



Low participation in public procurement of small and medium enterprises (SMEs) and its determinants in Enugu, Nigeria

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Abstract

It is a well-known fact that Small and Medium Enterprises (SMEs) are critical to a country's economic success. Participation of SMEs in all spheres of economic activity, including public procurement, is one of the ways the sector may promote the country's economic development. However, SMEs are sometimes hesitant to sell to the government. The factors responsible for the poor participation of SMEs in public procurement in Enugu State, Nigeria, were discovered and grouped into eight themes in this study. Questionnaires were used to collect data from 193 CEOs of SMEs. The generated data was examined using the ranking approach. According to the findings of the study, perceived lack of transparency in public procurement proceedings, uneven qualifying criteria, and the burdensome nature of public procurement are the main reasons SMEs are hesitant to participate in public procurement in Enugu, Nigeria. It was determined that transparency is essential in public procurement in order for SMEs to fully engage in the process. According to the report, in order to increase SMEs' participation in public procurement, transparent procurement administration must be ensured.

Keywords: determinant, SMEs, public procurement, contract, eligibility criteria

Introduction

There has been global support for the establishment of strong SMEs in countries all over the world, particularly in developing countries, due to the crucial roles they may play in a country's economic success. SMEs play a pivotal role in various pathways that go beyond the well-discussed job generation. They are a growth-promoting sector that not only greatly improves living standards, but also significantly increases local capital formation, drives innovation, and promotes competition in developing nations. According to a 2019 collaborative survey conducted by the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) and the National Bureau of Statistics (NBS), the MSMEs sector employed 71,832,323 people, accounting for 89.73 percent of the total labor force in Nigeria, while contributing 57.82 percent to the nation's Gross Domestic Product (GDP). Similarly, according to World Bank (2018) estimates, SMEs in the People's Republic of China (PRC) account for 97.6 percent of all firms, employ 89 percent of the workforce, and account for 81 percent of total sales. SMEs are claimed to be the largest source of entrepreneurial skills, innovation, and employment in Europe, accounting for over 82 million jobs (Pepurah, Mensah, Akosah, 2018) [16].

Despite the sector's essential duties, study has demonstrated that it has continued to face several obstacles that have impeded its expansion and attainment of its full potential. Access to capital, insufficient infrastructure, inconsistency in government policies, poor assistance, access to market, numerous taxation, and antiquated technology were recognized as the key problems hindering the better operations of SMEs in Nigeria by SMEDAN and NBS in their survey (2019). Similarly, Chima (2018) ascribed the slow growth of SMEs in Nigeria to issues with competition, taxes, marketing, and funding.

Many governments around the world have implemented measures to foster the growth of SMEs. Among these initiatives is the expansion of the public procurement sector to include SMEs. The acquisition of products, works, and services with public monies is known as public procurement (World Bank, 2015) [24]. It entails asking tenders, submitting and collecting bids, evaluating bids received, awarding contracts, and contract implementation. For a variety of reasons, including capital requirements, technological know-how, and so on, the procedure is frequently competitive and extremely difficult for SMEs when compared to their larger counterparts. In Nigeria, for example, Small Enterprises are defined as businesses with total assets (excluding land and buildings) of more than five million Naira but less than fifty million Naira and a total workforce of more than ten but less than forty-nine personnel (SMEDAN, 2019). With this definition of small enterprises in Nigeria, they will find it difficult to compete advantageously with large firms in governmental procurements. Some countries, including as Canada, South Africa, and India, have implemented rules of "set aside" and "quotas" to prevent SMEs from being excluded from public procurements. Although Nigeria is not left out, the government has pushed for efforts to encourage SMEs to participate in public procurement. According to Akenroye and Aju (2019) [1], Nigeria's Local Content policy was implemented to encourage oil and gas corporations to acquire from SMEs in local areas. Tumkella (2020)

[19] noted that despite the government's efforts, much could not be accomplished due to abuses, poor project appraisal, and corruption. Ihua (2016) [9] bolstered this assertion by stating that the Local Content Policy of the Government has led to an increase in contract awards to large enterprises, rather than the expected increase in SMEs participation.

The importance of SMEs taking advantage of public procurement opportunities cannot be overstated. According to Fee, Erridge, and Hennigan (2021) [4], as reported in Flynn and Davis (2019), public procurement provides consistent and predictable sources of demand, but Loader (2015) [10] and MacManus (2015) [11] concluded that public procurement provides near certainty of payment. According to research, SMEs and public procurement have a mutually beneficial connection. According to Zheng, Walker, and Harland (2019) [23], when the government purchases from SMEs, it reaps a variety of economic benefits. This viewpoint was bolstered by Ebig and Ghas (2018) [2], who asserted that including SMEs in public procurement can result in a variety of economic benefits, including a higher rate of innovation. This is due to the ability of SMEs to adapt and change fast, as well as their proximity to their clients (Peprah, Mensah, & Akosah, 2018) [16].

Despite the demonstrated benefits of SMEs participating in public contracts, there is an increasing percentage of apathy among SMEs in public procurement involvement. According to Flynn and Davis (2018) [5], "although it may be mutually beneficial for SMEs and public sector companies to do business, the reality of everyday procurement paints a less rosy image." According to Loader (2015) [10] and MacManus (2015) [11], as referenced in Flynn and Davis (2018) [5], SMEs have consistently reported unhappiness with the public sector tendering process and procedures (Purchase, Goh & Dooley, 2019) [17]. This viewpoint was echoed by Afande (2015), who stated that many potential suppliers, including small and micro firms, may be discouraged from tendering for public sector contracts due to a number of perceived or real barriers such as: information hoarding about opportunities (including subcontracting opportunities); a belief that the processes involved in bidding are unnecessarily complex and costly; not fully understanding the requirements; and, even if they do bid, they may be unsuccessful. Similarly, Macpherson and Holt (2007) concluded that SMEs are discouraged from engaging in public procurement due to a lack of expertise in producing excellent bids, the high cost of tendering, and onerous documentation requirements. According to Morrisey and Pittaway (2019) [13], some of the issues that impede SMEs from participating in public contracts are delayed payment and unequal qualification conditions. Nkongwe (2019) [14] discovered that the lack of transparency in the tendering process discourages SMEs from participating.

In their study of hurdles to SMEs involvement in public procurement in Nigeria using the Federal Capital Territory Abuja as a case study, Akenroye and Aju (2019) [1] discovered that information obscurity and incapability are the most significant impediments to SMEs engagement in public procurement. Huka (2018) [8] reported in his account that while studying the contribution of public procurement to the success of SME in Moshi Municipality in Tanzania, he discovered that the low winning rate of SME in public procurement is due to unfavorable technical conditions, unfavorable financial conditions, and unfair evaluation criteria. Obanda (2017) [15] discovered in a similar study that SMEs are frequently excluded from public procurement contracts due to administrative requirements for required bidding processes and their insufficient size and competence to perform. Loader (2015) [10] identified unfamiliarity and not always efficient marketplaces, bureaucratic tendering procedures, and their inherent resource limitations as reasons why SMEs struggle with public procurement, while Georghious, Edler, and Uyerra (2017) [7] identified low professionalism and high-risk aversion as factors affecting SMEs participation in public procurement.

Although various studies have found barriers to SMEs' access to the public market, to the best of our knowledge, no published research has ranked these barriers in order of impact, particularly in Enugu, Nigeria. Enugu State is Nigeria's commercial nerve hub, and according to SMEDAN (2019), it has the biggest number of SMEs in the country. As a result, this study identified and classified variables that discourage SMEs from engaging in public procurement, with the goal of ranking them in order of impact.

Method

Between July and September of 2018, a survey of SMEs Chief Executives/Managers in Enugu, Nigeria was undertaken to identify the obstacles preventing their SMEs from participating in public contracts. Literature has found several elements influencing SMEs' participation in public contracts. These factors were then re-explained and expanded into eight sentences. Disproportionate qualifying requirements, biased evaluation/award criteria, various tax deductions, late / unfavorable payment terms, lack of transparency, unethical behavior, burdensome nature of procurement, and complex contract management were among these causes.

The questionnaire was divided into the following sections in broad strokes: Section A contains personal information about the respondents, such as their gender, years in business, educational qualifications, and so on. Section B contains information on the respondent's participation in public contracts as well as the factors that influence their participation. The respondents were asked to rank their agreement with the statement of factors that discourage them from participating in public contract based on a five point Likert scale. The five Likert scale was adopted because it provides unambiguous results and ease of usage (Ekanayake & Ofori, 2016) [3]. 350 questionnaires were administered on Chief executives/ managers of some SMEs in Enugu State who were purposively selected. 263 of the 350 administered surveys were retrieved, whereas 24 of the 263 questionnaires were invalid due to a partial completion error. As a result, 239 valid questionnaires were used for the study, accounting for 68.28 percent of the total.

Cronbach's coefficient alpha was determined in the study to determine the reliability of the five-point scale employed in the survey. The dependability test assesses the internal consistency of the factors that discourage

SMEs from participating in public contracts. The reliability test for the eight criteria yielded a result of 0.86. A value of 0.9 or higher is considered sufficient by George and Mallery (2020) ^[6].

Results and Discussions

Respondents' Demographics

Table I shows the responses to questions on the respondents' gender, degree of education, years in business, and sort of firm. According to the results, there were more male respondents than female respondents in the research area. Specifically, 68.6 percent (164) of respondents were men, while 31.4 percent (75) were women. This indicates that the study area's SMEs are dominated by men. This difference is to be expected given Nigeria's declining business environment. It takes courage and emotional tenacity to persevere in the face of adversity. The examination of the respondents' educational level found that 3.3 percent (8) hold a PhD certificate, 25.9 percent (62) hold a Masters degree, 64.4 percent (154) hold a BSc/HND, and 6.4 percent (15) carry a Diploma/Certificate. This demonstrates that the respondents were literate, which accounted for proper comprehension of the matter under debate. Responses to the question about years of business existence revealed that 21.6 percent (52) of respondents had been in business for less than two years, 42.7 percent (102) had been in business for two to four years, 17.9 percent (43) had been in business for five to seven years, 13.3 percent (32) had been in business for eight to ten years, and 4.5 percent (10) had been in business for more than ten years. This suggests that more over half of the enterprises were less than 5 years old, indicating that they were still in the development stage and would require assistance to survive. According to the study's responses on the nature of business of SMEs, 28.4 percent (68) were in service delivery, 20.5 percent (49) were in oil and gas, 18.8 percent (45) were in construction, and 32.3 percent (77) were in ICT.

Participation of SMEs in Public Contracts

Table II displays the results of the inquiry aimed at measuring the level of SMEs participation in public contracts. The findings revealed the low level of participation of SMEs in public contracts in Enugu. It was discovered that just 91 of the 239 SMEs chief executives sampled (38.0 percent) had ever participated in public contract in Enugu, while the remaining 148 (63.0 percent) respondents said they had never participated in public contract. Of the 91 respondents who have ever participated in a public contract, 29 (31.9 percent) claimed to have previously won contracts, whereas 62 (68.1 percent) claimed to have never won. 24.1 percent (7) of respondents ascribed their victory to low project costs, 20.7 percent (6) attributed their winnings to being the lowest bidder, and 17.2 percent (5) claimed it was due to the purchasing entity's procurement technique. This is logical given that the Public Procurement Act (PPA) of 2007 allows for the procurement of low-value items through a request for quotation from at least three unrelated suppliers/contractors. This enables SMEs to provide goods and services such as office equipment, stationery, and non-consultancy services. 20.7 percent (6) of those that won said it was because they were the lowest bidder. Other variables linked to 38.0 percent (11) of their winnings included pure luck, giving kickbacks to procurement officials, subcontracting, and joint venture. This bolstered the reality that certain bidders do engage in deceptive techniques with the assistance of procurement officials in order to win contracts.

Table 1: Profile of the Respondent

Characteristic	Frequency	Percent
Male	164	68.6
Female	75	31.4
Total	239	100
Highest Level of Education		
Ph.D	8	3.3
Msc	62	25.9
Bsc/ HND	154	64.4
Diploma/Certificate	15	6.4
Total	239	100
Years in Business		
Less than 2 years	52	21.6
Btw 2 and 4 years	102	42.7
Btw 5 and 7 years	43	17.9
Btw 8 and 10years	32	13.3
Above 10 years	10	4.5
Total	239	100
Nature of Business		
Service	68	28.4
Construction	45	18.8
Oil and Gas	49	20.5
ICT	77	32.3
Total	239	100

Table 2: SMEs Participation in Public Contract

Characteristic	Frequency	Percentage
Ever Participated in Public Contract		
Yes	91	38.0
No	148	63.0
Total	239	100
Ever won contract		
Yes	29	31.9
No	62	68.1
Total	91	100
Reason for winning		
Method of procurement adopted	5	17.2
Lowest bidder	6	20.7
Low contract cost	7	24.1
Others	11	38.0
Total	29	100

Factors Contributing to SMEs' Low Participation in Public Contracts

Table III shows the mean and standard deviation of the eight criteria important for SME sluggish participation in public contracts in Enugu, Nigeria. With a mean score of 4.30, perceived lack of openness in the public procurement proceeding scored first among the factors responsible for SMEs' lack of interest in public contracts in Enugu. The findings back up Kaspar and Pudderphatt's (2017) assertion that one approach for the government to help SMEs reach their full potential is through the public procurement system. However, the entry of SMEs into this potentially profitable industry is frequently hampered by obstacles such as corruption, red tape, and a lack of transparency. Transparency is a feature of effective and sound public procurement, which sets and then maintains easily available and unambiguous rules and procedures (Bureau of Public Procurement, 2018). Procurement processes, from pre-bid to post-bid, must not only be fair but also be seen to be fair. Situations in which rules are changed in the middle of the game to favor the "preferred bidder," and information relating to selection, evaluation, and award criteria is not clearly disclosed and made available to "all bidders," put public trust in public contracts to the test. Potential government suppliers are more likely to compete if they are confident that they have been provided with all necessary information, that their offers will be evaluated on the basis of objective criteria in a non-discriminatory manner, and that the procurement entity's decision can be challenged before an independent body (United Nations Office on Drugs and Crime, 2019) ^[20].

A disproportionate eligibility criterion with a mean score of 4.28 is ranked second. This conclusion backs up Morrissey and Pittaway's (2019) ^[13] contention that unequal qualification rules and delayed payment are barriers to SMEs participating in public contracts. Some procuring entities' insistence on eligibility criteria such as evidence of company registration with the Corporate Affairs Commission, annual turn-over, current PENSION certificate, evidence of Industrial Training Fund, high-profile professionals, and relevant job done, among others, could be very intimidating for growing SMEs.

The burdensome nature of public tenders is ranked third. Public procurement necessitates a plethora of documentation, verification, and evaluation procedures. Meanwhile, procurement activities in the private sector are less burdensome, making it easier for SMEs to buy from them. Bidding processes are overly complex because they necessitate extra documentation, which often discourages SMEs from participating in public contracts.

Delay / poor payment terms are ranked fourth. This is understandable given that the PPA, 2007, provides for a mobilization cost of up to 18% of the contract total upon presentation of a bank guarantee. Contract payments are also made in milestones or measured work, with a portion of the money retained as a retention charge to cover the liability term, which is normally no less than six months depending on the length of the project completion.

The unethical behavior of procurement authorities ranks fifth, with a mean score of 4.02. Unethical behavior, such as requesting bribes from contractors, unfair treatment, and exposing secret information while procurement proceedings are still ongoing, are severe obstacles to successful public procurement administration in Nigeria. This finding is consistent with the findings of Nkonge (2019) ^[14], who discovered that the lack of openness in the tendering process discourages SMEs from participating. This discourages SMEs from actively participating in public tenders.

With a mean score of 3.84, the bias evaluation/award criterion was ranked sixth. Even when the PPA expressly provides for it, most tender solicitation documents do not include award criteria. The use of the lowest evaluated responsive bid as an award criterion is another difficulty for SMEs. Experts have recommended for a 'most economically advantageous tender,' which promotes innovation and value for money. As a result of their inventive tendencies, SMEs would have a better chance of winning bids.

Complex contract management is ranked seventh, with a mean score of 3.84. Contract management is more difficult in the public sector. It begins with the grant and ends with the project handover. Contractors are asked to sign contract agreements, pay stamp duty on the agreements, which is a fixed proportion of the contract value, attend site meetings, which frequently involve feeding, monitoring, and unscheduled / scheduled inspections.

With a mean score of 3.71, repeated deductions is the least ranked factor. During interviews, some respondents

disclosed that they are expected to pay for specific taxes, such as an endowment fund, out of the small profits made on contracts. All of these taxes, according to them, are deducted at the source. They stated that this practice discouraged them from bidding on governmental contracts.

Table 3: Factors responsible for SMEs Low-Participation in Public Contract

Factors responsible for SMEs low participation in Public contract	Mean	Stand. Dev.	Ranking
Disproportionate eligibility criteria	3.87	0.81	6 th
Burdensome nature of public procurement	3.98	0.86	3 rd
Multiple taxation	3.62	1.15	8 th
Late / Unfavourable payment terms	4.35	0.89	1 st
Perceived lack of transparency	4.21	0.91	2 nd
Unethical behaviour of procurement officials	3.90	1.02	5 th
Bias evaluation/award criteria	3.91	1.16	4 th
Complex contract management	3.84	1.18	7 th

Conclusion

This study identified and ranked the reasons that contribute to SMEs' poor involvement in public contracting, despite the inherent benefits of selling to the government. The study found that lack of transparency in the conduct of public tendering is the primary reason why some SMEs prefer to buy from the private sector rather than participate in public contracts, despite the fact that the Public Procurement Act, 2007, which prohibits ambiguity in public contracts, is not always followed by government MDAs. As a result, SMEs are less likely to participate in public contracts since they lack faith in the process. The survey also indicated that SMEs have challenges with uneven qualifying criteria, biased award criteria, payment terms, and sophisticated contract management systems used by government MDAs in public contracts.

Recommendations

The following recommendations were made based on the study's findings:

1. The Bureau of Public Procurement (BPP) must continue to vigorously carry out its supervisory responsibility, ensuring that MDAs comply with all aspects of the PPA, 2007, relating to openness and competition in public contracts, as well as professional ethics. This can be accomplished by conducting periodic audits of MDA procurement exercises and organizing trainings for MDA procurement staff. Any senior public servant who participates in unethical behavior that jeopardizes the integrity of the public procurement process should be appropriately sanctioned in accordance with the terms of the PPA, 2007.
2. In public procurement, there is a desire to simplify tendering processes and reduce administrative load. The procurement procedure should be as paperless as possible. Requesting documents that are required as part of the tender assessment process will help to lessen the administrative load associated with public procurement. Furthermore, the country must embrace e-procurement, which entails using online electronic technology to carry out the procurement process. This eliminates paper work, costs, and ensures SMEs have easy and fast access to information. It also reduces corrupt practices such as bribery because it limits direct contact between the purchasing body and the supplier.
3. There is also a need to evaluate the present procurement legislative framework and rules in order to accommodate SMEs. Aside from local preference, which is only applicable in ICB, SMEs should have some type of competitive advantage when tendering for contracts through National Competitive Bidding (NCB). The Nigerian government can learn from nations such as China, where the government sets aside at least 38% of yearly budgets for SME procurement, with at least 72% of this amount earmarked for small and micro companies in order to increase SME involvement in public contracts. This will help to make money accessible for SMEs to finance contracts when they are awarded, rather than the 21% mobilization fee specified in the PPA.

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