

MAKING SPEND MATTER

Frequently Asked Questions 5

SME Engagement



INTRODUCTION

About Making Spend Matter

The **Making Spend Matter Transfer Network**¹ is one of 23 transfer networks funded through the **URBACT Programme**². Generally, the transfer networks are seeking to transfer an **URBACT identified piece of Good Practice**³ associated with integrated urban development to other cities across Europe.

In the case of Making Spend Matter, the identified good practice is around the process of public procurement, and in particular a methodology called spend analysis, which enables cities to measure where their procurement spend goes and subsequently work in cooperation with other partners and the market to progress the way in which they undertake procurement policy and practice.

The spend analysis good practice has been developed by the City of Preston in the United Kingdom over the course of the last seven years. Since 2018, Preston has sought to transfer the principles and practice of the methodology to six other cities: Pamplona (Spain), Vila Nova De Famalicão (Portugal), Schaerbeek (Belgium), Kavala (Greece), Bistrița (Romania), and Koszalin (Poland).

About the Making Spend Matter Toolkit

The Making Spend Matter Toolkit (www.preston.gov.uk/makingspendmattertoolkit) brings together guidance and learning from the network to enable other public organisations and cities to start / continue their own strategic procurement journey. The Toolkit comprises four parts:

- The first part explains how public organisations can take a more strategic approach to procurement to help them deliver positive impact on their communities, economy and environment.
- The second part provides a spend analysis tool produced by CLES (a national organisation for local economies in the UK), and a guide (produced by Making Spend Matter partners) to help cities

analyse their procurement spend in terms of geography, sector and with different types of suppliers, and interpret their findings to help inform where changes can be made to procurement processes.

- The third part provides tips and guidance through a series of Frequently Asked Questions (FAQs) and infographics on a range of topics including from how to develop a strategic approach to public procurement, increase your engagement with Small and Medium-sized Enterprises (SMEs), embed social and environmental criteria and measure the wider impact of your procurement activities.
- The fourth part provides practical examples on the topics highlighted in parts two and three and other activities which partners engaged in during the lifetime of the Transfer Network.

About Bilateral Meetings and FAQs

As part of the activities of Making Spend Matter, each of the partners has had the opportunity to participate in Bilateral Meetings on any of the themes of Advanced Spend Analysis, Business Database Development and Small and Medium-sized Enterprise (SME) Engagement, and Social and Environmental Criteria. There have been two meetings on each theme: the first being a 'how to' workshop; and the second focusing upon Partner progress and wider case studies.

Over the course of the Bilateral Meetings, Partners have asked a number of questions about the themes, the answers to which will be of interest to the Partners which did not participate in the sessions and to other Cities which are interested in adopting a more strategic approach to Procurement. This Frequently Asked Questions (FAQ) document provides responses to common questions about the theme of SME Engagement.

¹ www.urbact.eu/making-spend-matter

² www.urbact.eu/

³ www.urbact.eu/good-practices/home

Question 1

Why are SMEs⁴ important to local economies – and why should public institutions try and engage them in procurement?

With a growing focus on using public procurement strategically to meet wider social, economic, and environmental goals, the importance of SMEs within local economies cannot be ignored. SMEs are central to local economies and to local employment. Across Organisation for Economic Co-operation and Development (OECD) member countries 99% of all businesses are SMEs and SMEs account for an estimated 2 out of every 3 jobs. It is therefore

unsurprising that SMEs are important drivers of employment growth. SMEs also can play a valuable role in creating inclusive, sustainable economic growth.

As drivers of local economic growth and employment, ensuring SMEs are able to engage in public procurement by reducing and eliminating (where possible) barriers to participation is important.

Question 2

What are the barriers that SMEs confront in procurement?

It is important to recognise the heterogeneity of SMEs and that therefore the barriers experienced to engaging in public procurement are likely to vary between SMEs within a sector, as well as between sectors, and also subject to different characteristics, such as size.

There are barriers, both in terms of procurement practices and organisational culture, that can hinder SME engagement. These can apply equally to both SMEs and to municipalities.

Procurement practices that act as barriers to SMEs can take a range of different forms, including:

- the size of tenders;
- the time and resources needed to bid for tenders, as well as uncertainty of outcomes;
- a lack of understanding of the process;
- how and where procurement opportunities are advertised – due to multiple procurement platforms across different public sector organisations
- the use of pre-tender qualifications
- the use of Framework Agreements by municipalities – which have a tendency for a “one-size fits all” approach and exclude SMEs not on the frameworks from participating over a period of time until the frameworks are renewed.

The above can all contribute to SMEs failing to participate in public procurement. Although there have been attempts to reduce these barriers, such as through the transposition of three EU directives on procurement which were seen as supportive of SMEs⁶, weak implementation and a lack of information have been identified as hindering progress.

Organisationally, municipalities may face barriers engaging with SMEs due to:

- A lack of understanding of SME potential for innovation;
- A lack of understanding of SMEs’ wider contribution to local social, economic, and environmental impacts;
- A lack of knowledge regarding the local business base – size, sector, general capacity to participate in public procurement opportunities;
- A lack of internal capacity and resource which can influence the willingness and/or ability of municipalities to create a procurement eco-system that is conducive to SME engagement;

Question 2 continued on page 4...

⁴ SMEs refer to enterprises with up to 250 employees. This can be divided into micro-enterprises (1-9 employees), small (10-49) and medium (50-250).

⁵ OECD (2019) OECD SME and Entrepreneurship Outlook 2019, www.oecd.org/industry/smes/SME-Outlook-Highlights-FINAL.pdf

⁶ www.ec.europa.eu/growth/single-market/public-procurement/rules-implementation_en

- The use of Frameworks and / or Dynamic Purchasing Agreements (which allow SMEs the flexibility to join at any time), which meet contract management needs and organisational requirements, but because of their “one-size fits all” approach do not necessarily lend themselves to SME participation, and do not always allow for the inclusion of wider social, economic, and environmental benefits.

Whilst not all barriers can necessarily be overcome, some can be through rethinking ways of working and ensuring that the public procurement environment is conducive to SME participation is important.

Question 3

What can local administrations do to support SME engagement in procurement?

There are actually two elements to this question that should be considered. First, an internal element which looks at the processes and cultural within the local administration that may act as a barrier to engaging

SMEs in public procurement (Question 4) – and an external one that considers the barriers that may exist within SMEs themselves (Question 5).

Question 4

What can local administrations do internally to support SME engagement in procurement?

Only by understanding what the barriers are for SMEs can municipalities start to put in place measures to support SME engagement. An important step is to develop an understanding of the SMEs in an area. Using information, such as from a business survey or from a business database, as well as working with local SME and business bodies can help to identify the sectors where SMEs are active and the potential areas where they could engage in public procurement. Such sources of information can also assist in the identification of barriers to SME engagement in public procurement.

Successfully engaging SMEs in public procurement activities requires recognising the ways in which the procurement process itself can place barriers

to SME involvement and what type of procurement eco-system is required. Barriers can include: the size of tenders, how procurement opportunities are advertised, the way in which applications are made, and the use of pre-tender qualification required. Reviewing the procurement process, identifying any barriers to SME engagement, and then putting in places measures to address such issues can have a positive impact on SME involvement.

Creating a conducive procurement environment also includes supporting public procurement staff themselves. This is not only about capability, that is ensuring procurement staff receive the training required, but also about the adequate resourcing of procurement activities.

⁷ In 2017 the European Union recommended that public procurement needed to be professionalised: www.eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32017H1805&rid=8 Competency frameworks have been developed, such as the one by the Scottish Government: www.gov.scot/publications/scottish-procurement-competency-framework/ www.oecd.org/governance/procurement/toolbox/search/scottish-procurement-competency-framework.pdf

Question 5

What can local administrations do externally to support SME engagement in procurement?

For many SMEs, procurement processes can appear daunting and SMEs are likely to benefit from effective communication and the provision of support to participate in the procurement process. Such support can take many different forms, including:

- The provision of training and clear guidelines on what is required to engage in procurement.
- The dissemination of information such as through ‘meet the buyer’ events and/or networking events between larger companies and SMEs to help SMEs become part of wider supply chains.
- Simplified procurement systems which do not place an unnecessary burden on those engaging with procurement opportunities.
- Opportunities to engage with procurement staff to build an understanding of what is needed.

Identifying the most effective communication tools that will reach SMEs in different sectors is also important. Reaching SMEs with information on procurement opportunities may take a variety of forms – whether it was through procurement portals or through a mix of other techniques, such as the use of newsletters and social media. Understanding differences between SMEs (whether it be as a result of sector, size, or some other factor) in how they find procurement opportunities is important when considering how to communicate with them most effectively.

There are some challenges that cannot be easily addressed: a lack of resources and an unwillingness to invest the time in applying without certainty as to success for example, are not easily surmountable. Nor do all SMEs want to be involved in public procurement activities. Nevertheless, it is important to differentiate between SMEs choosing not to participate and those that feel unable to do so because of an unengaging environment. Regular communication with SME and business representatives, and other types of information gathering, such as surveys of local businesses, can help municipalities to understand whether non-participation is a choice or because of other factors that can, and should, be addressed.

Question 6

How will we know if activities are having an impact?

The first indication of a positive impact should be seen with increasing levels of SME participation. However, what is required is effective monitoring of SME engagement in public procurement. Developing measures to assess involvement does not need to be onerous: it could be as simple as collecting information on the share of public procurement awarded to SMEs through to more in-depth analysis, such as through the use of spend analysis and contract monitoring. Understanding factors including sectoral involvement, SME size and other relevant characteristics, as well as information on delivery and performance, can help to identify areas where procurement processes could be improved, or different types of support tailored to specific types of SMEs may be needed.



Making Spend Matter is a network of 7 European cities, funded through the URBACT III Programme and the European Regional Development Fund, exploring how spend analysis can be used as an evidence base to improve public procurement and deliver wider benefits to communities and places.