

# POLICY BRIEF

## PUBLIC PROCUREMENT – *Private Sector Participation*

### Background

Uganda's private sector is relatively infant and dominated by Small and Medium-sized Enterprises (SMEs), which account for 95% of the entire business community. Their commercial activities represent on average 75% of Uganda's annual GDP. They employ over 80% of the total workforce in the country and produce largely for the domestic market. For meaningful and speedy economic development to be achieved enterprise growth and development is critical. It is the route to creating wealth, creating jobs, increasing purchasing power and widening the tax base.

While SMEs are responsible for three-quarters of our annual GDP, their share in public markets (procurement) is still limited and estimated to represent only 15% of all enterprises participating in public procurement schemes. Although this may be attributed to the small formal sector, the low level of participation is discouraging since public procurement represents an important and relatively stable market for such enterprises. This low response has largely been attributed to limited capacities to produce, innovate and access market information on the one hand, and the inadequate transparency in the tendering process on the other. The public sector quite often follows consistent spending patterns over the years, and the stability, or even predictability, of public purchasing allows for long-term planning horizons for the private sector. Public spending in procurement across Ministries is provided for under every national budget, which renders it a more stable market for the private sector to exploit.

### Rationale for increased private sector participation in public procurement;

1. Better use of factor resources through increased production and productivity
2. Increase in employment levels and household income since increased demand stimulates production.
3. Saving of the country's foreign exchange.
4. Easier for government to identify and address the supply side constraints
5. Exposure of local private sector to marketing challenges including the challenges of competition.

However, the Private Sector and particularly of the small kind has not exhaustively seized the opportunities offered under public procurement, due to the many barriers faced as they attempt to enter the public procurement market. Below are some of such factors inhibiting private sector participation in Uganda's public procurement process;

1. The cost, time and complexity of preparing bids by especially the SMEs (note that preparing a tender gives no guarantee of success).
2. Inadequate skills and entrepreneurship. These largely rest with large companies that quite often have well-established management. If however we are keen to develop this economy this market ought to be focused on the SMEs and address supply constraints. (Delivery mechanisms) Increased participation usually occurs only where there are more opportunities for sub-contracting rather than direct tendering, where SMEs must compete directly with large firms who already enjoy economies of scale.

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3. Financial problems: There are delays in payment (settling of contracts) on the public sector side and uncertainty of guarantees. This constrains private sector cash flows as it ties up capital.
4. Tendering procedures have continued to be unclear since the central tender board was disbanded. *Political interference* in the tendering process is commonplace especially at local governments. In the construction industry, awarding of tenders to local contractors is constrained under the pretext that they *lack sufficient capital* and the *quality of work is sub-optimal*.
5. Limited transparency in evaluating bids and awarding of tenders especially at decentralized levels
6. Rating/pricing policy: Although the public procurement market turns out to be a guaranteed market for private sector suppliers, the large enterprises are able to offer lower prices due to economies of scale.

## What can be done to increase Private Sector participation?

There is no quick solutions, but what is required, is action on a wide range of issues to assist the private sector particularly SMEs to exploit existing openings and opportunities. The following (government) initiatives could promote such participation:

1. Improve the flow of information concerning public procurement contracts, and strengthen the role of the PPDA in supporting potential private sector tenderers;
2. Building capacity for the private sector suppliers to be able to supply high quality products at competitive prices on time.
3. Mobilising the private sector into supply groups (cooperatives) to be able to check quality and increase supply volumes.
4. Encourage sub-contracting: Promote, by the use of incentives or regulation, the opportunities for sub-contracting to small enterprises;
5. Continue to address the problem of delayed payments as this ties up private capital;
6. Involve the private sector more in reviewing contracts bids and awarding of tenders.

## Conclusion

PSFU is pledge-bound to achieve its commitment to work with government in building private sector capacity especially the SMEs, to better respond to the requirements (quality and quantity) of the public procurement market. This way the SMEs shall be able to participate more effectively in public procurement and contribute more to economic growth and social transformation.