procurement Market, Small And Medium Enterprises; Economic Growth; Procurement Policy

---

### INTRODUCTION

Governments are the biggest procurer of goods and services in most countries, making the public procurement market the largest in most countries and governments an attractive client for all businesses desirous to secure contracts in a country. This fact is attested to by Wittig (1999) who writes that the public procurement market is normally the largest in a country and offers the best opportunity for local suppliers to increase their sales through government contracts. Facilitating Small and medium-sized enterprises (SMEs) access to such government procurement has become a matter of great importance to most governments, as SMEs are

increasingly being recognized as productive drivers of economic growth and development for African countries (Schlogl, 2004; Omar, Arokiasamy & Ismail, 2009).

Ferraz, Finan, & Szerman (2016) explain that there is an equally exciting, recent research which points to a "Growth" as well as an "Employment Generation" impact of linking public procurement with SMEs. The focus of this study is on SMEs because of their contribution to local economies, as according to Dalitso Kayanula and Peter Quartey (2000), SMEs mobilise funds which otherwise would have been idle; are labour intensive, employing more labour per unit of capital than large enterprises; promote indigenous technological know-how; use mainly local resources, and are recognised as a seed-bed for indigenous entrepreneurship;

Considering that most SMEs in a number of countries including Ghana are in the informal sector, an opportunity to access the huge public procurement market is considered a stimulus for formalizing their operations. This apart from enabling the government rake in some tax revenue, can also facilitate their development through targeted government interventions which will inure to their growth. Harnessing the benefits of SMEs to an economy is thus key to a nation's growth. This however is hinged to all actions in fostering SME growth to which access to the huge public procurement market is paramount

The public procurement market is considered a key source to SME growth since it is one sector the government can influence, as whereas a government does not have full control over the procurement decisions of private companies, it has the capability of influencing the procurement decisions of its agencies. World Bank report (2016) indicates that winning at least one government contract in a given quarter increases firm growth by 2.2 percentage points over that quarter, with 93% of the new hires coming from either unemployment or the informal sector with the effects persisting well beyond the length of the contracts.

According to Schlogl, (2004) SMEs are known to dominate world economies in terms of employment and number of companies, yet their full potential remains remarkably untapped.

Several studies have shown that due to their size, SMEs (especially micro- and small enterprises) face certain barriers that make it difficult for them to bid for, and win, public contracts.

Recognizing the important role that the public sector plays as a purchaser of goods and services, as well as the critical role of SMEs to an economy, governments including the Ghana government have attempted to use public procurement to incentivize, support and otherwise sustain local SMEs however most of such actions have not yielded the desired results due to lack of appropriate Legal/Regulatory framework to facilitate that and the fact that the various interventions are not concerted. The study thus seeks to explore the challenges SMEs encounter in accessing the public procurement market and suggest recommendations based on best practices in other jurisdictions to enhance SME growth through participation in public procurement.

### **Statement of the problem**

New and growing small businesses are known to drive economic growth by stimulating innovation, create a competitive spur to existing businesses to increase their productivity, make a disproportionate contribution to job creation, generate the majority of new job creation and play an important economic role in many countries (Walker & Preuss 2008; Wright, Peter W.

et al. (2010). SMEs are also often described as efficient and prolific job creators, the seeds of big businesses and the fuel of national economic engines, (Walker & Preuss 2008; Wright, Peter W. et al. (2010). SME development and growth is thus of paramount concern to every economy however there are limited opportunities for SMEs to grow in most economies including Ghana. The public procurement market however, is seen as a conduit to SME growth, as the public procurement market is normally the largest in a country and offers the best opportunity for local suppliers to increase their sales through government contracts (Wittig, 1999). UNIDO/OECD report (2004) also attests to the fact that the volume of public sector procurement of goods and services from third parties offers considerable opportunities for SMEs as government suppliers and that public procurement is one of the critical areas for development of small and medium business.

SMEs however have limited market access to public procurement due to bottlenecks such as finance, lack of managerial skills, equipment and technology and regulatory issues (Anheier and Seibel, 1987; Steel and Webster, 1991; Aryeetey *et al*, 1994; Gockel and Akoena, 2000) that affect their ability to realize their full potential. Development strategies advocated for and implemented in most developing countries are often skewed towards the needs of large-scale business, including foreign invested ones (Ferraz et al, 2016). For small suppliers, winning a share of this market could be transformational for their business, a situation which most governments can influence by influencing the decisions of its agencies through legislation and/or directives.

Ferraz et al (2016) writes that developing "facilitation mechanisms" which target SMEs in public sector procurement could provide support and that making procurement policy more market-friendly could enhance SME growth than the many interest subsidy systems which Governments promulgate in support of their SME sectors. The study thus seeks to identify bottlenecks that make the procurement market an unfriendly terrain to SMEs and to identify best practice facilitating mechanisms that can enhance SMEs access to the huge public procurement market.

## Objectives

The primary objective of the study is to assess growth potential in the public procurement market for SMEs but in achieving this, the following specific objectives will have to be considered;

- a) Assessment of the contributions of SMEs to economic growth
- b) Assessment of the public procurement market and the business opportunities therein for SMEs.
- c) Examination of the factors that hinder SMEs from taking advantage of the opportunities in the public procurement market
- d) Evaluation of interventions that can promote SME access to public procurement and growth

## LITERATURE REVIEW

### Characteristics of SMEs

Definition of SMEs varies by country, and also by criteria, the most popular criteria being by the size of the business in terms of number of employees, turnover, profitability, net worth, value of sales and/or value of assets by industry and by market, Bolton Committee (1971) Hatten (2011) (Lee-Ross and Lashley 2009), Stokes & Wilson (2010), (Ayyagari, Beck and Demirgüç-Kunt (2003).

There are a number of critiques to the various definitions based on the criteria mentioned earlier. Storey (1994), compares the size criteria to the sector and explains that definitions which employ measures of size in terms of number of employees, turnover, profitability, net worth, etc. when applied to one sector could lead to all firms being classified as small, while the same size definition when applied to a different sector could lead to a different result. The snag with the use of fixed assets as a criteria for classification of SMEs is in the process of valuing fixed assets which is considered a challenge on the backdrop of continuous depreciation of the local currency against major trading currencies (Kayanula and Quartey, 2000). Hatten's (2011) definition also highlights the differences in size based criteria relative to the type of industry, thus the size denoted for construction would be different for manufacturing, mining, transportation, wholesale trade, retail trade, and services. The Bolton committee report (1971) recognizes the size criteria, but in terms of relativity of the market, since a business of a certain size in a big market in a certain sector can be considered small, while a business of similar size in a small market in any particular sector of the business can be medium or large.

The National Board for Small Scale Industries (NBSSI - 1990) in Ghana applies both the fixed asset and number of employees criteria. The Ghana Enterprise Development Commission (GEDC), on the other hand, uses a 10 million Ghanaian cedis upper limit definition for plant and machinery while Osei *et al* (1993) classified small-scale enterprises into three categories, namely micro as employing less than six (6) people, very small as employing six to nine (6-9) people; small as employing between ten (10) and twenty-nine (29) employees.

This study however situates the definition of SMEs in the Ghanaian context in terms of size of employee and thus considers SMEs to encompass firms in the following three categories; micro as employing less than six people, very small as employing six to nine people; small as employing between ten and twenty-nine employees

A salient characteristic of SMEs is that irrespective of the level of development of an economy, a significant proportion of micro and, sometimes, small enterprises are found in the informal sector or the shadow economy. (OECD conference, 2004).

### SMEs and economic growth

Economic growth as an increase in the capacity of an economy to produce goods and services, compared from one period of time to another and can be measured in nominal terms which include inflation, or in real terms, which are adjusted for inflation. Gross Domestic Product (GDP) or Gross National Product (GNP) per capita which takes into account population differences between countries is used to measure and compare one country's economic growth to another. (<http://www.slideshare.net/egfred/indicators-of-economic-development-2908463>)

Hart, M. *et al.* (2011), indicates that economic growth raises income levels and improves living standards, a situation enhanced by job creation which new and growing small businesses fuel. Economic development is a broader concept than economic growth and reflects social and economic progress which requires economic growth. Economic growth is thus a vital and necessary condition for development.

According to Wright, Peter W. *et al.* (2010) new and growing small businesses drive economic growth by stimulating innovation, by creating a competitive spur to existing businesses to increase their productivity and by making a disproportionate contribution to job creation and generate the majority of new job creation. Paul Vandenberg (2005) backs this by indicating that SMEs, including those in the informal economy, do contribute substantially to GDP and employment and a large portion of the poor operate or work for micro and small enterprises as well.

Empirical studies also show that new firms play a significant role in employment generation (Garikai 2011, Baptista *et al.*, 2005; Stel & Suddle, 2005), innovation (Fritsch & Mueller, 2005), economic growth and reduction of unemployment (Garikai, 2011) and also that there is a high correlation between the degree of poverty, hunger, unemployment, economic well-being/standard of living of the citizens of countries and the degree of vibrancy of the respective country's SMEs. Studies by Ayyagari, Beck and Demirgüç-Kunt (2003) also point to the fact that SMEs and informal enterprises, account for over 60% of GDP and over 70% of total employment in low-income countries, while they contribute over 95% of total employment and about 70% of GDP in middle-income countries and contribute to over 55% of GDP and over 65% of total employment in high-income countries and that these countries are also taking initiative to bring as many informal enterprises as possible into the formal sector.

Other studies by Peter Quartey & Joshua Abor (2010) show that SMEs contribute to a country's national product by either manufacturing goods of value, or through the provision of services to both consumers and/or other enterprises and in the particular situation of Ghana, SMEs represent about 92% of Ghanaian businesses and contribute about 70% to Ghana's GDP and over 80% to employment.

There is overwhelming evidence of the role SMEs play in other national economies. India government report (2007) for instance indicates that Micro and Small Enterprises (MSEs) sector accounts for about 39% of the manufacturing output and around 33% of the total export of the country. It is estimated that in terms of value, the Micro, Small and Medium Enterprise (MSME) sector in India accounts for about 45% of the manufacturing output and around 40% of the total export of the country.

Beck, T., Demirguc-Kunt, A. and Levine, R. (2005).) on their tests for the impact of the size of the SME sector on economic growth, poverty and income inequality conclude that the size of the SME sector is positively correlated with economic growth, while Hart, M. *et al.* (2011) sums it all up by explaining that of jobs created each year between 1998 and 2010, small firms and start-ups created around two-thirds

In low-income countries, especially in the least developed economies, the contribution of SMEs to employment and GDP is less than that of the informal sector, where the great majority of the poorest of the poor make a subsistence level of living. Therefore, an important policy priority in developing countries is to reform the policies that divide the informal and formal



sectors, so as to enable the poor to participate in markets and to engage in higher value added business activities. Ayyagari, *et al* (2003)

### **SME Growth**

Will Bartlett & Vladimir Bukvić (2001), explain that much of the economic theory of the growth of small firms has been concerned with the relationship between growth and firm size, that the conventional wisdom in economic theory has long held that, due to economies of scale and scope, the growth of firms is positively related to their size. Large firms were typically expected to have advantages over small firms and so grow more rapidly.

Growth of SMEs in an economy is paramount, as according to Rona-Tas (1997) the small and medium sized sector will need to expand and grow to generate enough jobs to absorb those laid off as well as providing jobs for the new entrants to the labour market.

Growth of SMEs however is always a challenge and Acs & Audretsch, (1993) posit that in many transition economies, especially in south East Europe, the small firm sector has not grown sufficiently rapidly to prevent unemployment from rising, nor has it fulfilled its potential as an engine of growth. Schiffer & Weder (2001; Beck *et al.* (2005b) write that there is good recent evidence that SMEs face a more difficult business environment than large enterprises, a fact no different from the situation in Ghana.

The OECD (2004) conference paper “*Promoting Entrepreneurship and innovative SMEs in a Global Economy*” says it all in what hinders SME growth and what it takes to remedy it, that improving SME competitiveness requires policies that act on the economic, political and social institutions within the country, on the resulting markets and on the organizations that regulate, stabilize and legitimize these markets. As such, an SME development strategy has to bring to the forefront the challenges that SMEs face due to size effects and address the deficiencies in institutional and organizational structures, with a view to enhance SME competitiveness.

### **Challenges to SME growth**

Will Bartlett & Vladimir Bukvić (2001), (Storey 1994), explain that Challenges to SME growth range from institutional barriers such as the legislative framework, financial barriers, including availability and cost of capital and finance, internal organisational barriers like managerial capacity and capability, social barriers such as support, or lack of it, from local actors and agencies. There is also the natural tendency of government procurers to be risk averse when dealing with SMEs and as a result prefer financial or experience requirements which may be stringent and automatically exclude newer and financially weaker SMEs. The tendency to reduce work load, may also be a motivation to play out SMEs by applying stringent qualification requirements. Caroline Perry (2011)

The common notion is that smaller firms have less internal capacity to cope with the legal, administrative and regulatory requirements imposed by governments. They lack the personnel, accounting and legal expertise that large enterprises maintain in-house. They have less time to obtain the required information. Size-specific reforms may be needed to help them handle these requirements. (Paul Vandenberg (2005)

According to Meyer-Stamer, Jörg and Frank Waltering (2000), although domestic SMEs and the informal sector constituted most of what could be and what are still deemed as “the private”

business activity in most developing countries, private sector development strategies advocated for and implemented in these countries are skewed towards the needs of large-scale business, including foreign invested ones.

## **THE PUBLIC PROCUREMENT MARKET AND SME PARTICIPATION**

According to Wittig (1999), the public procurement market is normally the largest in a country and offers the best opportunity for local suppliers to increase their sales through government contracts. Chêne, M., (2009) also writes that Public procurement constitutes over 50 percent of Government budgets besides the cost of government wage bill, accounts for the largest share of government expenditure and is a major activity of government that generates important financial resources and makes the state one of the largest economic actors in many developing countries.

In developing countries, it is estimated that US\$820 billion a year is spent on public procurement, accounting for an estimated 15-20% of the gross domestic product (GDP) and up to 50% or more of total government expenditure on procuring goods and services (Basheka & Bisangabasaija, 2010). World Bank Group (2015) report also indicates that in fragile states, public procurement can account for up to 60-70% of all government expenditure with expenditures of 70% in Sierra Leone and Uganda, 65.9% in Swaziland (Basheka & Bisangabasaija, 2010), 60% in Kenya (Akech, 2005), 58% in Angola, 40% in Malawi and Vietnam (OECD 2006b), and 70% in Ghana (Adjei, 2006).

Earlier studies by the World Bank (2003), indicate that the annual value of public procurement in Ghana for goods, works, and consultancy services which is often on programs run by Ministries, Departments, Agencies (MDAs) and District Assemblies (DAs), Public Hospitals, Universities, Schools is about US\$600 million and 14% of Ghana's GDP. Also according to Adjei (2005), in Ghana, public procurement represented about 24% of total imports and apart from personal emoluments, public procurement represented 50-70% of the national budget and 14% of Gross Domestic Product (GDP).

Potential benefits of SME participation in government procurement is explained by G. Piga, (2011) (EIM, 2004), to include greater employment, as SMEs are more labor-intensive compared to larger firms and have a disproportionately positive impact on local economies through repeated cycles of localized expenditure. They also write that with SME participation in public procurement, competition is also varied through use of targeted assistance, including "set asides" and/or bid price preferences which decreases the influence of established networks of larger firms that may exclude SMEs through collusive or corrupt bidding practices or otherwise.

According to the Asian Development Bank report (2012), developing a more SME-friendly approach to public procurement means SMEs can maximize their potential for job creation, growth and innovation. The report further purports and is collaborated by Vincze (2010), that improved access by increasing involvement of SMEs in public procurement schemes can, if properly designed, result in higher competition for public contracts, leading to better value for money and efficiencies for contracting authorities. However these potentials and associated benefits of SMEs are hindered by a number of challenges.

### **Challenges in SME participation in public procurement**

According to Walker & Preuss (2008), SMEs play an important economic role in many industrial countries and their limited market access in public procurement is a recognized issue. Rutherford & Weller, (2002), Procurement Innovation Group (2009) report, all explain that many potential suppliers including SMEs, may be discouraged from tendering for public sector contracts because of a number of perceived or real barriers which range from too high administrative burdens, high qualification levels and required certification to not being aware of contract opportunities; believing that the processes involved in bidding are unnecessarily complex and costly; current trends in public sector procurement are towards larger and longer contracts; rationalization of the number of suppliers meaning that smaller businesses often find the resulting contracts too large for them; and overly restrictive selection criteria. Wanjohi (2012), also adds that lack of access to credit is almost universally indicated as a key problem for SME's.

There is also evidence that SMEs who bid for public procurement contracts do not always get through the initial selection stage because public sector purchasers sometimes perceive a risk of contracting with small and micro businesses and social enterprises (Afande, 2015). Poor SME success in public procurement is also attributed to pressures on the resources of awarding authorities that lead to preferences for larger contracts that are likely to favour larger and more experienced tenderers (Procurement Innovation Group, 2009).

Vandenberg (2005) highlights three major sources of challenges SMEs encounter in accessing public procurement the first being inherent in the very nature of SMEs, such as inadequate capacity, lack of entrepreneurial skills and more importantly their size, which he refers to as natural disadvantage. The second set of challenges are those induced by the business environment such as access to capital, lack of access to high quality and affordable business development services, lack of adequate technical and management support services, limited access to information on market opportunities which he refers to as created disadvantage. The third and final source of challenges are those inherent in government/local government policies which have not arisen naturally but has been created through the intended or unintended actions of policymakers, lawmakers and lobby groups etc.

Various studies by Rwingema and Karungu, (1999), Bigsten *et al.*, (2000), Abor and Biekpe (2006, 2007); Quartey, (2002) on SMEs all indicate lack of funds as a major constraint in establishing or expanding their businesses.

#### ***Procurement policy related challenges***

SMEs in Ghana apart from being confronted with the peculiar challenges of most SMEs in terms of facilitation, also face the additional problem of unsupportive legislation on public procurement. The procurement policy of Ghana is considered administratively disproportionate as it does not take the peculiar characteristics of size, capacity, experience, and financial resources of the SMEs into consideration. The qualification criteria in Section 22 (1) (a) of the Ghana procurement law (Act 663) for instance specifies the possession of professional and technical qualifications and competence, financial resources; equipment and other physical facilities; managerial capability, reliability, experience in the procurement object and reputation; and the personnel to perform the procurement contract; This provision, does not make any clear distinction on how the qualification criteria should apply to the different



categories of tenderers ie; SMEs and Large businesses, thus they are applied subjectively and have been a source of barrier to SMEs participation.

The nearest the Ghanaian Law has come in facilitating SME participation in public procurement is in section 60 (3) on margin of preference which provides that a procurement entity may grant a margin of preference for the benefit of tenders for work by domestic contractors. Though this provision seeks to give preference to domestic contractors, it does not categorically mention SMEs, hence it applies to all categories of domestic contractors. The procurement law of Ghana is thus considered to be administratively disproportionate as it does not take the peculiar characteristics of size, capacity, experience, and financial resources of the SMEs among others into consideration

### **Interventions to promote SME participation in public procurement**

A World Bank (2015) report indicates that suppliers' access to the public procurement market is naturally contingent on their awareness of procurement opportunities a fact complemented by Matovu and Obura (2011) who also add that SMEs need to have access to adequate information to enhance productivity and to facilitate market access.

Interventions can be viewed in terms of;

- Legislative (Procurement Law) provisions
- Non legislative facilitation

### **SME access through legislative provisions**

Evidence from Beck *et al.* (2005b) suggests that the small firms are more severely affected by a weak or underdeveloped legal system. Ferraz et al (2016) explain that linking public procurement and SMEs through public policy would be an important start, considering that some developing countries don't even provide preferential SME access to government.

According to Ayyagari, Beck and Demirgüç-Kunt (2003), an important policy priority in developing countries is to reform the policies that divide the informal and formal sectors, so as to enable the poor to participate in markets and to engage in higher value added business activities. Source: Ayyagari, Beck and Demirgüç-Kunt (2003)

According to David Smallbone & Friederike Welter (2001) government can influence the nature and pace of SME growth through the differential impact of government legislation on firms of different sizes. Caroline Perry (2011), also indicates that the approaches to support SME access to public procurement opportunities in various jurisdictions are in the areas of simplifying the procurement process and making it accessible to SMEs who may not have the capacity or experience to bid for large contracts with demanding qualification criteria through provisions in legislation. Such legislative provisions for SME Development according to ADB report (2012) could be structured schemes such as procurement set asides (quotas) in favor of SMEs. With set-asides a certain quota, a percentage of designated government procurement contracts or total spending is reserved or 'set aside' for a targeted category of bidders that meet the preferential qualification criteria, such as SME status and there is a segregation of competition as targeted firms, i.e. SMEs, can only compete against each other.

Set asides have been used in many jurisdictions irrespective of level of development such as in the United States of America, republic of China, South Africa and India with quotas ranging from as little as 6% to as high as 60% of annual budget on procurement. ADB (2012)

Interventions according to Caroline Perry (2011) could be provisions in legislation which give access to frameworks, by reflecting various sizes of contracts and opportunities and using proportionate selection criteria; dividing contracts into lots which according to research in the EU increases the probability of SMEs winning contracts; setting proportionate requirements around qualification levels and finances in relation to the size and subject matter of the contract; encouraging collaboration and joint ventures between SMEs and between SMEs and larger organisations.

*EU Public Procurement Directives 15* allows an economic operator to rely on economic and financial capacities and on technical abilities of other companies, regardless of the legal nature of the links which it has with them, in order to prove that it complies with the level of capacities or abilities required by the contracting authority.

### ***SME access through Non-legislative facilitation***

Beck *et al.* (2005b) suggests facilitation bureaux could help SMEs access finance, understand government contracting processes, support the development of SME networks, connect prime contractors with SME sub-contractors, or facilitate joint ventures involving SMEs. Perry (2011), also suggests that facilitation could be through the reduction of administrative burdens by keeping administrative requirements to a minimum, since SMEs do not have specialised administrative capacities. That prospective tenderers should be allowed to securely register administrative information through the eTenders website. Contracting authorities when evaluating a proposal could easily access this information. This according to Perry (2011), will reduce the requirement to supply the same information to various organisations across the public sector, when bidding for contracts. Obanda (2011), also suggests easy access to all relevant information on business opportunities in public procurement as of key importance to SME participation.

Cook and Nixon (2000) observe that SME development is always constrained by the limited availability of financial resources to meet a variety of operational and investment needs and Choi Jeong-Wook (2010) reveals that ensuring timely payments could go a long way to alleviate the financial burden of SMEs.

## **METHODOLOGY**

The descriptive survey approach was used for the study due to its peculiar characteristics of enabling the collection of data to answer research questions concerning prevailing state of subjects under investigation, (Yieri, 2006) and the opportunity it offers to describe a given state of affairs as fully and as carefully as possible (Fraenkel, 2000).

The researcher purposively sampled SMEs who are eligible to participate and have participated in public procurement processes before in the Sekondi/Takoradi Metropolis.

Sekondi/Takoradi Metropolis was chosen because it has a large concentration of SMEs, being the third largest commercial city in Ghana, with one of the two sea ports of the country and the center of the oil industry in Ghana.

Questionnaires which sort to examine the factors that hinder SMEs taking advantage of the public procurement market were the main data collection instruments for obtaining the primary data for the study.

A mix of the qualitative nor quantitative methods was employed in analyzing data, since both the approaches complement each other if combined to capture the details of a situation (Creswell, Fetters and Invankova (2004:7). Collected data is summarized quantitatively using descriptive statistics tools, particularly tables and qualitatively by establishing relationships from the information gathered.

## DATA PRESENTATION AND ANALYSIS

**Table 1: Number of years of operation** *Source: Author's field survey 2016*

Number of years	Frequency	Percentage (%)
Under 2 years	10	16.67
2 – 5 years	24	40
5 – 10 years	16	26.67
Over 10 years	10	16.67
<b>Total</b>	<b>60</b>	<b>100</b>

From the table 16.67% of SMEs have been in operation for under 2 years, a larger percentage of 40% had been in operation for between 2-5years, 26.67% in operation between 5-10 years and 16.67% in operation for over 10 years. Summing up, the majority, 66.67% of the SMEs have been in operation for between 2-10 years with only 16.67% being in operation for over 10years.

**Table 2: SME Participation in public procurement**

Response	No. of times of participation		Bids won to total participation	
	Frequency	Percentage (%)	Frequency	Percentage (%)
Under 5	16	26.67	14	23.33
6 - 10	24	40	8	13.33

11 – 15	14	23.33	4	6.67
Over 15	6	10	4	6.67
None	-	-	30	50
<b>Total</b>	<b>60</b>	<b>100</b>	<b>60</b>	<b>100</b>

*Source: Author's field survey 2016*

All sixty (60) SMEs have participated in public procurement at one time or the other though not in every public procurement opportunity. This makes them ideal candidates to provide the required information without bias for this study.

Of the total number of sixty (60) SMEs, 50% have never won any public procurement contract, however only 23.33% had won a maximum of five (5) contracts. As low as 13.33% had won between 6 -10 contracts and even a lower percentage of 6.67% had won over 11 contracts. The results indicate a very low success rate of SME participation in public procurement.

**Table 3: Reasons for failure to win bids**

Response	Agree		Uncertain		Disagree		Total (%)
	Fre q.	%	Fre q.	%	Fre q.	%	
Unequal competitive platform	52	86.67	4	6.67	4	6.67	100
Poor resource capability	54	90	2	3.33	5	8.33	100
Lack of capacity	44	73.33	4	6.67	12	20	100
Unfavourable legal provisions	46	76.67	4	6.67	10	16.67	100
Poor bids	52	86.67	-	-	8	13.33	100

*Source: Author's field study 2016*

Investigating the reasons for failure was a follow up to ascertain the low success rate of SMEs in public procurement processes. A greater majority of SMEs, 86.67%, 90%, 73.33%, 76.67% respectively attributed the failure to win bids to unequal competitive platform, poor resource capability, lack of capacity, unfavourable legal provisions and poor bids in that order. The proportions of SMEs that disagree to each of these assertions was quite insignificant. The findings confirm that SMEs have limited market access to public procurement contracts due to bottlenecks ranging from their inherent size related constraints, the business environment and unfavourable legislation in line with Vandenberg (2005) causes of challenges for SME participation in public procurement.

**Table 4: Challenges in accessing public procurement market**

Response	Agree		Uncertain		Disagree		Total (%)
	Freq.	%	Freq.	%	Freq.	%	
Procurement procedures are cumbersome	42	70	6	10	12	20	100
Tendering processes are expensive	44	73.33	6	10	10	16.67	100
Qualification criteria do not take size of SMEs into consideration	52	86.67	4	6.67	8	13.33	100
Preferences are not specific to SMEs	60	100	0	0	0	0	100
Fear of locking up investment due to delayed payment	50	83.33	2	3.33	10	16.67	100
Contract values often high and beyond financial capability	44	80	0	3.33	16	16.67	100
Limited access to finance	32	73.33	0	0	28	26.67	100
Limited access to information on procurement opportunities	46	53.33	0	0	14	46.67	100
Inadequate development assistance		76.67				23.33	

Source: Author's field survey 2016

These questions were posed as it was evident SMEs were not likely to participate in every public procurement process and there is the need to understand the underlying reasons for non-participation. On cumbersome procedures being the reason for non-participation, 10% were uncertain and the remaining 20% disagreed. However 70%, 73.33%, 86.67%, 100%, 83.33%, 80%, 73.33%, and 76.67% SMEs respectively all agreed to cumbersome procedures, expensive tendering process, unfair qualification criteria, inadequate preferences, delayed payment, high contract values, access to finances, inadequate development assistance as the major challenges in participation respectively. The high percentage of SMEs agreeing to these causes being the reason for challenges in non-participation confirms why only 66.67% have bid for between only one to ten public procurement contracts. The 20% disagreement to cumbersomeness of the procedures is quite understandable as a section of the SMEs have been



in existence for over five years, are regular participants and have gathered some experience with frequent participation. On the contrary, a comparatively lower percentage of 53.33% indicated access to information as the challenge, meaning strides in ensuring access to information are working.

## **FINDINGS AND DISCUSSIONS**

### **Years of operation**

There is an apparent average lifespan of about 5-10 years for SMEs studied, with very few probably graduating into large enterprises, an attestation of Acs & Audretsch, (1993) findings that in many economies, the small firm sector has not grown sufficiently rapidly and also as explained by Ofunya Afande (2015) that SMEs tend to have high mortality rates which makes it difficult for them to graduate into medium and large-scale enterprises.

### **Level of SME participation/reasons for failure**

There is a very low participation and also low success rate of SME participation in public procurement and reasons attributed for the low rate such as inadequate capacity, lack of entrepreneurial skills and more importantly size constraints are seen to be imbedded in the very nature of SMEs, and indeed a natural disadvantage. (Vandenberg, 2005)

The low success rate is also attributed to lack of access to capital, high quality and affordable business development services, technical and management support services, and limited access to information on market opportunities, a situation induced by the business environment SMEs operate in Vandenberg (2005). Lack of capital is a significant source of hindrance to SME participation in public procurement, a problem recognized to cut across nations, developed and developing alike a confirmation of Wanjohi (2012) assertion.

Other reasons assigned for the low participation and low success rate are inadequate legal/administrative provisions, disproportionate qualification criteria, capacity and resources requirements and poor bids which confirms Anheier and Seibel, (1987); Steel and Webster, (1991); Aryeetey *et al*, (1994); Gockel and Akoena, (2002) assertions on challenges in SME participation in public procurement.

## **RECOMMENDATIONS**

Linking public procurement and SMEs through public policy would be an important start, to enhancing SME growth as suggested by Ferraz et al (2016). It is a recognised fact that government does not have full control over the procurement decisions of private companies, however, it has the capability of influencing the procurement decisions of its agencies, thus comprehensive legislation or directives targeting SMEs such as well-defined preferences and set-asides, reducing demanding qualification criteria can facilitate access to the substantial government expenditure, foster the growth of SMEs, boost local economic activities and above all achieve the objective of promoting local industries.

Government can also influence the nature and pace of SME growth through the differential impact of government legislation on firms of different sizes to limit the leverage large business have over SMEs by virtue of size. David Smallbone & Friederike Welter (2001)

Simplification of the procurement process by keeping administrative requirements to a minimum such as allowing SMEs to securely register administrative information on website so they do not have to provide the same information to various organisations across the public sector, when bidding for contracts anytime they tender but rather contracting authorities when evaluating a proposal could easily access this information . Caroline Perry (2011).

Establishment of facilitation bureaus to help SMEs access finance, understand government contracting processes, support the development of SME networks, connect prime contractors with SME sub-contractors, or facilitate joint ventures involving SMEs. Beck *et al.* (2005b) could.

## CONCLUSION

SMEs have limited market access to public procurement due to a combination of inherent shortcomings related to their size such as lack of managerial skills, equipment and technology, created disadvantages from access to capital, due to the unfavourable business environment and inadequate or administratively disproportionate regulatory provisions which unfairly pitch SMEs against large businesses and affect their ability to compete effectively and realize their full potential. Anheier and Seibel, 1987; Steel and Webster, 1991; Aryeetey *et al.*, 1994; Gockel and Akoena, 2000)

Development strategies to enhance SME capabilities are often not adequate in facilitating SME participation in public procurement because they are improperly targeted and confirms Ferraz *et al.*, (2016) assertion that policies may often rather be skewed towards the needs of large-scale business.

Clarity in procurement policies is essential in achieving the desired impact as without clarity, preferences for instance may unintendedly be biased towards large firms as evident from the preferences clauses in section 60 (3) of the Ghana Procurement Act 663 of 2003.

Structured schemes such as procurement set asides are more effective in fostering SME participation in public procurement as they segregate competition and enable targeted firms, such as SMEs, compete only against each other.

Favourable legislative provisions and facilitation through capacity development alone may not be adequate in fostering SME participation unless coupled with easy access to relevant information on business opportunities in public procurement.

Although the public procurement market is a potential platform for SME access to business and ultimate growth, access to the market is a challenge for most SMEs.

SME growth is crucial to the growth of an economy in view of their enormous contribution to employment and GDP growth, thus to foster economic growth it is important to grow SMEs.

**REFERENCES**

- Abor, J. and N. Biekpe, 2006. "SMEs' Access to Debt Finance: A Comparison of Male-Owned and Female-Owned Businesses in Ghana", *International Journal of Entrepreneurship and Innovation*, 7(2), pp. 105-112.
- Acs, Z. J., Audretsch, D. B. (eds.) (1993) *Small Firms and Entrepreneurship: An East-West Perspective*, Cambridge: Cambridge University Press.
- African Development Bank and African Development Fund. (2014). *Innovations in Public Procurement: Comprehensive Review of the AFDB's Procurement Policies and Procedures*. Retrieved from <http://www.afdb.org/procurementreview>
- Asian Development Bank, (2012) *SME Development Government Procurement and Inclusive Growth*, [www.adb.org](http://www.adb.org)
- Ayyagari, M. (2007), *Small and medium enterprises across the globe*, New Delhi: Wishwa Prakashan Publishers.
- Ayyagari, M., Beck, T. and Demirguc-Kunt, A. (2003). *Small and medium enterprises across the globe: A new database*, World Bank Policy Research ( p. 27-28.)
- Asian Development Bank (2012) *Small and Medium Enterprise Finance Market in India* Publication Stock No. ARM125221-3 [www.adb.org](http://www.adb.org)
- Baptista, R., Escaria, V., & Madruga, P. (2005). *Entrepreneurship, Regional Development and Job Creation: Case for Portugal*. Discussion papers on Entrepreneurship, Growth and Public Policy
- Beck, T., Demirguc-Kunt, A. and Levine, R. (2005). *SMEs, growth and poverty*, *Journal of Economic Growth*, 10(3), pp. 197-227
- Bigsten, A., P. Collier, S. Dercon, M. Fafchamps, B. Guthier, J. W. Gunning, M. Soderbom, A.
- Oduro, R. Oostendorp, C. Patillo, F. Teal, A. Zeufack, (2000). *Credit Constraints in Manufacturing Enterprises in Africa*, Working Paper WPS/2000. Centre for the study of African Economies, Oxford University, Oxford.
- Bolton Report (The) (1971) *Small Firms*, Report of the Committee of Inquiry on Small Firms, HMSO, London.
- Capacity Development Centre (2012), *Empowering SMEs in Ghana for Global Competitiveness*.  
<http://www.modernghana.com/news/407750/0/empowering-smes-in-ghana-for-global-competitiveness>.
- Caroline Perry (2011) "Supporting SME access to public procurement opportunities", Northern Ireland Assembly Research and Information Service Research Paper
- Chandra and Parashar (2005), *Policy environment*
- Choi Jeong-Wook. (2010). *A study of the role public procurement – can public procurement make a society better?* The International Public Procurement Conference, Seoul, South Korea.
- Dalitso Kayanula and Peter Quartey (2000), *The policy environment for promoting Small and Medium-Sized Enterprises in Ghana and Malawi*, Finance and development research programme working paper series Paper No 15
- David Smallbone & Friederike Welter (2001), *The role of government in SME development in Transition economies*
- Hart, M. *et al.* (2011), *Job Creation and Destruction in the UK: 1998–2010*, Department for Business Innovation & Skills, Economics & Strategy Group Aston Business School  
(Source: *Development as Freedom*, Amartya Sen: 2001, Oxford University Press)

- Joshua Abor & Peter Quartey (2010) Issues in SME Development in Ghana and South Africa  
*International Research Journal of Finance and Economics* ISSN 1450-2887 Issue 39 (2010)
- Martin Portilla (14 May 2014) <https://prezi.com/7llcym7mjop2/development/>: Accessed April 2016
- NBSSI (1990), Supporting Micro & Small Scale Enterprises. A handbook on Enterprise Development Part 1. NBSSI, Print Solutions, Accra.
- OECD (2004), Conference, Promoting Entrepreneurship and innovative SMEs in a Global Economy, Istanbul Turkey
- Obanda W. (2011). "Small and medium enterprises (SMEs) and public procurement contract in developing countries". Kampala: Longhorn publishers.
- Organisation for Economic Co-operation and Development (OECD). 1997. "Regulatory Impact Analysis: Best Practices in OECD Countries" (Paris)
- Piga G. (October 2011), "Procurement and Preferences," *ADB Research*
- Procurement Innovation Group. (2010). Using public procurement to stimulate innovation and SME access to public contracts. Department of Enterprise, Trade and Employment.
- Puddephatt, A. & Kaspar, L. (2012). Benefits of Transparency in Public Procurement for SMEs. London: Harper Collins Publishers.
- Republic of Ghana (2003), "Public Procurement Act 663". Accra Ghana Publishing Corporation
- Vandenberg, P. (2005), The relevance of Firms when reforming the business environment", Background Paper for the Committee of Donor Agencies for Small Enterprise.
- Vandenberg, Paul (2005). Poverty reduction through small enterprise development: SEED Working Paper, (Geneva: ILO).
- Vandenberg Paul (2005), Reforming the Working Group, Business Environment: Committee of Donor Agencies from assessing problems for Small Enterprise to measuring results, Development Cairo, Egypt (CDASED) A background paper (Vandenberg Consulting) for the international conference for the Business Environment 29 Nov.–1 Dec. 2005
- Quartey, P. 2002. "Financing Small and Medium-sized Enterprises in Ghana", *Journal of African Business*, 4, pp. 37-56.
- Scarpetta, S. *et al.* (2002), The Role of Policy and Institutions for Productivity and Firm Dynamics: Evidence from Micro and Industry Data, *OECD Economics Department Working Papers*, No. 329, OECD Publishing. <http://dx.doi.org/10.1787/547061627526>
- Yolanda Tayler, Simon Bell, (2016), *Government Procurement- A path to SME growth* World Bank
- Will Bartlett & Vladimir Bukvić (2001) Barriers to SME Growth in Slovenia, *MOCTMOST* 11: 177-195, 2001.
- Wittig W.A. "Public Procurement and the Development Agenda", International trade center, [Wittig@intracen.org](mailto:Wittig@intracen.org)
- Wittig, W. A. (1999). "Building Value through Public Procurement: A Focus on Africa". Durban: 9th International Anti-Corruption Conference.
- World Bank Group. 2016. "Benchmarking Public Procurement 2016: Assessing Public Procurement Systems in 77 Economies". Washington, DC: World Bank.
- World Bank report (2016) Government Procurement, a Path to SME Growth ISSN: 2201-6333 (Print) ISSN: 2201-6740 (Online) [www.ijern.com](http://www.ijern.com) 466
- World Bank (2015) "Benchmarking Public Procurement 2015 – Pilot report assessing public procurement systems in 10 economies" - [www.worldbank.org](http://www.worldbank.org)
- World Bank (2003a) "Ghana 2003 Country Procurement Assessment Report", Washington, DC:
- Ghana Country Department, the World Bank.

World Bank (2005). *Doing Business in 2006: Creating Jobs* (Washington: World Bank/IFC).

Wright, Peter W. *et al.* (2010), Job Creation, Job Destruction and the Role of Small Firms: Firm-Level Evidence for the UK”, *Oxford Bulletin of Economics and Statistics*, 72, 5, Blackwell Publishing Ltd and the Department of Economics, University of Oxford.

Yin K. Robert (2003) *Case Study Research: Design and Methods*, 3rd ed. Sage Publications London.

GDP as a measure of Economic Growth and Standard of Living (<http://www.slideshare.net/egfred/indicators-of-economic-development-2908463>) assessed 14 June 2016