



The Role of Public Procurement in Enhancing Growth of Small and Medium Sized- Enterprises: Experince from Mbeya Tanzania

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Abstract

This empirical study examined the role of public procurement towards the growth of SMEs in Mbeya, Tanzania. The study was guided by three specific objectives: To examine the role of preferential among SMEs in accessing public procurement opportunities, to ascertain the competency of SMEs towards public procurement performance, and to identify the challenges facing SMEs in accessing public procurement. The study adopted descriptive research design and purposive sampling to collect data from 72 SMEs and 37 procuring entities in Mbeya region. The output of the study was achieved through descriptive statistics with the help of Statistical Package for Social Sciences (SPSS). The study revealed that, 43% of the respondents reported having given no of preference at all in public procurement, compared to 4% who argued that are given preference treatment to a great extent. SMEs are competent to enhance public procurement performance to a moderate extent ($3.45 \leq \text{mean} \leq 3.86$). Furthermore, the study revealed that bureaucratic process, lack of fairness in public procurement, insufficient fund, complex legal requirements, lack of policy that support SMEs access public procurement opportunities and corrupt practices in public procurement are the key challenges that hinders SMEs to access public procurement opportunities and their growth. The study recommended on the need to strengthen internal and external legal framework to combat corrupt and nepotism practices, enhance entrepreneurial training and education among SMEs owners, the need to enhance joint bidding among SMEs owners and large firms. It is concluded that public procurement play significant role toward the growth of SMEs by providing market for SMEs' products and services.

Keywords: Procurement, Public Procurement, SMEs, growth of SMEs, and Mbeya Tanzania.

1.0 INTRODUCTION

Worldwide, public procurement plays a vital role in the growth and stability of small and medium sized enterprises (SMEs). About 35% of developed and 70% of developing countries' budget is procurement related spending (Saxena, 2012; World Bank, 2016). The government is therefore regarded as the main purchaser of goods, works and services particularly from SMEs. On the other hand, SMEs play a fundamental role in the social and economic development of the public and the government at large. SMEs create new jobs and contribute significantly to the growth of GDP in most countries (Kazungu, Ngugi, Rotich and Odhiambo, 2018; Kazungu and Panga, 2015; Ngugi, 2012). Almost 99% of businesses in China are SMEs, employing more than 80% of country's workforce which contribute about 60% of total GDP. SMEs present about 99% of business enterprises and employ around 75 million people in European Union Member states. In Nigeria, SMEs account for 95% of total firms, 65% of total employment and contribute to almost 55% of government GDP (Chen, 2013; Pephrah, Mensah, and Akosah, 2016; WB, 2016; EC, 2015). Almost 98% of all businesses in Kenya are SMEs which create 30% of all jobs annually and contribute about 3% to Kenya's GDP. In Tanzania particular, 95% of all businesses are SMEs employing about 4 million people, contributing almost 35% to the country's GDP (World Bank, 2016; Chen, 2013; Hansen, Kimeria, Ndirangu, Oshry, and Wendle, 2012).

There have been consistent pressure and reforms in many governments to restructure their business and procurement policies to strengthen the role, contribution and involvement of SMEs in public procurement service delivery and economic development and promote SMEs growth. In order to achieve these objectives, an important strategy is to formulate public procurement policies that create a preferential treatment and recognition of local firms and SMEs in public procurement proceedings (Sanchez, 2011; Obanda, 2011). The Chinese Government Procurement Law No. 9 (2009) and SMEs Promotion Law No. 34 (2002) prescribe the conditions and margins of preferential for SMEs in public procurement. In Ghana, preferential treatment to local firms and SMEs over foreign competitors when tendering for the same goods, works and services is based on Section 60 of the Public Procurement Act No. 663 (PPA, 2003). These frameworks require government procurement help, develop and promote SMEs by giving them first consideration and preference by purchasing commodity or service from SMEs (Pephrah, *et al.*, 2016; Kazungu and Panga, 2015).

In Tanzania, section 34 of the Public Procurement Regulation (PPR, 2013) requires public entity to grant a margin of preference of up to ten percent to local firms or association between local and foreign firms. However, the preferential treatment is limited only to competent, experienced and pre-qualified SMEs in terms of resources, equipments, capability, performance, that is procurement timely delivery, quality standards, cost effective of procurement goods, works and services (URT, 2013). Despite the establishment of legal frameworks that provides first consideration and preferential treatment to promote participation of SMEs in public procurement and their growth, SMEs are not given a required maximum preferences and consideration during public procurement proceedings. On the other hand, SMEs are faced with a number of challenges including poor production equipments, poor infrastructure, inadequate capital to support their operations, uncoordinated institutional and legal support, poor market access and delayed payments especially in public service delivery (Hamisi, 2011; Basheka and Cornelia, 2009). These in turn results into ineffective participation of SMEs in public procurement opportunities, insignificant growth of SMEs' size, number of employees and profitability (Barclay, 2012).

The government and business owners look for reliable market, service innovation, job creation and growth of SMEs, particularly through procurement opportunities. On the other hand, the government strive for best performance under public financed procurement so as to achieve the desired cost, quality and timely delivery benefits (Sanchez, 2011; Saxena, 2012). The URT (2013) provides the framework and procedure for participation of service providers in accessing public procurement opportunities, with a preferential treatment to local firms and SMEs. It is therefore important that SMEs should possess the required skills, competency and resources in terms of modern production equipments, experience in a particular field, financial capability, for effective participation and guaranteed better performance in public procurement (Nicholas and Fruhmann 2014; Bashekaand Cornelia, 2009).

Despite the adopted framework to provide preferential treatment to SMEs access and harness public procurement opportunities, public procuring entities are not effectively implementing the framework as SMEs are given a little consideration and preference during public procurement process (Peprah *et al.*, 2016; Hamisi, 2011). Large sized local enterprises and foreign firms mostly access and implement public procurement contracts despite the fact that they should collaborate with local firms and SMEs at a margin of preference of up to ten percent. Among others, Kazungu and Panga (2015), Pressey *et al.*, (2009) and Ankunda (2010) posited that lack of capital, access to market, legal requirements, inflation and taxes are the key challenges that hinders the growth of SMEs. In turn, these inefficiencies results into decline of SMEs, their profitability and overall government GDP. It is estimated that SMEs contribute about 35% to GDG which is significantly low compared to 52% in Uganda. The study sought to examine the role of public procurement towards the growth of SMEs, taking Mbeya region in Tanzania as a case in point.

2.0 LITERATURE REVIEW

Procurement means buying, purchasing, renting, leasing or acquiring of goods, works or services by a procuring entity and includes all functions that include description of requirements, selection and invitation of tenderers, preparation and award of contracts (URT, 2011; Lysons and Farrington, 2012). Azeem (2007) defines procurement as the acquisition of goods, works or services from external source at the best possible cost to meet the needs of the organisation in terms of quality and quantity, time, and location. On the other hand, public procurement is the process of acquisition of goods, works and services by public bodies (Odhiambo and Kamau, 2003). SMEs are taken to mean micro, small and medium sized business entities whose personnel members and assets fall below a certain limits (Barclay, 2012). SMEs engage themselves in formal activities, particularly in consultancy services, construction activities and supply of goods to the public and private owned organisations. In Tanzania, the SMEs Development policy of 2003 provides a clear classification of SMEs basing on the number of staffs and assets of a particular business entity as presented in table 1.

Table 1: Classification of SMEs in terms of investment

Business category	Number of staffs	Amount of capital invested
Micro Enterprises	1 – 4	Up to 5 millions
Small Enterprises	5 - 49	Above 5 to 200 mill
Medium Enterprises	50 - 99	Above 200 – 800 mil

Source: Tanzania SMEs Development Policy (2003)

Tanzania, like other developing countries keeps into consideration about the growth of SMEs and their contributions to economic development. The International Trade Centre (ITC) posited that SMEs contributes to country's GDP, enhances flexibility and innovation in trade, offers service at lower cost, and it creates employment to the public. The government of Tanzania established Tanzania Chamber of Commerce, Industry and Agriculture (TCCIA, 1988) and Small Industrial Development Organisation (SIDO, 1973) under the ministry of industry, trade and investment to assist and address the need of SMEs for sustainable growth and development. Furthermore, the government as the main purchaser in the country provides preferential treatment to local firms and SMEs in harnessing public procurement opportunities as a measure to promote and enhance their growth. The URT (2013) prescribe the framework for SMEs to collaborate among themselves or with foreign or large firm up to ten percent margin of preference in public procurement. These measures strengthen SMEs technical and financial capability, entrepreneurial abilities into toward self employment and country's development (Abor and Quartey, 2010; Barclay, 2012).

Worldwide, the role of public procurement toward the growth of SMEs is momentous (Hamisi, 2011; Kidalov and Snider (2011). Several studies (e.g. Kazungu, Matto, and Massawe, 2017; Kazungu and Panga, 2015; Ngugi, 2012) have found that SMEs are the main engines for growth and economic development of a county. SMEs significantly contribute to County's GDP. It is therefore important that the government should create a conducive and favourable environment competitive environment for SMEs, with regards to their capability and capacity. Peparhet *al.*, (2016) in their study on SMEs accessibility to public procurement posited that when operating environment for SMEs is very favourable to have access to public contract, the contribution to economy are enormous. However, the study found that SMEs are not given preferential treatments as prescribed in the public procurement act. Kazungu and Panga (2015) analysed the importance of empowering SMEs to harness public procurement opportunities in Tanzania. Among other, they found that 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.

Competiveness of SMEs in accessing public procurement opportunities depends on their competency service delivery (Kidalov and Snider, 2011; Chen, 2013). Past experience, production capability and financial capability are the key drivers that enhance competitiveness of a particular SME toward improved public procurement performance and overall service delivery. For the purpose of this study, competitiveness of SMEs means ability to deliver the required service in public procurement at a reasonable cost, within agreed time limits and accepted quality standard of procured goods, works and services. Hansen, *et al.*, (2012) posited that complex legal requirements and lack of access finance to support operation of SMEs and future expansion hinders SMEs growth and their participation in public procurement as the result, 60% of SMEs fail within the first five years of their operation. Kazungu and Panga (2015) recommended on the need to ensure effective implementation of public procurement regulations and SMEs promotions framework to support and enhance their growth.

3.0 METHODOLOGY

The study was carried out in Mbeya, one of Tanzania's 31 administrative regions. Mbeya is located in the Southern West of Tanzania. It is divided into seven (7) administrative districts namely Chunya, Mbeya rural, Kyela, Mbarali, Mbeya City, Rungwe, and Busokelo District councils (URT, 2012). The Mbeya City Council is considered for this study as it has a large number of registered SMEs, estimated to be 381 which is larger number compared to other councils (MRCO, 2016). The target population were the owners of SMEs and head of procurement departments in Mbeya City Council. Procurement practitioners from public

entities in Mbeya region were interviewed to give key information and experience on the participation of SMEs in public procurement bidding process. The study adopted purposive sampling technique in selecting SMEs owners from the target population. Respondents were selected based on their knowledge, experience and judgement on running their business and participation in public procurement bidding process. Business entities that have been existed for more than five (5) years, having awareness on participation in public procurement were selected for the study. Basing on these criteria, the study therefore involved a total of 72 SMEs owners from Mbeya City District Council.

Semi-structured survey questionnaire were used to collect quantitative and qualitative data from business owners. A set of self-administered questionnaire was given to respondents through 'drop and pick later' method and were collected after respondents have filled them. Survey was considered appropriate since it minimises researcher's biasness during data collection, while on the other hand it covers a large number of respondents. A face to face structured interview was used to collect primary data from key informants (public buyers from Mbeya region). The responses were recorded using notebook and tape – recorder to record the information collected. Pilot study was conducted to test the reliability and validity of the research instruments used. Content validity was determined by seeking expert's opinion before the actual data collection. The feedback from the experts helped in modifying the questionnaires, and changes were made where necessary. Cronbach's Alpha coefficient was used to check the reliability of research questions. The rule of thumb is, instruments are reliable when Cronbach's Alpha scale of 0.7 and above is obtained (Miller, 2003). In this study, the average Cronbach's Alpha value was 0.725, therefore the research instruments were reliable.

4.0 RESULTS AND DISCUSSION

4.1 Preferential Treatment of SMEs in Public Procurement

The study examined the role of preferential of SMEs in accessing public procurement opportunities. Respondents were asked on the extent to which they are given preferential treatment in public procurement as stipulated in the PPA (2011) and the PPR (PPR, 2013). A point five scale where 5 = Very Great Extent, 4 = Great Extent, 3 = Moderate Extent, 2 = Less extent, and 1 = Not at all were used to collect the responses from service providers. Despite the requirement to provide preferential treatment to local firms and SMEs, the 30 (42%) respondents reported that SMEs are not given any preferential treatment in harnessing public procurement opportunities. Furthermore, 21 (29%) reported having given less preference, 11 (15%) are given moderate consideration. Unfortunately, it was revealed that only 4% and 10% are given a very great and great preference respectively in harnessing public procurement opportunities. These findings reveal a violation of PPA and its related regulations in executing procurement functions. These findings agree with *Peprahet al., (2016)*, *Kazungu and Panga (2015)* findings who argued that SMEs are not effectively harnessing procurement opportunities since they are not given adequate preferential treatment.

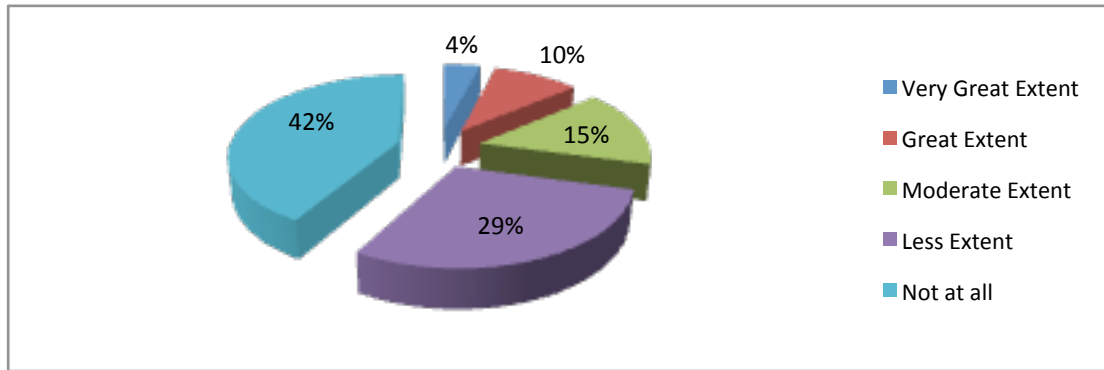


Figure 1: SMEs preference in public procurement

4.2 SMEs Competency and Public Procurement Performance

The study also looked at the competency of SMEs towards the performance of procuring entities when access procurement opportunities. A point five scale where 5 = Very Great Extent, 4 = Great Extent, 3 = Moderate Extent, 2 = Less extent, and 1 = Not at all were used to collect responses from procurement management units in Mbeya region and indicate a significant competency of SMEs in enhancing procurement performance. Results of descriptive analysis are presented in table 2 revealed SMEs are competent to enhance public procurement performance a moderate extent ($3.45 \leq \text{mean} \leq 3.86$). The findings further revealed that SMEs ensures timely delivery in a course of procuring goods, works and services in public procurement (mean = 3.56), SMEs achieve quality standard of procured goods, works and services in public procurement (mean = 3.86), SMEs ensures cost effective of procured goods, works and services in public procurement (mean 3.55). It was further revealed that, to a moderate extent SMEs are qualified to participate in public procurement service delivery (mean = 3.76), and that SMEs are able to compete for contract award in public procurement to a moderate extent (mean = 3.45). These findings are indication that SMEs are competent to deliver better service in public procurement with overall mean 3.67. These findings therefore support Barclay (2012), Abor and Quartey (2010) findings who posited that competent and qualified business entities play a significant role in enhancing public procurement performance.

Table 2: Descriptive Analysis for SMEs competency (N = 37)

Aspects related to SMEs competencies	Mean	Std. Deviation
SMEs ensures timely delivery in a course of procuring goods, works and services in public procurement	3.56	0.88
SMEs achieve quality standard of procured goods, works and services in public procurement	3.86	0.94
SMEs ensures cost effective of procured goods, works and services in public procurement	3.55	0.79
Pre – qualification of SMEs to participate in public procurement	3.76	0.95
Ability of SMEs to compete in public procurement contract for supply of goods, works and services	3.45	0.87
Overall Mean	3.67	0.886

The key informants reported that lack of competency is a typical challenge that hinders SMEs from harnessing and accessing public procurement opportunities. One of the key informants argued that:-

...“Public procurement opportunities are open to all bidders, provided he/she is capable of competing with other bidders basing on the evaluation criteria given to them. As we all know that, the purpose of public procurement is to provide better service to the public, while achieving cost, time and quality benefits. The problems with SMEs is that they are less competitive to achieve the desired benefits, they are not qualifies enough to deliver the required procurement performance. In most cases we evaluate tenders based on the criteria published, and the responsive bidder, regarding the size of their business is awarded a contract...” (Interview field data, Mbeya, July14th, 2018).

4.3 Challenges Facing SMEs in Accessing Procurement Opportunity

The study also sought to examine the challenges that face SMEs in accessing public procurement opportunities. Respondents were asked if they have encountered any challenge(s) while trying to secure procurement opportunity in public entities for supply of goods, works and services. Binary responses (Yes/No) were used to collect the data from the target respondents and the data were analysed using descriptive statistics. The study found 70.2% have encountered challenges when securing procurement opportunities. However, 29.8% respondents reported that they have not encountered any challenges in a course of securing public procurement opportunity. These findings indicate that SMEs faces a numbers of challenges in accessing public procurement opportunities for supply of goods, works and services. Furthermore, the respondents were asked to indicate extent to which the identified challenges have been hindering them in accessing public procurement opportunities. The responses were collected using five pint scale, where 5 = Very Great Extent, 4 = Great Extent, 3 = Moderate Extent, 2 = Less extent, and 1 = Not at all was used. Descriptive statistics was used to establish means and standard deviations as presented in table 3.

The findings revealed that to a great extent (mean = 4.00) bureaucratic process in public procurement hinders SMEs participation in procurement opportunities. Public procurement is subjected into a numbers of bureaucratic processes, resulting into additional and unnecessary procurement costs. This in turn discourages potential SMEs owners from participating in public procurement and service delivery (Sanchez, 2011, Leach, 2011).The findings also revealed that lack of fairness in public procurement proceedings to a great extent hinders SMEs access public procurement opportunities (mean = 4.32). Public procurement should be conducted in a manner that promotes fairness among service providers (URT, 2013).Nepotism practices in public procurement discourage bidders, particularly SMEs owners from participating and accessing public procurement opportunities. It was further revealed that to a great extent (mean = 4.25) SMEs suffers from insufficient fund as the basis for processing and guarantees public procurement performance and service delivery. This implies that lack of fund hinders SMEs participation in public procurement opportunities.

Furthermore, the findings revealed that legal requirements for bidders to participate in public procurement proceedings hinders SMEs access procurement opportunities to a great extent (mean = 3.95). Public procurement requires service providers to register their business and secures business license as one of the required criteria to participate in public procurement opportunities. This specifically forces SMEs owners to operate their business informally, without getting registered, and therefore become unable to access an opportunity to supply goods, services and works in public organisations (EC, 2008; Basheka and Cornelia, 2009).The respondents argued that to a great extent (mean = 4.05) there is no effective policy that support SMEs access public procurement opportunities. SMEs have fewer resources as the results they less competitive compared to large sized organisations, and therefore they are less likely to win contract for the supply of service in public procurement (Ankunda, 2010; Leach, 2011). On the other hand, the study found that corrupt practices in public procurement proceedings hinders SMEs in accessing procurement opportunities (mean = 4.02). Corruption eliminates a sense of

fairness practices in public procurement, which in turn results into the loss contract for the lowest evaluated service providers (Kazungu and Panga, 2015; Pressey *et al.*, 2009). Moreover, it was found that to a great extent (mean 4.15) lack of education in public procurement among SMEs owners hinders them in accessing procurement opportunities. Leach (2015) and IISD (2015) Posited that most of the SMEs owners lack knowledge in public procurement proceedings, they submit token and irregular bids, resulting into disqualification and loss of procurement opportunities.

Table 3: Descriptive Analysis Challenges facing SMEs (N = 72)

Challenges in accessing public procurement opportunity	Mean	Std. Deviation
Bureaucratic public procurement process hinders SMEs participation in/access procurement opportunities	4.00	0.98
Lack of fairness during public procurement proceedings hinders SMEs access public procurement opportunities	4.32	1.05
Insufficient fund to process and guarantees public procurement performance and service delivery hinders SMEs participation in public procurement	4.25	0.99
Legal requirements to participate in public procurement proceedings hinders SMEs access procurement opportunities	3.95	1.03
Lack of effective government policy to support SMEs access public procurement opportunities	4.05	0.97
Corrupt practices in public procurement proceedings hinders SMEs in accessing procurement opportunities	4.02	0.98
Lack of education on public procurement proceedings hinders SMEs access procurement opportunities	4.15	1.20
Overall Mean	4.11	

4.4 Growth of SMEs

The study sought to ascertain how public procurement influences the growth of SMEs. Respondent were asked to indicate how their business have been performing in terms of:- Profitability, number of employees and a particular SME's number of branches as the results of participating in public procurement. Three point scale, where 3 = Increased, 2 = the same and 1 = decreased were used to seek responses from the target respondents. In order to establish the extent to public procurement enhances the growth of SMEs. From table 4, the majority of the respondents, 59 (81.9%) responded that public procurement have resulted into increased SMEs profitability, however, 13 respondents equivalent to (18.1%) argued that their business profitability was the same. These findings are in line with those of Kazungu and Panga (2015) who posited that empowering SMEs through public procurement opportunities enhances the growth of SMEs in terms of profitability and cash flows due to increased market size. The findings also revealed a significant growth in the number of employees in 66 (91.7%) SMEs compared to 8.3% equivalent to 6 SMEs which reported static growth in the number of employees. The findings therefore concurs with Nicholas and Fruhmman (2014) and Hansen *et al.*, (2012) who argued that increases in the size of the organisation in term of tasks and functions, the business entity are more likely to increase labour forces to handle and implement additional tasks. Furthermore, 64 (88.8%) SMEs reported that the sizes of their business entities (branches) are the same as before. This is significantly large compared to 5 (6.8%) and 3 (4.4%) who argued that the size of their business entities have increased and decreased respectively.

Thus, it is worth saying that SMEs which are inclined to public procurement opportunities they are more likely to enhance their growth in term of profitability and size of the business (Kazungu and Panga, 2015; IISD, 2014; Pressey *et al.*, 2009).

Table 4: Growth of SMEs under public procurement opportunities (N = 72)

Aspects related to the growth of SMEs	Percentage		
	Increased	The same	Decreased
Level of your business entity's profitability as the results of participating and accessing public procurement opportunities	59 (81.9%)	13 (18.1%)	0 (%)
Number of your employees as the results of participating and accessing public procurement opportunities	66 (91.7%)	6 (8.3%)	0 (%)
Number of your business entities as the results of participating and accessing public procurement opportunities	5 (6.8%)	64 (88.8%)	3 (4.4%)

5.0 CONCLUSIONS

The study sought to investigate the role public procurement toward the growth of SMEs. Therefore, the conclusion made under this study is based on the adopted study objectives. Despite the legal requirements to provide preferential treatment to SMEs access public procurement opportunities, the study revealed and concluded that SMEs are not given required preferential treatment in participating and accessing public procurement opportunities as prescribed by the public procurement regulation (URT, 2013). To a very less extent SMEs are given consideration to access procurement opportunities. On the other hand, the study found and hereby concludes that SMEs do not possess the required skills, competency and capability to compete and enhance public procurement performance. It was revealed that SMEs influence public procurement performance, timely delivery, quality standard and cost effective to moderate extent. The study concluded that bureaucratic process, lack of fairness in public procurement, insufficient fund, complex legal requirements, procurement corrupt practices, lack of policy that support SMEs are key challenges that hinders SMEs from access public procurement opportunities and their growth. Furthermore, the study concluded that public procurement results into significant growth of SMEs in terms of profitability, employees and business size.

6.0 RECOMMENDATIONS

The recommendations made under this study are based on the study findings and the conditions in the current business environment in which SMEs operates. First, the study recommends on the need of public procuring entities to observe the established legal frameworks, including adoption of fairness and anti – corrupt practices while ensuring that SMEs are given the required maximum preference in public procurement process. The study too recommended the need to review the existing current SMEs development and promotion policies and frameworks to identify the weakness hindering their growth and conducive environment to participate and access public procurement opportunities. This will help SMEs harness public procurement opportunities for sustainable growth and development. Government fiscal policy makers should focus on formulating policies that offers tax incentives to SMEs, specifically in a short run. This will strengthen SMEs financial capacity, and therefore enhances their operations. On the other hand, governments can create conducive operating environment for SMEs which will be effective in the long run such as imparting entrepreneurial

training and education for effective and sustainable development and growth of SME. Furthermore, SMEs are recommended collaborate themselves under joint bidding so that they will be able to compete with large sized firms in access public procurement opportunities. Lastly, SMEs clusters are recommended to attend regular public procurement training as a means of enhancing their knowledge and understanding on public procurement proceedings.

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