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EMPOWERING SMALL AND MEDIUM ENTERPRISES (SMES) TO HARNESS PUBLIC PROCUREMENT OPPORTUNITIES EXPERIENCE FROM MWANZA TANZANIA

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Abstract

This study advocates how SMEs in Tanzania can be empowered to effectively make use of the available public procurement opportunities. Specifically it determines the participation of SMEs in public procurement opportunities, stumble on the benefits of public procurement opportunities to SMEs, and examine the challenges facing SMEs' access to such opportunities. The study adopted case study design where 50 SMEs operating in Mwanza Municipal were surveyed using a structured questionnaire with 5-point Likert scale. It divulge that SMEs participating in public opportunities benefit in terms of amplifying their production capacity and marketing of goods and services, cash flows , innovation and creativity thus boost their contribution to the national economy. It also makes out that institutional support, limited access to finance, unsupportive legal framework, bureaucratic nature of the procurement cycle and corruption among public officials are challenges facing SMEs participation in public procurement. It recommends a review of policies related to SMEs ties with public sector, training on public procurement procedures, fair provision of public procurement opportunities, elimination of cumbersome, bureaucratic and costly procedures attached to public procurement along with emphasis on effective use of public private partnerships.

Keywords: *SMEs, Public Procurement, Empowerment, Procurement Policy, Tanzania*

INTRODUCTION

It has been renowned that small and medium enterprises (SMEs) play important roles in influencing socio-economic development all over the world. These can be observed in aspects like including labor absorption, income generation and distribution, poverty alleviation, training ground for the development and upgrading entrepreneurship skills, and important vehicles for promoting forward and backward linkages in geographically and economically diverse sectors of the economy in many countries. They are regarded as backbone of economic growth in almost all developed and developing countries, SMEs contribute about 50 per cent to the UK GDP and close to 70 per cent of employment opportunities (Pressey *et al.*, 2009). According to Singh *et al.*, (2010), SMEs contribute substantially in the manufactured exports of East Asia (56 per cent in Taiwan, over 40 per cent in China and the Republic of Korea, and 31 per cent in India) (Kirumba, 1995). In Tanzania, SMEs contribute over 30% of the GDP, and employs 3-4 million people, which is 20-30% of the total labour force (Kazungu, Ndiege and Matolo, 2013). SMEs all over the world and in Tanzania in particular, can be easily established since their requirements in terms of capital; technology, management and even utilities are not as demanding as it is the case for large enterprises.

Despite all these contributions to socio-economic development, SMEs in Tanzania are characterized by constraints such as very low productivity, poor infrastructure, inadequate power supply, low capital, poor market access, and high prices of inputs (Kazungu, Ndiege, Mchopa, and Moshi, 2014), unfavorable legal and regulatory framework, undeveloped, limited access of SMEs to finance, ineffective and poorly coordinated institutional support framework and others (Ngasongwa, 2002). Another critical problem to the performance of SMEs according to Obanda (2012) and Olomi (2005) is access to means of exploiting public procurement opportunities as a means to empower them, with no incentives, guideline and laws that are guiding all Government procurement units to first purchase commodity or service from SMEs (Qin and Xiaoyun, 2008). This gives a proof of substantial obstacle that operators of SMEs are facing in winning public procurement opportunities.

The current study therefore explores how public procurement opportunities can be used to empower SMEs. Specifically it determines participation of SMEs in public procurement opportunities, benefits of public procurement opportunities to SMEs. It also investigates how SMEs can be empowered through public procurement opportunities and examines challenges facing SMEs' access to public procurement opportunities.

LITERATURE REVIEW

Theoretical literature

Procurement may be defines as buying, purchasing, renting or otherwise acquiring any goods services or works by procuring entity such as ministry department or regional Administration of the government or public body and includes all functions that pertain to obtaining of goods, works, and including description of requirements selection, invitation of tender and preparation of tenders and award of contract (URT, 2011).

Empowerment is the ability to make effective choices alongside the ability to translate the choices made into desired outcomes (Alsop et al., 2006; Alsop 2005; Ibrahim 2007; Kabeer 1999). Empowerment is further influenced by two sets of conditions namely agency and opportunity structure. While Agency refers to an actor's ability to make meaningful choices; opportunity structure on the other hand entails the actor's operating environment – which includes the formal and informal context- within which actors operate. In combination, these factors give rise to different levels of empowerment. Ways of empowering small businesses is through availing important opportunities to them as well as exercising preferential treatments.

Public Procurement refers to the process of purchasing supplies, equipment and services (including works) by public or private bodies using public funds, regulated by law and public contracts which secure the provision of such supplies, equipment and services (Obanda, 2012). It constitutes the largest domestic market in most developing countries like Tanzania (Mchopa, Njau, Ruoja, Huka and Panga, 2014) of which according to Migai (2005) contributes significantly to public infrastructure development and other projects.

SMEs classification and its taxonomy in Tanzania is used to mean Micro, Small and Medium Enterprises engaged in non-farm economic activities (SMEs Development policy of 2003 in Mchopa, Kazungu and Moshi, 2014). According to the 2003 SMEs Development Policy in Olomi (2005) micro enterprises are those engaging up to 4 people, in most cases family members or employing capital amounting up to Tshs 5 million, Small enterprises are mostly formalized undertakings engaging between 5 and 49 employees or with capital investment ranging from Tshs 5 million to Tshs 200 million while Medium enterprises employ between 50 and 99 people or use capital investment from Tshs 200 million to Tshs 800 million.

Table 1: SMEs in terms of capital investment

Category	Number of employees	Capital investment
Micro Enterprises	1 – 4	Up to 5 millions
Small industry	5 – 49	Above 5 to 200 mill
Medium industries	50 – 99	Above 200 – 800 mil.
Large industries	100+	Above 800 millions

Source: SMEs Development Policy, 2003; 1 US\$ = Tshs. 1650/= (BOT, 2014)

Empirical Literature Review

Qin and Xiaoyun (2008), propound the Chinese Government procurement support SMEs inclines to laws and regulations in the government procurement process. The “Government procurement Law” No.9 stipulated that “The government procurement must be helpful to promote SMEs develop”; “SMEs Promotion Law” No.34 stipulated that “The government procurement must first purchase commodity or service to SMEs”. The China government confirms government procurement should sustain SMEs development and propose SMEs have priority under the same level condition in “Government procurement Law” and “SMEs Promotion Law”. Therefore since March in 2005, many provinces have already proposed the concrete support policy according to their own situation. For example, confirm the certain proportion in government procurement and guarantee SMEs can obtain government’s order through public bidding and promote their competition opportunities. “Jiangsu Province SMEs Promotion Rule (Draft)” had made specific stipulation aiming at solving such problems as financing difficulty, technical backwardness, and poor information flowing and scarce talented person. At the same time, “the Rule (Draft)” also request definitely that the government should not only support SMEs to develop famous brand goods but also promote SMEs development from government procurement in order to support SMEs to develop the market. It means “local government and department’s purchase above county level must buy product or service prior to SMEs under the same level condition, and local state should confirm the procurement proportion if possible”.

Ankunda (2010), advocate that SMEs in Uganda employ more than 2.5 million people, constitute up to 90% of the private sector and contribute over 70 percent to the total GDP. The Office of Government Commerce (2010) opines that markets are more efficient where they have multiple suppliers and optimal competition. That drives suppliers to perform better, with benefits for their customers, the economy and ultimately all citizens. So, buyers have an interest in maintaining and encouraging and encouraging competition and SMEs can play a major role.

SMEs need to have access to, and the opportunity to win, government procurement. What must not happen is that the process unintentionally favors large firms in some way and

discourages small firms. Caution is that, it is not about giving preferential treatment to SMEs but about facilitating a more level playing field. Integrating SMEs in public procurement provide a clear market opportunity for SMEs, who otherwise are likely to be excluded from public procurement because of administrative requirements for mandatory bidding process and their inadequate size or capacity to deliver. We need effective public procurement policies, systems and personnel to ensure that the opportunities are scaled rapidly, transparently and fairly so that SMEs can get access to public procurement opportunities (Obanda 2012).

In Tanzania, public sector includes a wide range of organizations which outsource most of the goods and services they need (Olomi, 2005). They procure a range of products and services, including but not limited to acquisition, construction, repair and maintenance of different kinds of structures and equipment; use of various support services, including cleaning, consultancy, catering, decoration, organization, and much more. The areas with the greatest government procurement potential for SMEs vary by capacity of enterprises as reflected in their size. Table 2 gives examples of areas where there is the greatest potential for different categories of SMEs.

Table 2: Areas of Government with procurement potentials for different size and types of Enterprises

Size Category	Type of products / services
Micro Enterprises (singly or jointly)	Catering, consultancy, joint supply of building materials
Small Enterprises	Consultancy, supply of stationary, catering, supply of building materials, construction, etc
Medium Enterprises	Cleaning services, supply of stationary, building materials, servicing of equipment, etc

Source: Tanzania SMEs Development Policy (2003)

It must therefore be appreciated that there are different levels of the “public sector”, different categories of “SMEs” and different types and complexity of products or services which different kinds of SMEs can supply to the public sector. However, in terms of access, local firms, most of which are SMEs have had the greatest difficulties accessing markets where larger foreign firms also compete, and these are mainly construction related activities. It is estimated that local construction firms, which are mainly SMEs constitute 80% of the enterprises in this industry, but get only about 5% of construction projects.

PPA No.21 of 2004 and its regulations guide Public procurement function. Provisions of the Act that provide opportunities and favor SMEs are related to national preference, exclusive

preference and splitting of tenders to encourage participation of local persons or firms. Section 50(1) provides that where financial resources are exclusively provided by a Tanzanian public body, each procurement of works, goods or services that has a value not exceeding threshold specified in the regulations shall be reserved exclusively for local persons or firms. Application of exclusive preference as provided in the 4th, schedule(c) of G.N.No.97 to local firms is as follows: (i) Works up to Tshs. 1,000,000,000.00, (ii) Goods up to Tshs. 200,000,000.00 (iii) Non consultant services up to Tshs. 250,000,000.00 and (iv) Consulting services (firms) up to Tshs. 500,000,000.00. Moreover, the “Government procurement Law” No.9 stipulated that “The government procurement must be helpful to promote SMEs develop”; “SMEs Promotion Law” No.34 stipulated that “The government procurement must first purchase commodity or service to SMEs”, but did not describe other ways of empowering SMEs in public procurement opportunities besides legal framework. The current study therefore examines strategic procurement intervention and management initiatives that can create an enabling environment for SMEs to access public procurement opportunities for the growth of owners and operators.

METHODOLOGY

The current study employed a case study design. The study was conducted in Mwanza Municipality located at 02 30S latitude and longitude of 32 58E with a population of 2942148 and an area of 20095 square kilometers the dry land and to the north Frontiers Lake Victoria border the region. Both primary and secondary data were collected through structured questionnaires and participatory observation among the participants. Secondary data were collected through literature review, magazines, libraries, books, and internet. A review of documents relating to SMEs participation in public procurement and challenges facing SMEs in participation in public procurement opportunities, contribution of SMEs in National economic development, and how SMEs explore and capitalize on the available public procurement opportunities was done. The study used a sample frame of 90, this sample population included owner of SMEs that are involved in public procurement and Procurement Management Unit (PMU) within the Municipality, from which a total of 50 SMEs were drawn randomly and studied as indicated in table 3.

Table 3: Target and Sample Size

Category of SMEs	Target	Response
Suppliers of Goods	30	20
Service providers (Cleaning, Security, revenue collections)	35	20
Contractors	25	10
Total	90	50

Data were analyzed with the use of descriptive statistics aided by statistical Package for Social Sciences (SPSS) version 20 and presented visually in graphs, histograms, tables and charts.

EMPIRICAL FINDINGS AND DISCUSSIONS

This section uses tables, pie charts, histograms and other data presentation methods to present the study results from the questionnaire analysis. Based on the research objectives, the questionnaire had to address the following key issues of intervention. (i) Participation of SMEs in public procurement opportunities, (ii) Benefits of public procurement opportunities to SMEs, (iii) Strategies to which SMEs can be empowered through public procurement opportunities and (iv) Challenges facing SMEs' access to public procurement opportunities.

Demographic Characteristics of respondents

Findings in table 4 shows that about 42 respondents (84%) were male, and 8 respondents equal to 16% were female. These data represent the practical situation that most of SMEs are owned and controlled male and this is according to research finding. As for the age of respondents, it was depicted that majority of SMEs was aged 31 to 40 years (48%), followed by respondents of 20 to 30 years (33%), and respondents between 41 to 50 years were 19%. These data imply that, a large percent of respondents were youth with the mix of adult, this is very important to create together work force and experienced people.

Table 4: Distribution of respondents by sex and age

Sex	Frequency	Percent	Age (in Years)	Frequency	Percentage (%)
Male	42	84	20-30	16	31
Female	8	16	31-40	23	46
Total	50	100	41-50	9	18
			Above 60	2	4

Participation and success of SMEs in public procurement opportunities

SMEs owners were asked to express their participation in public procurement, findings in table 5 shows that about 63% of respondents do participate with 37% of respondents do not. The implication of this is that a large percentage of respondents have participated in public procurement. It is also observed that many respondents that have participated in public procurement about 76.7% of respondents have not won public procurement opportunities, and others about 23.3% have won it. The implication of these research findings is that not all SMEs that participate in public procurement can win those opportunities this is due to same complication.

Table 5: Participation in Public procurement and Success Rate

Participation in Public procurement	Percentage (%)	Success Rate	Percentage (%)
Participated in Public procurement	37	Participated in Public procurement and won	23.3
Never Participated in Public procurement	63	Participated in Public procurement and fail	76.7
Total	100	Total	100

Challenges in accessing public procurement opportunities

It was important to establish the level of challenges that SMEs are facing challenges in accessing public procurement opportunities and it was observed that about 86.7% respondents knows and have been exposed to the said challenges and 13.3% did not. This implies that, there are challenges hindering SMEs to access public procurement opportunities. The current study used a 5-point Likert scale to show the depth of these challenges as indicated in table 6 where 64.0% of respondents strongly agreed that unfavorable public procurement regulatory framework is a challenge for SMEs in accessing public procurement opportunities, 28.0% agreed to the statement while 8.0% disagreed to the statement. This implies that regulatory framework is an obstacle to SMEs and this is supported by SMEs development policy (2003), which states that high cost of compliance to regulations may discourage potential entrepreneurs from formally setting up their businesses, while driving some existing enterprises out of business and those working for them into unemployment. About 74.0% respondents strongly agreed that ineffective institutional support is a challenge for SMEs in accessing public procurement opportunities, while 26.0% agreed to the statement. The implication of above findings is that in order for SMEs to acquire public procurement opportunities there should be institutional support for example support from Small Industries Development Organization (SIDO) and Tanzania Industrial Research and Development Organization (TIRDO) which supports local raw materials utilization. Trade policy and SMEs Development Policy should set such incentives to promote the development of this vital sector which is an engine of the country's economic growth.

In table 6 the study findings reveal 66.0% of respondents strongly agreed that limited access to finance is a challenge for SMEs in accessing public procurement opportunities and 34.0% agreed to the statement. This entails that financing SMEs is an significant agenda so as to facilitate them to participate effectively in public procurement opportunities once they occurs, the SME has limited access to finance because inability of the SME owners to have appropriate the collateral required by banks. Bureaucratic nature of the procurement cycle was also observed to be a critical challenge for owners of SMEs in accessing public procurement

opportunities as 58.0% of respondents strongly agreed and 36% agreed that bureaucracy is an obstacle to their participation in the process. The implication of the above findings is that bureaucratic nature of the process and this is supported by other literatures which say that bureaucratic nature of the process increases unnecessary cost to SMEs and discourage them. Moreover, 62% strongly agreed, 24% respondents agreed and 14% disagreed that corruption among public officials is a challenge for SMEs in accessing public procurement opportunities. This is supported by Mwemezi, (2013) who advocates that the corruption in public procurement is a severe problem with a total amount of bribery in public procurement is well over 200 billion USD per year or around 3.5% of the world procurement spending.

Table 6: Challenge facing SMEs in accessing Public Procurement Opportunities

Challenge	Category	Frequency	Percent
Unfavorable regulatory framework is a Challenge for SMEs in accessing public procurement opportunities	Strongly agree	32	64.0%
	Agree	14	28.0%
	Neutral	0	0%
	Disagree	4	8.0%
	Strongly Disagree	0	0%
Ineffective institutional support is a Challenge for SMEs in accessing public procurement opportunities.	Strongly agree	37	74.0%
	Agree	13	26.0%
	Neutral	0	0%
	Disagree	0	0
	Strongly Disagree	0	0%
Limited access to finance is a Challenge for SMEs in accessing public procurement opportunities.	Strongly agree	33	66.0%
	Agree	17	34.0%
	Neutral	0	0%
	Disagree	0	0
	Strongly Disagree	0	0%
Bureaucratic nature of the process is a Challenge for SMEs in accessing public procurement opportunities.	Strongly agree	29	58.0%
	Agree	18	36.0%
	Neutral	0	0%
	Disagree	3	6.0%
	Strongly Disagree	0	0%
Corruption among Public officials is a Challenge for SMEs in accessing public procurement opportunities.	Strongly agree	31	62
	Agree	12	24
	Neutral	0	0%
	Disagree	7	14
	Strongly Disagree	0	0%

Benefits that SMEs can acquire through public procurement opportunities

Results in table 7 indicates that 46% of respondents strongly agreed, that empowering SMEs through public procurement opportunities will increase market of goods and services produced by them and 32% of respondents agreed, while 16% of respondents were neutral and 6% of respondents disagreed. As for the relationship between participation in the public procurement and cash flows, it was depicted that 48.0% of respondents strongly agree that, empowering SMEs through public procurement opportunities will increase cash flow to the SMEs, and 42.0% agree on the above statement which make the cumulative of frequency of agreed respondents to be 90.0%, this analysis prove that empowering SMEs through public procurement opportunities will increase cash flow to the SMEs. This implies that empowering SMEs through public procurement opportunities will increase cash flow to the SMEs; this is vivid by the reality that public procurement entities are largest purchaser. Again, result in table 7 reveals that 60.0% of respondents agreed that empowering SMEs through public procurement opportunities will increase creativity and innovation to the SMEs, while 36.0% agreed making 96.0% of respondents who agreed on the statement above, while only 4% of respondents disagreed with the statement. The implication of these findings call for a need to facilitate and create an enabling environment for SMEs to participate well in public procurement for enhanced SMEs competitiveness, innovation and creativity are inevitable for businesses. Study findings in table 7 divulge that 56.0% of respondents strongly agreed that empowering SMEs through public procurement opportunities will increase productivity to the SMEs and 38.0% agreed. However 6.0% of SMEs owners disagreed. This implies that productivity of SMEs can increase because they will be having reliable market that will encourage them to produce.

Table 7: Benefits that SMEs can acquire through Public Procurement Opportunities

Benefits that SMEs can acquire through public procurement opportunities	% of Responses in 5-point Likert Scale				
	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
Empowering SMEs through public procurement opportunities can increase market of goods and services produced by SMES	46	32	16	4	2
Empowering SMEs through public procurement opportunities can increase cash flow to SMEs.	48	42	0	6	4
Empowering SMEs through public procurement opportunities increase creativity and innovation.	36	60	0	4	0
Empowering SMEs through public procurement opportunities can increase production.	56	38	0	6	0

Areas of Strategic Interventions to improve SMEs accessibility to public procurement

Due to the reality that most of SMEs are financially weak hence they fail to participate in public procurement opportunities due to financial constrain, therefore financial support is needed to enhance their capacity to participate in public procurement opportunities. This is supported by findings in table 8 that 62.0% of respondents strongly agreed that provision of financial support will improve SMEs accessibility to public procurement opportunities and 26.0% agreed that provision of financial support will improve SMEs accessibility to public procurement opportunities while 12.0% disagreed.

Moreover, the findings in table 8 depicts that 76.0% of the SMEs owners interviewed strongly agreed that supportive legal framework will improve SMEs accessibility to public procurement opportunities, while 20.0% agreed that supportive legal framework will improve SMEs accessibility to public procurement opportunities 4.0% of them disagreed. This reflects the importance of legal framework as a monitoring and controlling tool towards enhanced SMEs participation in public procurement. Information is power, if you have no clear information you cannot respond or act to any opportunities that happen in the business environment.

The study findings supports this vital role of where 74.0% strongly agreed that increased access to information will improves SMEs accessibility to public procurement opportunities for example, information about what opportunities are available and how to qualify, and 26.0%. It was also revealed that bureaucratic procedures is an obstacle to SMEs access to public procurement opportunities, hence they should be reduced so as to enhance SMEs accessibility to public procurement opportunities.

Findings in table 8 reveal that 70.0% of SMEs owners strongly agreed that less bureaucratic procedures will improves accessibility to public procurement opportunities and 24.0% also agreed, which made 94.0% of respondents to have positive response to the statement, while only 6.0% of respondents were neutral. Implication of this result is that if public procurement procedures are simplified more SMEs will participate and become more competitive.

Table 8: Provision of financial support improves SMEs accessibility to public procurement opportunities

	Category	Frequency	Percent
Provision of financial support improves SMEs accessibility to public procurement opportunities.	Strongly agree	31	62.0%
	Agree	13	26.0%
	Neutral	0	0%
	Disagree	6	12.0%
	Strongly Disagree	0	0%
Supportive legal framework improves SMEs accessibility to public procurement opportunities.	Strongly agree	38	76.0
	Agree	10	20.0
	Neutral	0	0%
	Disagree	2	4.0
	Strongly Disagree	0	0%
Increase access to information will improve SMEs accessibility to public procurement opportunities.	Strongly agree	37	74.0
	Agree	13	26.0
	Neutral	0	0%
	Disagree	0	0%
	Strongly Disagree	0	0%
Less bureaucratic procedures can improve SMEs accessibility to public procurement opportunities.	Strongly agree	35	70.0%
	Agree	12	24.0%
	Neutral	3	6.0%
	Disagree	0	0%
	Strongly Disagree	0	0%

CONCLUSION

The study revealed that SMEs plays a fundamental role in the country's social-economic development but they have less representation in public procurement and it was discovered that SMEs are further constrained in this environment in comparison to larger businesses due to the disproportionately heavy costs of compliance arising from their size and constrained size. From the current study it is quite evident that empowering SMEs through public procurement opportunities is of great significance to SMEs, it will be easy to achieve economic, socio-political goals once SMEs are integrated into public procurement opportunities. The trade policy, the SMEs development policy and Public Procurement Act should also reflect this by emphasizing on public institutions to a large percentage procure services and goods from locally based SMEs.

RECOMMENDATIONS

The findings identified the importance of reviewing policies related to SMEs operating environment especially when dealing with the public sector. The current SME development policy of 2003 is outdated. It is not taking into consideration the trade relationship between SMEs and public sector. It is therefore recommended that, the policy should reflect all these for

the development and vibrancy of this sector. The study recommend SMEs operators to be trained on how to manage the business and writing competitive Financial and technical proposals along with trainings on how contract and fill tender document is necessary, and these training should be at unattractive and affordable costs. This will help them in accessing business opportunities with public sector and managing well their business. It is also recommended that that public institution should be fair in providing public procurement opportunities and let SMEs have some exceptional chances in wining these opportunities, perception that lowest price is the main criteria in award of public procurement opportunities should be discourage. More efforts should be made to eliminate legal and regulatory framework which are bureaucratic, costly, and centralized with a lot of cumbersome procedures, this will help boost SMEs access to public procurement opportunities. It is finally recommended that financial institutions to review and reduce their requirements in order to access loan, this will help SMEs to have accessibility to finance and widen the scope of their operations especially with public entities.

The limitation of these study was lack of empirical local data on procurement especially on the side of participations of Small and Medium enterprises, the status of the firm participation in terms of their business size was also not documented thus it was difficult to generalize the findings. A further study is recommended on creation of favorable environment for participation of SMEs in Public Sector procurement.

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