



## **AN EXAMINATION INTO THE IMPEDIMENTS TO THE PARTICIPATION OF MICRO AND SMALL ENTERPRISES (MSEs) IN PUBLIC PROCUREMENT TENDERS IN JAMAICA**

**Prepared by  
Fair Trading Commission**

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### **INTRODUCTION**

In April 2009, the then Ministry of Finance and the Public Service (now Ministry of Finance and Planning) implemented new procurement measures to facilitate greater access by Micro and Small Enterprises (MSEs). The new measures require Ministries, Departments and Agencies (MDAs) to make their best endeavours each fiscal year to spend a minimum of 15% of budgeted procurement expenditure with MSEs; and to set aside for MSE a minimum of 15% of procurement under their Recurrent and Capital A Budgets.<sup>1</sup> In September 2011, the Ministry of Industry, Investment and Commerce (MIIC) asked the Fair Trading Commission to conduct research to: (A) determine the extent to which MSEs are accessing public procurement contracts; (B) assess whether MDAs are meeting the 15% minimum requirement and if not, why not?; and (C) propose measures to increase the participation of MSEs in public procurement tenders. This report summarizes the main findings of our research.

### **DISCUSSION**

The information summarized in this report is drawn from three recently published documents on the Micro, Small and Medium-sized Enterprises (MSME) sector: (i) a document outlining a framework for a general policy on the MSME sector ('General MSME Policy'); (ii) a document geared toward increasing the participation of MSMEs in public procurement ('MSME Procurement Policy'); and (iii) Report on a Small Contractor's Workshop.<sup>2</sup>

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<sup>1</sup> Ministry of Finance and the Public Service. Letter to Permanent Secretaries, All Heads of Procuring Entities. June 2, 2009.

<sup>2</sup> (i) The General MSME Policy: Ministry of Industry, Investment and Commerce. MSME Policy Framework: A framework for the Development of Micro, Small and Medium-Sized Enterprises in Jamaica (Draft), September 22, 2011; (ii) the MSME Procurement Policy: McDermont, David and Sonia Witter-Richards. Policy Framework: Increasing MSME Participation in Public Procurement (Draft Final Report). September 2010; and (iii) Jamaica Business Development Corporation. Report on Training Workshop for Small Contractors. July 2009.

## **A. The extent to which MSEs are accessing public procurement contracts**

The papers reviewed did not allow us to determine the level of participation of MSEs in public procurement tenders. In the MSME Policy document, its authors non-scientifically estimated that less than 3% of MSEs in Jamaica participate in public procurement. It is to be noted that the authors specify that there is currently no reliable data to verify the 3%.

The challenge in determining the level of participation arises from the following factors:

I. The size of the MSE sector. There are conflicting reports on number of enterprises constituting the MSME sector. One source indicates that there are approximately 300,000 MSME's in Jamaica, with only 50% (i.e., 150,000) being registered. These numbers are at odds with official records which indicate that only 6,000 entities registered through the Companies Office of Jamaica could be classified as a MSME.

II. The number of Participants. There are no readily available data which identify the number of MSEs which participate; that is, the number of successful and unsuccessful MSE bidders for public procurement contracts.

Based on the findings described immediately above, the Fair Trading Commission makes the following measure.

**Recommendation 1** Policymakers should take steps to obtain an accurate measure of the size of the MSE sector and also the level of participation of those enterprises in public procurement tenders. Suggested steps include:

- A requirement that MSEs be registered by a government authority for identification purposes.
- The MIIC should require that MDAs issue quarterly reports on all procurement activity. Specifically, the number of bids received; the number of contracts awarded to MSEs with the value of each contract; and the goods or services procured.

## **B. Whether MDAs are meeting the '15% minimum requirement', and if not why not?**

The information reviewed did not allow us to determine whether MDAs have spent a minimum of 15% of their budgeted procurement expenditure with MSE; or whether they have set aside that amount for MSEs. While the Fair Trading Commission recognizes the feasibility of obtaining this information, we note that it would take at least six months to gather and analyze the relevant data from MDAs and from entities that have accessed public contracts.

With respect to the reasons why more MSEs are not awarded contracts, the MSME Procurement Policy document reported that MDA's procurement Staff is dissatisfied with the level of the demonstrated understanding of tender documents on the part of the MSMEs. Information deficiencies among MSMEs regarding understanding of tender documents can represent a transaction cost which may be unduly limiting the successful participation of

MSMEs in the market for public procurement. The fact that MSMEs do not understand tender documents and do not know that they do not understand suggests a failure on the part of Procurement Staff to provide feedback. Such an inference is consistent with the result that MSMEs, on average, are dissatisfied with MDA provision of feedback. We have inferred from the MSME Procurement Policy document that there is no incentive for Procurement Staff to improve the feedback to MSMEs since Procurement Staff, on average, expressed satisfaction with their provision of feedback.

**Recommendation 2a** Going forward, the MIIC should require MDAs to report on their procurement activities on a quarterly basis. The data reported should be sufficiently disaggregated to distinguish MSEs from other enterprises.

**Recommendation 2b** The MDAs need to identify the deficiencies in the tenders submitted by MSEs. The deficiencies should be reported to the MIIC and to non-winners why their bids were unsuccessful or disqualified.

**Recommendation 2c** MDAs need to provide to prospective bidders, a checklist of all the requirements for their bid to be eligible for consideration. Further, tender documents should be as clear as possible for ease of understanding.

**Recommendation 2d** Another factor inhibiting greater participation on the part of MSEs is the bureaucratic complexities of the public procurement process; and therefore MDAs should as much as possible simplify the process.

**Recommendation 2e** Policymakers should establish a mechanism to ease the financial burdens associated with submitting bids as well as remove unnecessary requirements pursuant to submitting bids. For example, requirement to provide guarantees and bonds. Policymakers may consider recovering these costs after a bid is successful or a job is completed.

### **C. Propose measures to improve the participation of MSEs in public procurement tenders**

One of the documents reviewed noted the top three factors that impede the submission of bids from more MSMEs, as reported by MSMEs, as:

- “costs too high to bid, to provide guarantees and bonds, gain credit;
- complex regulations, onerous document requirements, bid documentation, bidding process, red tape; and
- lack of procurement process fairness and transparency.”<sup>3</sup>

Further, the top three factors impeding the submission of bids from more MSMEs, as identified by MDA Procurement Staff, are:

- MSME sub-contractors are not paid on time;

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<sup>3</sup> McDermott and Witter-Rickards 2010, Table 5

- MSME are subject to corrupt behavior from government officials; and
- microenterprises do not have the resources to bid.”<sup>4</sup>

Thirdly, the key factors that impede the submission of bids from more MSMEs, as identified by Stakeholder Organisations, are:

- “Burdensome requirements and documents required by MSMEs to participate in the procurement process for essentially low value contracts;
- Unnecessary cost related to purchasing bidding documents, providing compliance documents, securities, bonds and insurance. Many micro and small enterprises would suffer financial hardship in meeting these requirements;
- Difficult and burdensome tax compliance requirements, no tax relief for fledgling enterprises to allow growth;
- Insufficient advance payments from government agencies, and delinquency of payment by government agencies and head contractors to MSMEs and subcontractors in particular;
- Lack of MSME access to finance; and
- Lack of coordinated and affordable training.”<sup>5</sup>

The Government of Jamaica (GOJ) has over the years, made available to MSMEs and large enterprises low cost funding for specific purposes in selected sectors, whether for cash flow leveraging or for capital improvements. MSMEs have commented that they do not know when these funds may be accessed, the avenues through which such funding may be accessed or the criteria for qualifying for such funding.

**Recommendation 3a** The information provided by MDAs (pursuant to Recommendation 2b) should be housed at a central database for public scrutiny; and be used to design training agenda for workshops specifically geared at addressing the needs identified.

**Recommendation 3b** The GOJ ought to identify a location at which information on all procurement opportunities, avenues through which funding may be accessed and other relevant information are housed and made available to prospective participants. The location should provide staff that is able to assist with the completion of relevant forms, and directing prospective bidders to the appropriate office at which required supporting documentation may be obtained.

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<sup>4</sup> McDermott and Witter-Rickards 2010, Table 6

<sup>5</sup> McDermott and Witter-Rickards 2010, Page 21

## **APPENDIX:** Information which were sought while preparing this note

Information was sought from the following entities:

- Ministry of Industry, Investment & Commerce
- Dr. Rosalea Hamilton, President of the MSME Alliance
- Ministry of Finance and Planning

### **1. Number of MSME's**

Different sources report inconsistent estimates of the number of MSME's in Jamaica. McDermott and Witter-Rickards 2010 reports that the Micro, Small and Medium Enterprises Alliance (MSMEA) estimates that there are approximately 300,000 MSMEs with only 50% registered. Based on this estimate, one would expect to observe approximately 150,000 MSMEs registered with the Companies Office of Jamaica. However, Statin reports that as at October 2011, there were only approximately 6,000 registered businesses, each employing less than 50 persons on a full time basis.<sup>6</sup>

### **2. Number of MDAs that received bids during the review period (2004-2011)**

Data unavailable.

### **3. Number of MDAs that received bids from MSMEs during the review period**

Data unavailable.

### **4. Number of bids that are received by MDAs from MSMEs**

Data unavailable.

### **5. Number of MDAs that award contracts to MSMEs**

The data captured by public bodies are insufficient to distinguish which contracts were awarded to MSMEs (McDermott and Witter-Rickards 2010, p. 14 ).

### **6. The value of all contracts awarded to MSMEs**

The data captured by public bodies are insufficient to distinguish which contracts were awarded to MSMEs (McDermott and Witter-Rickards 2010, p. 14 ).

### **7. The proportion of contracts awarded to MSMEs**

The data captured by public bodies are insufficient to distinguish which contracts were awarded to MSMEs (McDermott and Witter-Rickards 2010, p. 14 ).

### **8. Impediments to increased participation by MSMEs**

The top three factors impeding the submission of bids from more MSMEs, as reported by MSMEs, are: "(i) "costs too high to bid, to provide guarantees and bonds, gain credit; (ii)

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<sup>6</sup> Statistical Institute of Jamaica. 2011.

complex regulations, onerous document requirements, bid documentation, bidding process, red tape; and (iii) lack of procurement process fairness and transparency.” (McDermott and Witter-Rickards 2010, Table 5).

The top three factors impeding the submission of bids from more MSMEs, as identified by Procurement Staff, are: “(i) MSME sub-contractors are not paid on time; (ii) MSME are subject to corrupt behavior from government officials; and (iii) microenterprises do not have the resources to bid.” (McDermott and Witter-Rickards 2010, Table 6).

Key factors impeding the submission of bids from more MSMEs, as identified by Stakeholder Organisations, are: “(i) Burdensome requirements and documents required by MSMEs to participate in the procurement process for essentially low value contracts; (ii) Unnecessary cost related to purchasing bidding documents, providing compliance documents, securities, bonds and insurance. Many micro and small enterprises would suffer financial hardship in meeting these requirements; (iii) Difficult and burdensome tax compliance requirements, no tax relief for fledgling enterprises to allow growth; (iv) Insufficient advance payments from government agencies, and delinquency of payment by government agencies and head contractors to MSMEs and subcontractors in particular; (v) lack of MSME access to finance; and (vi) lack of coordinated and affordable training.” (McDermott and Witter-Rickards 2010, p. 21).

**9. What are the main reasons MSMEs are not awarded contracts?**

Data unavailable.