

Benefits of transparency in public procurement for SMEs

General lessons for Egypt

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1. Introduction

Developing countries face myriad challenges in achieving economic growth. Following the 2008 economic crisis, it has become increasingly important for governments across the globe to use funds more effectively, to kick-start growth in the economy and to improve overall productivity. To ease forward planning, the executive has to lead the way in ensuring businesses have a stable policy framework and favourable and competitive market conditions. Given the proportion of the economy that small and medium enterprises (SMEs) take up, their role in economic development is crucial. SMEs, in particular new and small firms, have a distinct role in economic growth and they provide a disproportionate share of gross and net new jobs. Moreover, a small proportion of high growth new firms provide the majority of new firm jobs.¹

One way for governments to assist SMEs in achieving their full potential is through their public procurement system. However, SMEs' entry into this potentially lucrative market is often hindered by challenges such as corruption, red tape and lack of transparency in tendering, to name but a few. In Egypt, where public procurement makes up a significant portion of the economy and has the potential to play a major role in incentivising SME growth, corruption and intransparency remain serious obstacles for SMEs.

In this context, transparency is instrumental in disclosing and discouraging corrupt practices in public procurement and facilitating SMEs' entry to this market, thus improving their capabilities and competitiveness, subsequently leading to a more competitive bidding process, and finally, to more efficient spending of public funds. Conversely, lack of transparency in public procurement hampers these outcomes, stifles opportunities to maximise the benefits of public procurement for SMEs, government and the broader civil society, and hinders the potential for reducing unemployment.

The report is organised as follows: chapter II sets the backdrop for the argument by placing transparency in a broader public procurement context, outlining the opportunities public procurement holds for small and medium businesses. The third chapter presents major challenges SMEs face in participating in the public procurement market, with emphasis on developing countries and the Egyptian context in particular. The fourth chapter examines how efforts to improve transparency relate to these challenges, and maps out the benefits of transparency in public procurement for SMEs. A series of examples and best practices is presented. The report concludes by summarising the main points.

¹ OECD 1996

2. Backdrop

How public funds are managed affects different elements of society. On the one hand, it affects the citizens who need material support that is provided through public projects (e.g. roads, hospitals, desks and educational supplies, etc.). On the other, it affects the business community of actual or potential suppliers to satisfy the government's identified requirements². As such, a well-managed and transparent procurement system can benefit the society as much as a poorly managed and corrupt system can harm it.

2.1. SMEs – invaluable actors in economic development

In 2009, SMEs accounted for almost 90 per cent of all private productive units in Egypt and were the greatest source of job creation³. This trend is prevalent around the world. In 2004, over 99 per cent of all companies in the European Union were SMEs. They accounted for 56 per cent of gross value added (GVA), 67 per cent of employees within the business sector (excluding agriculture, fisheries and financial services) and 58 per cent of combined company turnover⁴. Because SMEs make a large part of national economies worldwide, supporting them is crucial in the attempt to promote economic growth, job creation and economic and social cohesion.

SMEs have often been described as the 'engine of the economy' and there has long been recognition of the small business sector's contribution to a competitive economy⁵. Admittedly, the SME field is diverse, and the differences between micro and medium enterprises can imply different challenges in doing business. Nevertheless, in developed countries, SMEs are generally considered to have the edge over their larger competitors in terms of innovative solutions, better customer care and after-sales service, as well as a more flexible and responsive approach to changing needs of customers⁶. Consequently, SMEs as suppliers in public procurement are expected to improve productivity and quality, speed up response times, reduce costs and improve overall efficiency of government projects. This, in turn, maximises the economic, financial and social benefits of public procurement. In developing countries, small firms play a slightly different role, and their prosperity is particularly important for rejuvenation of local businesses and provision of local access to services, as well as employment opportunities for remote communities.

"The category of micro, small and medium-sized enterprises (SMEs) is made up of enterprises which employ fewer than 250 persons and which have an annual turnover not exceeding 50 million euro, and/or an annual balance sheet total not exceeding 43 million euro."

– Extract from the 2003 European Commission definition of SMEs

² Wittig 1999

³ African Development Bank 2009

⁴ DG Enterprise and Industry of the European Commission 2007

⁵ See for instance Loader 2007

⁶ UK Better Regulation Task Force and Small Business Council 2003; Procurement Innovation Group of the Irish Department of Enterprise, Trade and Employment 2009

2.2. Public procurement – an opportunity for SME growth

There is certainly a strong case to be made for SMEs as suppliers in public procurement. But benefits go both ways – the volume of public sector procurement of goods and services from third parties offers considerable opportunities for SMEs as government suppliers. In fact, public procurement is one of the critical areas for development of small and medium business according to the United Nations Industrial Development Organisation (UNIDO)⁷. Nevertheless, smaller businesses generally face substantial hurdles in winning government contracts both in developed and developing countries, and the proportion of government contracts that go to SMEs offers considerable room for improvement.

Effective national procurement policies have an important developmental effect in both developed and developing countries. They attract foreign investment and provide local economic opportunities through their employment generating activities. This is no surprise given the substantial proportion of national GDP that public procurement expenditure takes up. In the developed world, public

procurement makes for an average 12 per cent of GDP in OECD countries⁸, and most industrialised countries spend at least 10 per cent of their GDP on public procurement⁹. In developing countries, these figures are at approximately 15-20 per cent of GDP and the public procurement sector is often the largest domestic market. In Sub-Saharan Africa, for instance, the procurement market could be worth between US\$ 30 to US\$ 43 billion¹⁰. Public procurement in Egypt follows this trend by taking up an estimated 13.3 per cent of national GDP¹¹, and the Egyptian government remains the country's largest consumer¹².

Implementation of public procurement principles differs depending on the economic, social, and political context of a country. Common elements of a strong procurement system are, however, shared by developing and developed countries alike. These include:

- A clear legal framework;
- Consistent policies;
- Transparency, and

Public procurement or government procurement refers to the acquisition of goods, equipment, supplies, and or services on behalf of a government entity. According to the World Trade Organisation, "the procurement of goods and services by government agencies for their own purposes is a core element of the operation of governments" since it "secures the inputs that enable governments to fulfil their tasks".

⁷ OECD-UNIDO 2004

⁸ OECD National Accounts Database and Eurostat 2011

⁹ Trionfetti, 2003, quoted in Agaba and Shipman 2006

¹⁰ Wittig 1999

¹¹ According to estimates for the purchase of goods and services (for governmental uses) combined with GFCF and social transfers from the Egyptian Ministry of Finance for fiscal year 2009/10

¹² CIPE & Ahram Center for Political and Strategic Studies 2009

- A review of awards.¹³

In most developed countries, adherence to good procurement principles is linked to commitments to a set of international obligations, such as the World Trade Organisation's Agreement on Government Procurement and the United Nations Convention against Corruption (UNCAC). Part of the push for public procurement reform in developing countries has also come from international donors and multilateral organisations. These tend to be in the form of conditionalities for providing development aid. Nevertheless, it is the adverse effects of inefficient public procurement on local stakeholders that have effectively strengthened the argument for public procurement reform in the developing world. Not only do badly managed public procurement practices open room for misallocation of resources, inadequate infrastructure, and inefficient services, but they also make local businesses miss out on growth opportunities that public procurement offers. Indeed, the methodologies and policies that governments adopt for procurement for their service can influence significantly the prosperity of many local businesses and industries.

¹³ Hunja 2003

3. Challenges facing SMEs in public procurement

Many barriers facing SMEs in public procurement are related to the lack of transparency in the procurement process. This manifests itself in form of obscure tenders and decision-making processes, and is bolstered by a culture of corruption – typically with weak accountability mechanisms and lack of scrutiny over allocation of public funds.

3.1. From regulation to implementation

Successful reform of public procurement is highly dependent on context. There are, nevertheless, some common barriers in participating in public procurement that have been continuously noted by SMEs across a range of countries¹⁴. A simplified summary of issues facing SMEs at different stages of the procurement process can be illustrated as follows:

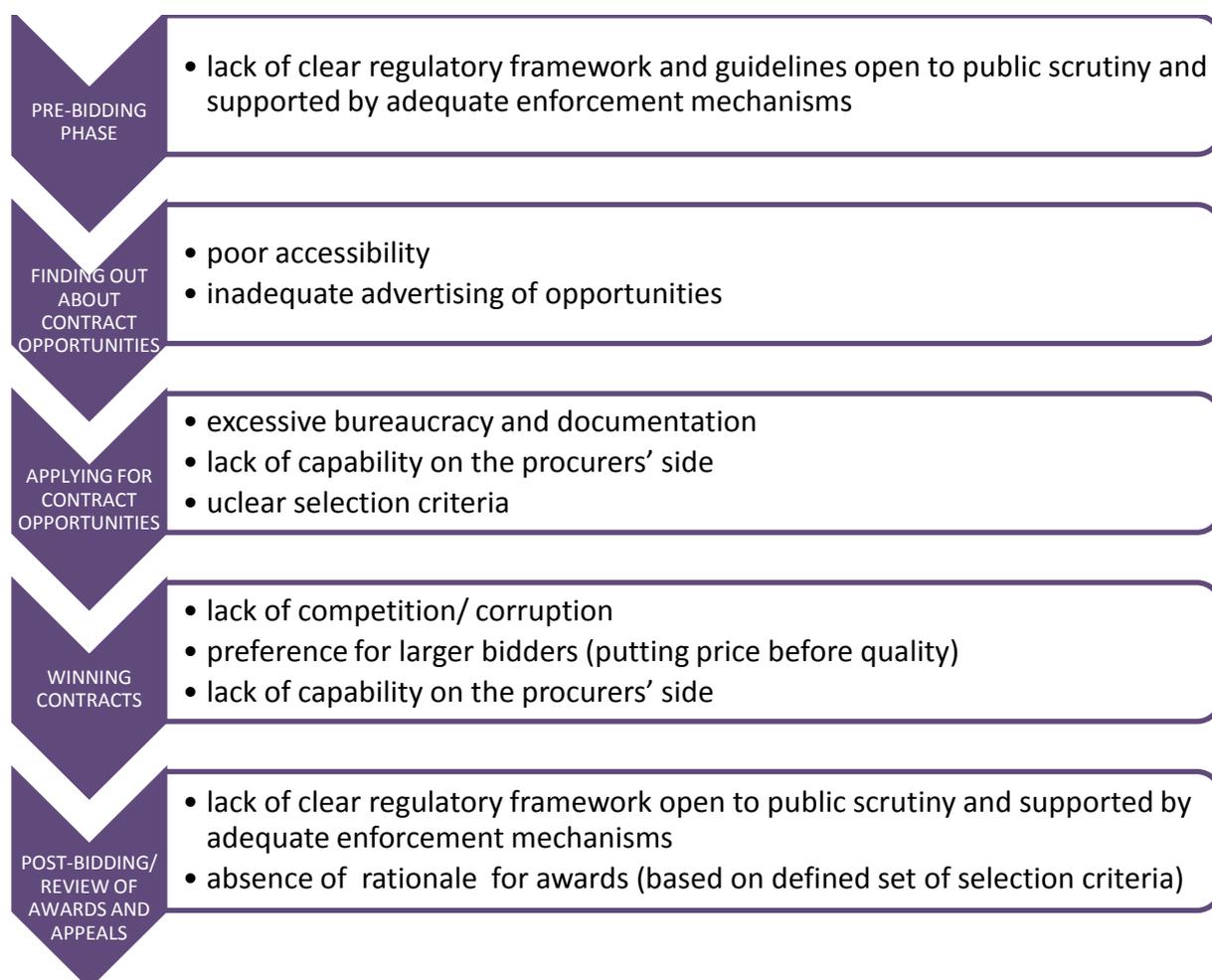


Table 1 – Major challenges facing SMEs in different stages of public procurement

¹⁴ For instance, for public procurement-related challenges in the United Kingdom see HM Treasury report 2009, for the Caribbean see Schrouder 2009, for the Philippines see Robredo 2006, for Kenya, Tanzania and Uganda see Odhiambo and Kamau 2003.

Weak national **regulatory framework** is often the root of challenges facing SMEs in public procurement. In general, a strong legal framework establishes the basis for competitive and transparent public procurement process, which is relevant for large and small business alike. This makes clear and comprehensive regulation essential in enabling fair participation in public procurement for all bidders, including SMEs.

Typically, public procurement rules will be implemented in a country's legislation in form of a statute or code. Sometimes, provisions will be included in the country's constitution – in South Africa, the country's constitution writes that its system of contracts must be “fair, equitable, transparent, competitive and cost-effective”¹⁵.

In relation to small business, countries may specify legal quotas for public procurement suppliers and establish internal caps for SMEs. In Egypt, for example, the proportion of government contracts awarded to SMEs is capped 10 per cent by the 2004 Small and Medium-Sized Enterprises Development Law at¹⁶. The Egyptian government has recognised the importance of SMEs and has passed a law establishing the legal framework for the promotion of small enterprises (Law No. 141/2004).¹⁷

In general, Egypt's public procurement framework has been described as 'very strong'¹⁸. However, abuse of public procurement systems arises largely due to weak or inconsistent **enforcement** of the rules¹⁹. Put in other words, “the best procurement law is the one that is effectively applied”²⁰.

In this respect, there is still a considerable gap between the regulatory framework and its effective implementation in Egypt. What is more, laws tend to be manipulated to suit vested interests. Although reliable data on this issue is hard to come by, when Egyptian SME executives were asked in 2009 how government tenders are implemented, one third of stated that 'laws are interpreted to favour specific interests' while 26 per cent indicated that there is 'poor oversight by those implementing the laws'²¹. Poor implementation leaves scope for mismanagement along the procurement life cycle, which is particularly troublesome for SMEs, for whom obstacles in competing for government contracts go well beyond the regulatory framework.

Public procurement in Egypt is regulated by Law No. 89/1998 on organising tenders and bids. The law addresses conflicts of interest and has a mechanism to monitor assets, income and spending of public procurement officials. According to the law, major procurement requires competitive bidding, unsuccessful bidders have the possibility to challenge the decision in court, and companies that have engaged in corrupt practices are excluded from future participation in bidding.

¹⁵ Wittig 1999, p.15

¹⁶ The Business Anti-Corruption Portal 2012

¹⁷ African Development Bank 2009

¹⁸ Global Integrity 2010

¹⁹ Hunja 2003

²⁰ Transparency International 2006, p.52

²¹ CIPE & Ahram Center for Political and Strategic Studies 2009

Poor **accessibility** and **inadequate advertising of opportunities** is an issue for SMEs in both developed and developing countries, although recent e-procurement initiatives have had relative success in tackling this issue (see Chapter 4). **Red tape** is another challenge that cuts across geographic barriers and GDP levels. The problem with excessive documentation and bureaucratic procedures reflects the assertion that “competitive bidding exercises by government are generally expensive and time-consuming for business: for small businesses these costs can be prohibitive, effectively barring them from competing even though they might otherwise be highly competitive”²². A report from one UK SME employee is illustrative: “I find government body procedures labyrinthine and impenetrable so would avoid seeking business with them”²³. **Lack of capability** on the procurers’ (and sometimes the businesses’ side) can also have serious consequences for the bidding process²⁴.

In developed countries, where corruption rates are generally lower and access to procurement market facilitated by technological advances, a major barrier in doing business with the public sector for SMEs may be the culture of awarding contracts based on **price before quality**, which biases procurers to favour larger and more experienced tenderers. To illustrate, even though the UK government laid out plans in 2011 to award 25 per cent of all its contracts to SMEs, in reality, this figure is still closer to 16 per cent²⁵. While the debate around big vs. small business is a debate worth having, it is much more relevant in countries where obstacles such as corruption and access have already been to a large extent addressed. The experience of developed countries reaffirms that entering the competition doesn’t win you the race. But in developing countries, the problem facing many SMEs is getting to participate in the public procurement ‘race’ in the first place.

‘Access’ is the entry point to winning government contracts. And it has received a lot of attention of reformers in recent years, not least due to technological advances and e-procurement tools in particular. However, none of the abovementioned challenges can be dealt with in isolation. Improving accessibility of bids is only useful for SMEs when there is also an overall reform of procurement to make it competitive and fair for SMEs at each procurement stage. In developing countries, this has proven to be extremely difficult, partly due to the prevalence of **corruption** in public services and **a lack of political will** for reform.

²² MacManus 1991, quoted in Shapper, Veiga Malta and Gilbert 2006

²³ UK Better Regulation Task Force and the Small Business Council 2003

²⁴ Although it forms an integral part of the bigger picture in public procurement reform, professionalism of public service will not be dealt with here as it falls out of the scope of the present paper.

²⁵ UK Cabinet Office 2011

3.2. Corruption – a major constraint limiting competitive access to procurement opportunities for SMEs

Beside its direct hindrances on access to the public procurement market, lack of transparency is harmful because it enables a culture in which there are no checks on corruption.

Corruption – the abuse of public office for private gain²⁶ – is inevitably harmful for the overall economy and SMEs in particular. Apart from repelling foreign direct investment, it also distorts the size of government expenditures and the decision-making process for public investment projects²⁷. Transparency International’s handbook on curbing corruption in public procurement highlights that each phase of the procurement process is vulnerable to corruption²⁸, from advertising bids to the selection process. This makes efforts to tackle corruption crucial in any attempt to reform public procurement.

Perception indices on corruption point to two trends. First, SMEs worldwide seem more vulnerable than large firms to corrupt practices in their effort to win government contracts. Secondly, this trend is relatively more prominent in the developing world. Also, although corruption is a worldwide problem, “opportunities for corruption increase in transition governments because former elites lose monopoly over corruption and a weak central government, leaving the door open for government agencies to engage in corrupt practices”²⁹. Consequently, corruption can be particularly harmful for SMEs in developing countries, where procurement opportunities are often held hostage by obscure bidding procedures shielded by vested interests.

There is, in general, a dearth of official assessments of corruption in Egypt. As such, we rely on perception indices and surveys of local businesses. Transparency International’s Corruption Perception Index ranks Egypt at 98 (out of 178 countries) with a relatively poor score of 3.1 (on a scale from 1-10, with 10 being very clean and 0 being highly corrupt)³⁰.

Types of corruption in public procurement:

BRIBERY – Bribes paid by companies to procurement and other officials, government leaders and elected politicians.

CRONYISM – Frequent practice of senior officials, government leaders, and politicians of favouring businesses to which they, their family members, personal and business associates, or political allies have a financial or ownership connection.

COLLUSION – Companies may also engage in corruption to limit competition in procurement by fixing the price through collusion (sometimes called rigging of the tender).

– Jones 2010

²⁶ OECD 2012

²⁷ Linarelli 1998, quoted in DeAses 2005

²⁸ Transparency International 2006

²⁹ DeAses 2005

³⁰ http://www.transparency.org/policy_research/surveys_indices/cpi/2010

Furthermore, business owners and top managers highlighted corruption as one of the most serious business environment constraints in Egypt (Figure 1).

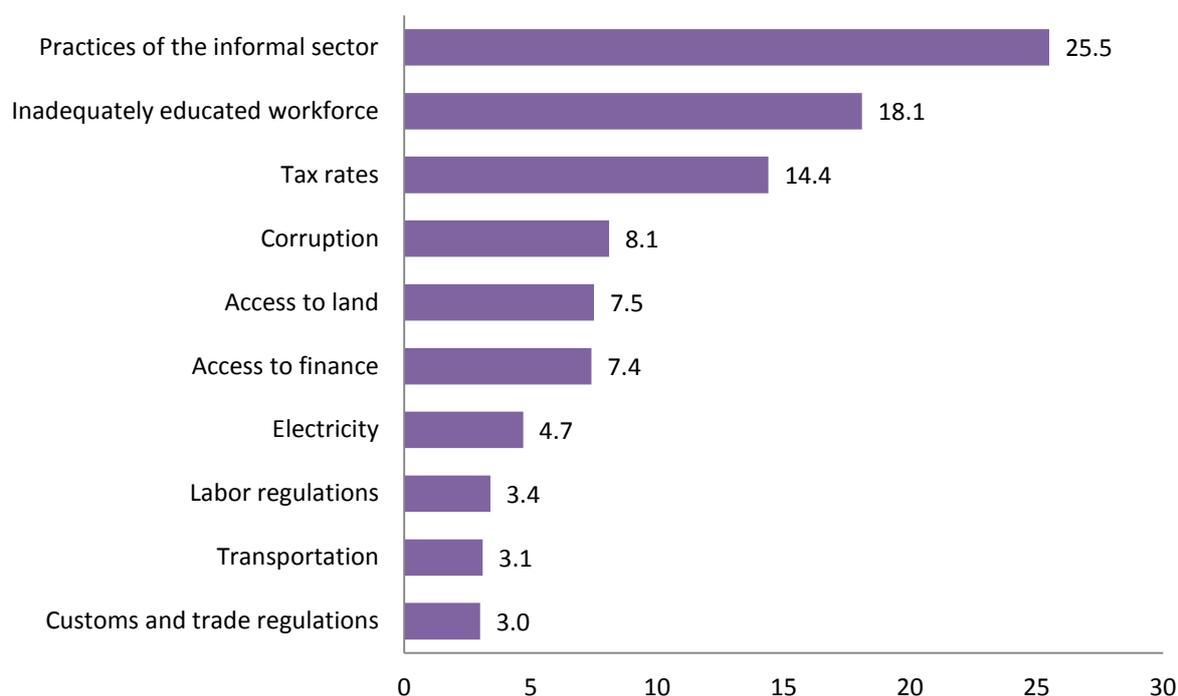


Figure 1 – TOP 10 business environment constraints in Egypt in 2008. After being presented with a list of 15 business environment obstacles, business owners and top managers in 1,530 firms were asked to choose the biggest obstacle to their business. (Source: Enterprise Surveys (<http://www.enterprisesurveys.org>), The World Bank)

When compared to regional and global averages in 2008, a third of all firms were expected to give gifts or make informal payments to secure government contracts in Egypt. According to this indicator, public procurement in Egypt was relatively less corrupt than the rest of Middle East and North Africa. However, Egypt compared badly at the global level against an average of 8 per cent (Figure 2).

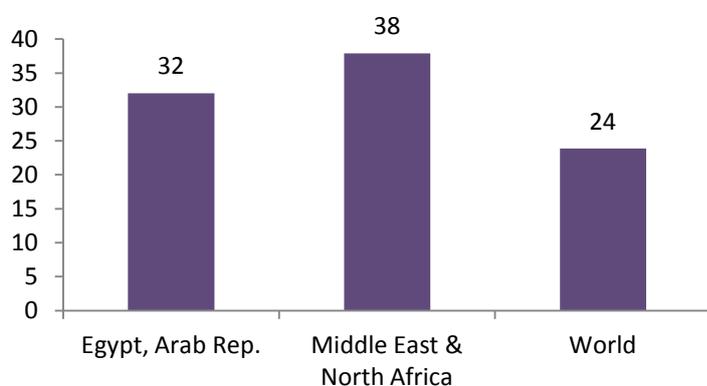


Figure 2 – Percentage of firms expected to give gifts to secure government contracts. (Source: Enterprise Surveys (<http://www.enterprisesurveys.org>), The World Bank)

Corruption also represented a bigger problem for SMEs than it did for larger firms. The difference in the number of small and medium firms that were expected to pay bribes in order to secure government contracts, compared to large firms, was significant across all three geographic regions, with SMEs in Egypt particularly disadvantaged compared to large firms (Figure 3). Furthermore, when Egyptian business executives were asked in 2011 to rate favouritism of government officials towards well-connected companies and individuals when deciding upon policies and contracts, the results hinted to high levels of cronyism in public procurement with a score of 2.6 on a 7-point scale (1 being 'always show favouritism' and 7 'never show favouritism')³¹.

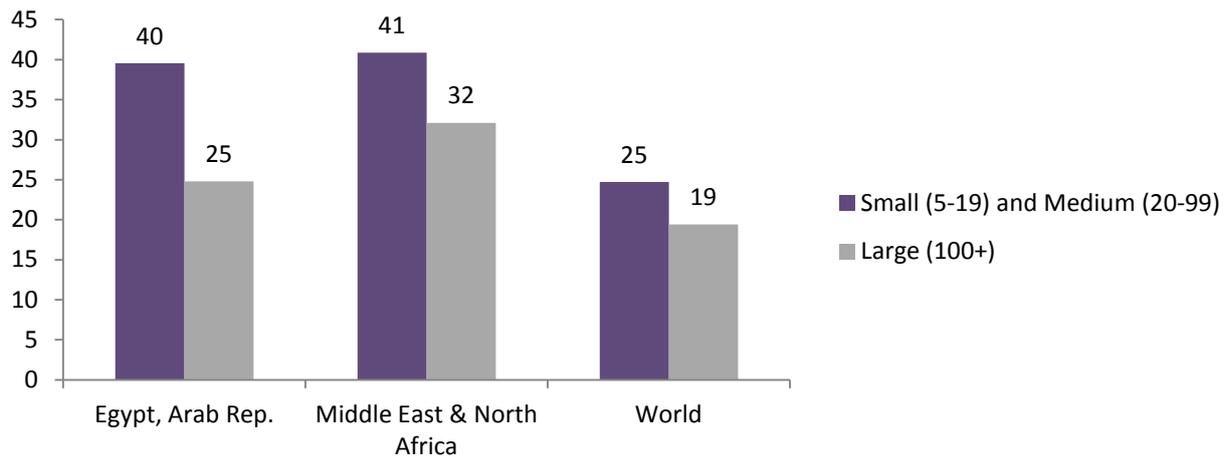


Figure 3 - Percentage of firms expected to give gifts to secure government contract broken down by firm size. (Source: Enterprise Surveys (<http://www.enterprisesurveys.org>), The World Bank)

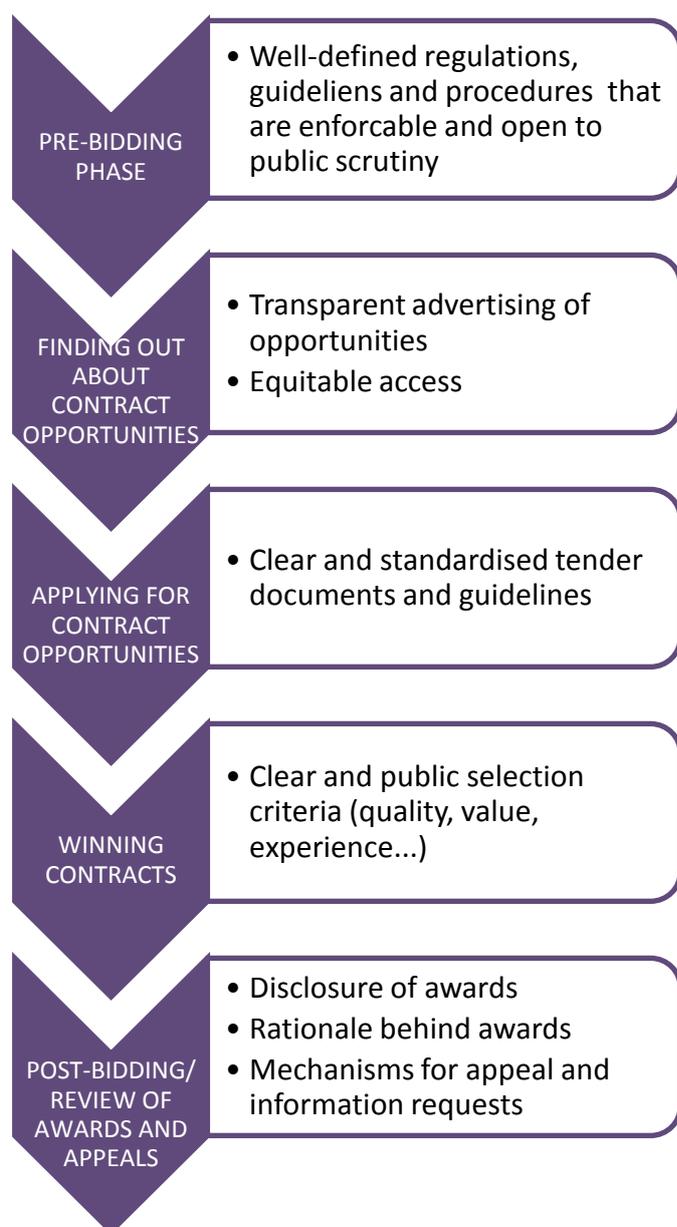
As these figures show, despite having adequate anti-corruption laws in place, ratifying a number of international treaties (e.g. the UN Convention on Anti-Corruption in 2005), and establishing anti-corruption bodies, corruption continues to be perceived as a major hindrance for businesses in Egypt. Part of the solution is to improve enforcement – which is difficult, but would be significantly assisted by greater transparency in public procurement.

³¹ World Economic Forum 2011

4. The benefits of transparency for SMEs

Transparency, which has long been accepted as a tool for tackling corruption through a number of international agreements, is also an effective tool in addressing challenges SMEs face in public procurement. Without transparency, “open competition cannot prevail, corrupt dealings can proliferate, and other failings in the procurement process may be covered up, so weakening accountability”³².

Going back to the public procurement life cycle, efforts to improve transparency in this context include:



The benefits of these efforts for SMEs are two-fold. On the one hand, greater transparency is linked to tangible results such as saving time and money on finding and processing bids. On the other, transparency has a role in deterring a culture of corruption and creating conditions for open competition. In the latter case, the problem of linking particular reform efforts to their effects on SMEs leaves us inevitably relying on examples of initiatives whose effects are more tangible. For this reason, the examples presented here are biased towards the initiatives that render direct impact and are easier to measure. The benefits of a broader transparency regime for SMEs can only be speculated about.

Any transparency initiative needs to be aware of local context and challenges. Therefore, the following examples are meant to paint a picture of the possibilities and good practices, rather than represent a comprehensive guide to public procurement reform.

Table 2 – Transparency in different stages of public procurement

³² Jones 2010

4.1. Greater transparency in public procurement

Transparency can improve access to public procurement opportunities through disclosure, publication and dissemination of information on available tenders. Furthermore, clarity and increased disclosure of guidelines and documentation can decrease time needed to submit bids – particularly prohibitive for SMEs – thus saving them valuable time and money. Tangible benefits will include costs and time savings. These, in turn, translate into improved effectiveness and efficiency of the organisation, as well as revenue increase resulting from access to new markets or new business opportunities³³.

Drawing on examples of good practice, e-procurement stands out as the most commonly employed tool to improve transparency in public procurement. Provided that basic infrastructure is in place, its main strength is its ability to improve access to procurement opportunities, one of the main challenges facing SMEs. E-procurement can be effective, amongst other things, to “disclose procurement laws, regulations and bidding procedures, and to advertise intended procurements and invitations to bid.”³⁴ Countries such as Chile, Colombia to some extent, Mexico and New Zealand among others, and major municipalities (e.g. Seoul, South Korea) have also recently placed their procurement systems online – including procurement opportunities, bid documents, relevant laws and procedures, and results of the tenders. This has significantly reduced the overall cost of obtaining information on contracts and simplified the bidding process³⁵.

E-procurement is the use of integrated information technology for part of or all the procurement functions, from the beginning to the end, i.e. from searching, sourcing, negotiating, ordering, and receipt to post purchase review.

– Eei, Husain and Moustaffa 2012

In the UK, after the supply2.gov.uk website opened up the public procurement market to SMEs, a quantitative survey of suppliers using the website conducted in 2007 found that 43 per cent believed that supply2.gov had saved them time in either searching for or applying for public sector contracts, while around a third of users considered that supply2.gov had made it easier to bid for public sector work and increased the number of contracts they are likely to bid for.

– HM Treasury 2008

³³ Eei, Husain and Moustaffa 2012

³⁴ Jones 2010

³⁵ Ibid

In the Philippines, an initiative to improve public sector transparency had a positive impact on SME performance. Positive impact was achieved in shortening processing times and simplifying procedures. For instance, processing of applications for building permits, which previously took more than 15 days — took only 5 days in 2001, and in 2006, it only required a maximum of 3 days. Subsequently, by opening procurement to SMEs and allowing public scrutiny of notices and outcomes of bids posted on the website, this program significantly reduced costs of public projects (e.g. construction of a public school classroom was 36 per cent cheaper; and the cost of asphalt overlays was 47 per cent lower than those of other government agencies).

– Robredo 2006

Other transparency initiatives include standardisation of rules governing procurement procedures and improving instructions and document formats. Besides tangible benefits in form of time and costs saving, clear and public selection criteria matched by final decisions that are public and justified, may deter corrupt practices and improve competitiveness. Provided that an SME is a competitive bidder, this form of disclosure can give it access to contracts that otherwise would have been reserved for better connected, but potentially less competitive bidders. Moreover, it also gives SMEs the leverage to substantiate potential grievances. If clear standards and criteria against which the outcome of bidding can be judged, procurers can be held accountable for their actions.

4.2. Benefits of a broader transparency regime

Transparency can be used as a tool aimed directly at reform in public procurement, but it is important to understand that corruption in public procurement does not exist in a vacuum. When Egyptian small business owners who had experience with paying bribes to public officials were asked about the reasons for these payments, 90 per cent regarded it as something normal, ‘something everybody does’³⁶. For this reason, we need to see efforts to improve transparency in public contracting as part of a broader transparency regime that includes:

- An enforceable and effective right to freedom of information;
- Regular and open publication of information;
- Effective audit and regulation bodies with real independence; and
- An active and engaged civil society and media capable of challenging corruption.³⁷

³⁶ CIPE & Ahram Center for Political and Strategic Studies 2009

³⁷ Puddephatt 2012

While narrower transparency efforts, focused on public procurement only, help SMEs by improving access and simplifying procedures, broad efforts to improve transparency have a far-reaching impact in deterring a culture of secrecy and under-the-table dealings. To this end, a combination of disclosure of documents related to public procurement, as well as information on assets of public officials, enables public scrutiny over the procurement processes. This, in turn, contributes to open competition and improves overall accountability.

Proactive disclosure plays an important role in holding government officials to account, as well as incentivising competition. Several countries have acknowledged this through proactive publication of public documents. In Canada in 2003, senior government officials were required to publish all travel and hospitality expenses, which can now be accessed through the Treasury Board of the Canada Secretariat. In Chile, transparency is also considered an important factor in driving economic growth post Pinochet regime. In 2003, the government established an electronic public procurement system, ChileCompra, to increase the transparency of state spending. In 2006, all public bodies were required to disclose information on contracts - amongst other information such as public spending and staffing – and to link this information to ChileCompra.

– Puddephatt and Zausmer 2011

5. Need for a country-specific approach

Benefits of initiatives to improve transparency in public procurement go hand in hand with adequate recognition of local conditions. This leads us to the importance of a broader national context in which both SMEs and public procurement are situated (Figure 4) – political, social and economic factors will necessarily influence selection of tools and their success in the reform process³⁸.

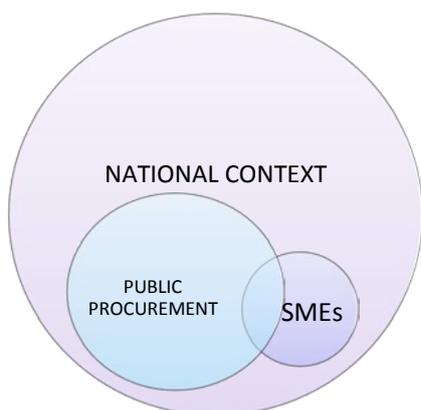


Figure 4 – Contextualising SMEs in public procurement and broader national context

The differences in success of implementing e-procurement in UK, Malaysia and Uganda are telling. In all three countries, SMEs reported problems with access to bidding opportunities and governments went ahead with e-procurement reforms. However, outcomes and impact were uneven. While supply2.gov.uk website rendered tangible results for SMEs (see previous chapter), the effects were limited in Malaysia, and very modest in the case in Uganda. In Malaysia, after being in place for almost 10 years, e-procurement was still not widely adopted among SMEs in 2009, despite having had some tangible benefits. The reasons range from external barriers such as technology, infrastructure and legislation, to internal factors such as resource constraints³⁹. In this case, reforms required involvement from a much broader range of stakeholders, from SME owners and employees, system developers and regulatory bodies, to the government. In Uganda, government also aimed to persuade most entities to place online their bid opportunities, notices of best-evaluated bidder and contract award and other statutory information. However, as in many African countries, the Ugandan supply of electricity is spasmodic and Internet services are slower and subject to more frequent breakdowns than would occur in developed countries⁴⁰. For this reason, without substantial improvements in basic infrastructure, e-procurement was not a viable solution in Uganda. In order to reach audiences who did not have access to computers or the Internet, efforts to improve access to procurement opportunities needed to go beyond online advertising.⁴¹

³⁸ In search for cross-border similarities that apply to public procurement reform, Hunja (2003) distinguished four groups of countries according to their stage of economic development and the issues driving their reform efforts.

³⁹ Eei, Husain and Moustaffa 2012

⁴⁰ Agaba and Shipman 2006

⁴¹ For more on factors that influence success in e-procurement implementation, see Vaidya, Sajeev and Callender 2006.

6. Limitations of transparency in public procurement

The efforts to improve transparency in public procurement have their limitations – this is true of Egypt as much as any country. As Chapter 3 (Table 1) demonstrated, within the sphere of interaction of SMEs and government procurement, not all challenges facing SMEs are related to greater openness nor can making procurement more transparent solve them. For instance, even maximum disclosure won't improve SMEs' access to the public procurement market if the SMEs don't have the capacity or capability to access or process the online applications. For this reason, transparency initiatives need to be complemented by other public procurement reforms, such as capacity building – both on the side of procurers and SMEs.

In Egypt, launching the government procurement portal, the first of its kind in the region, was a step in the right direction. On the portal, companies can view the published tenders, ask questions on open tenders, bid on them (technically and financially), modify their bids and cancel them⁴². However, a broader reform is needed if SMEs are to maximise their potential. First of all, the effects of e-procurement on SME performance are difficult to assess without systematic disclosure of its results. Unfortunately, in Egypt, reliable and up-to-date data on the volume and trends in public spending is generally hard to come by. To ensure regular and open publication of information, a broader transparency regime is needed, supported by enforceable freedom of information laws monitored by effective and independent audit and regulation bodies.

Secondly, perceptions of corruption in Egypt remain high, which casts doubt over the extent of open competition in public contracting. Curbing corruption is particularly relevant in the transition period. As the revolution creates a power vacuum that increases the risk of corruption, old elites lose monopoly on power and new actors start pursuing their own agendas. Transparency is a useful tool to address corruption, but political will to deal with it will be decisive – in its absence, initiatives to curb corruption in public procurement will inevitably fail.

Additionally, as illustrated in the previous chapter, SME performance correlates with public procurement only to a limited extent. This means that some of the challenges SMEs face in maximising their productivity go beyond the public procurement market. National regulatory framework, for instance, affects SME performance regardless of whether they interact with public or private actors. Therefore, addressing the broader context is important not only for the success of the public procurement reform process, but also for SME performance that is unrelated to government operations in form of public contracting.

⁴² www.etenders.gov.eg

7. Conclusion

In developing countries where corruption is still a pervasive issue, transparency initiatives are key to unlock many challenges facing SMEs in benefitting from the public procurement market. Through active disclosure of documentation and creation of a level playing field for SMEs in public procurement, these initiatives can maximise SME growth, and indirectly contribute to overall economic development and post-recession recovery.

Despite the absence of reliable data on levels of corruption in Egypt, perception surveys indicate that corruption levels remain an issue in the country's business environment. In this context, the newly elected Egyptian establishment faces both an opportunity and a challenge. Although the transition period is a delicate one, the new government has to opportunity to push for reforms in public management in line with good procurement principles to ensure maximum benefits for the entire Egyptian society.

Although this paper emphasised the benefits from transparency in public procurement, if Egyptian SMEs are to achieve maximum benefit from public procurement and contribute to the overall economy, these efforts need to be part of a broader transparency regime as well as a more comprehensive public procurement reform. In summary, while transparency is necessary, it is not a sufficient condition to guarantee maximum benefits from public procurement for SMEs. Although the challenges SMEs face are diverse, and transparency is no silver bullet – a bit of sunshine is a good place to start.

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