

Public Procurement as a Tool for Inclusive Development

eGP & eGMP BLOG SERIES



Table of Contents

1. INTRODUCTION	2
2. THE ROLE OF GOVERNMENT PROCUREMENT IN ECONOMIC DEVELOPMENT.....	2
3. CHALLENGES FACED BY MSMES IN GOVERNMENT PROCUREMENT	3
4. E-GOVERNMENT PROCUREMENT (E-GP): TRANSFORMING PUBLIC PROCUREMENT.....	5
5. E-GOVERNMENT MARKETPLACES (E-GMS): ENABLING INCLUSIVE PROCUREMENT FOR MSMES	7
5.1. THE IMPORTANCE OF MSMES IN PUBLIC PROCUREMENT	8
5.2. WHAT ARE E-GOVERNMENT MARKETPLACES (E-GMS)?	8
5.3. BENEFITS OF E-GMS FOR MSMES	9
6. ENGAGING THE PRIVATE SECTOR IN MSME SUPPLIER DEVELOPMENT	10
7. THE ROLE OF THE FINANCIAL SERVICES SECTOR IN MSME SUPPORT	11
8. THE ROLE OF SMALL BUSINESS DEVELOPMENT AGENCIES IN MSME SUCCESS	12
9. FRAMEWORK FOR INCLUSIVE PROCUREMENT (ECOSYSTEM)	15
10. CONCLUSION.....	17

1. Introduction

Government procurement represents an unparalleled opportunity to foster inclusive growth and economic resilience. By directing public spending toward Micro, Small, and Medium Enterprises (MSMEs), governments can stimulate employment, reduce poverty, and drive innovation.

However, MSMEs often face systemic barriers in accessing these opportunities, including financial constraints, limited access to information, and compliance challenges. Digital technologies like E-Government Procurement (e-GP) systems and E-Government Marketplaces (e-GMs) can play a pivotal role in creating more equitable procurement systems. These systems can also be integrated to enable support from private sector collaborators, financial institutions, and Small Business Development Agencies (SBDAs) to create a comprehensive ecosystem that ensures MSMEs success.

2. The Role of Government Procurement in Economic Development

Government procurement plays a multifaceted role in economic development. Beyond meeting the operational needs of public institutions, it influences broader economic, social, and environmental outcomes.

a. Stimulating Economic Activity

Firstly, governments can stimulate economic activity through enhancing demand for goods and services. Public procurement represents a significant share of GDP (between 20%-30%) in most countries. Governments are often the largest buyers in an economy, purchasing a wide range of products and services, from infrastructure projects to office supplies. By directing this spending toward strategic sectors, governments can stimulate economic growth and support industrial development.

b. Creating Employment Opportunities

Governments procurement policies can promote labour-intensive industries such as construction, technology and renewable energy. By investing in these industries, governments can stimulate job creation and economic growth.

Additionally, governments can mandate that contractors hire a certain percentage of local workers or provide training and apprenticeship programs as part of their contracts. This not only creates immediate job opportunities but also builds a skilled workforce for the future.

c. Supporting Local Inclusion

Governments can use procurement to promote equity by prioritizing MSMEs owned by historically marginalized groups, such as women, youth and veteran. By implementing policies that favour local suppliers, governments can help MSMEs compete with larger, multinational corporations. This support is vital for the growth and sustainability of local businesses, which are often the backbone of the economy. For example, the South African government spends over R938billion annually on goods, services, and works(OCPCZA,2022).

d. Driving Innovation and Sustainability

Public procurement can incentivize innovation by supporting businesses that develop new technologies. Similarly, green procurement policies encourage the adoption of environmentally sustainable practices. To maximize these benefits, governments must design procurement systems that are accessible to all, particularly MSMEs.

3. Challenges Faced by MSMEs in Government Procurement

Micro, Small, and Medium Enterprises (MSMEs) play a crucial role in economic development, contributing significantly to job creation, innovation, and poverty alleviation. However, MSMEs often face numerous challenges in government procurement processes, which can hinder their growth and sustainability.

One of the primary challenges faced by MSMEs in government procurement is the complexity of the procurement process. Many MSMEs struggle with the bureaucratic hurdles and extensive documentation required to participate in government tenders. According to a report by the Small Enterprise Development Agency (SEDA), 43% of MSMEs in South Africa identified complex administrative procedures as a significant barrier to accessing government contracts. This complexity often discourages MSMEs from participating in procurement opportunities, limiting their growth potential.

Another significant challenge is the lack of access to finance. MSMEs often face difficulties in securing the necessary funds to fulfil government contracts. This is particularly problematic for small businesses that may not have sufficient working capital to cover the costs of production and delivery before receiving payment. A study by the World Bank found that 70% (2019) of MSMEs in developing countries cite access to finance as a major constraint. Without adequate financial resources, MSMEs may struggle to compete with larger enterprises that have more substantial financial backing.

Payment delays are another critical issue faced by MSMEs in government procurement. Governments often have lengthy payment cycles, which can create cash flow problems for small businesses. In South Africa, for example, Public Service Commission (PSC) reported that payment delays can extend up to 90 days or more (2023). These delays can severely impact the liquidity of MSMEs, making it difficult for them to sustain operations and meet their financial obligations.

Additionally, MSMEs often face challenges related to the lack of awareness and access to procurement opportunities. Many small businesses are not aware of the available government tenders or do not have the resources to navigate the procurement portals effectively. According to a survey conducted by the International Trade Centre, 60% of MSMEs reported that they were unaware of government procurement opportunities. This lack of awareness limits their ability to participate in and benefit from government contracts.

Furthermore, MSMEs often encounter difficulties in meeting the stringent qualification criteria set by government agencies. These criteria may include requirements related to financial stability, technical expertise, and past performance, which can be challenging for small businesses to fulfil. A study by the Organisation for Economic Co-operation and Development (OECD) found that 55% of MSMEs in OECD countries faced difficulties in

meeting the qualification criteria for government procurement. This can result in the exclusion of MSMEs from procurement opportunities, limiting their growth and development.

Other challenges relate to perceived risk where MSMEs are perceived as less reliable, reducing their chances of winning contracts. Additionally, MSMEs face unequal competition where larger firms benefit from economies of scale, established networks, and greater experience, giving them a competitive edge over MSMEs.

By simplifying administrative procedures, improving access to finance, ensuring timely payments, increasing awareness of procurement opportunities, and adjusting qualification criteria, governments can create a more inclusive and supportive environment for MSMEs. This, in turn, will contribute to the overall economic development and sustainability of these vital enterprises.

4. E-Government Procurement (e-GP): Transforming Public Procurement

E-Government Procurement (e-GP) is revolutionizing public procurement systems worldwide by leveraging technology to improve efficiency, transparency, inclusivity, and accountability in the procurement process. Traditional procurement methods are often paper-based, time-consuming, and susceptible to inefficiencies and corruption. e-GP systems, on the other hand, provide digital platforms that streamline procurement activities, transforming public spending into a strategic tool for sustainable and inclusive growth.

1. Enhancing Transparency and Accountability

One of the most transformative aspects of e-GP is its ability to increase transparency in procurement processes. By digitizing tender announcements, bid submissions, and contract awards, e-GP systems make procurement data accessible to the public. This open access reduces opportunities for corruption, collusion, and favouritism, ensuring accountability. Suppliers and citizens alike can monitor procurement activities, fostering trust in government operations.

2. Increasing Efficiency and Reducing Costs

e-GP systems streamline procurement workflows, automating tasks such as bid evaluation, supplier registration, and contract management. This reduces administrative burdens, accelerates procurement cycles, and lowers costs associated with manual processes. Governments can process tenders faster, allocate resources more efficiently, and respond swiftly to procurement needs, especially in emergencies.

3. Expanding Access for MSMEs

e-GP systems simplify participation for Micro, Small, and Medium Enterprises (MSMEs). Features such as online registration, automated notifications, and simplified bidding procedures lower entry barriers. These platforms enable MSMEs to compete on an equal footing with larger corporations, fostering inclusive growth by connecting smaller businesses to lucrative government contracts.

4. Promoting Fair Competition

Through standardized procedures and wider outreach, e-GP systems foster healthy competition. Suppliers from diverse regions and sectors, including underserved or rural areas, gain access to procurement opportunities. This not only drives innovation and quality but also ensures better value for taxpayers' money.

5. Enabling Data-Driven Decision-Making

e-GP systems generate vast amounts of procurement data, allowing governments to analyse spending patterns, monitor supplier performance, and identify inefficiencies. This data-driven approach improves decision-making, enabling governments to refine procurement policies, forecast demand, and achieve better outcomes.

6. Supporting Sustainability and Policy Goals

e-GP systems make it easier to integrate social, environmental, and economic sustainability goals into procurement processes. Governments can implement criteria that prioritize

suppliers who offer eco-friendly products or promote local economic development, ensuring procurement aligns with broader developmental objectives.

7. Strengthening Resilience and Adaptability

The digital nature of e-GP systems enhances resilience, particularly during crises. For example, during the COVID-19 pandemic, e-GP platforms enabled governments to procure essential goods and services rapidly, minimizing disruptions in supply chains.

5. E-Government Marketplaces (e-GMs): Enabling Inclusive Procurement for MSMEs

E-Government Marketplaces (e-GMs) are emerging as powerful tools for fostering inclusive procurement by enabling Micro, Small, and Medium Enterprises (MSMEs) to participate in public procurement processes. These digital platforms streamline procurement activities, reduce barriers to entry, and promote transparency, thereby creating a level playing field for MSMEs. Public procurement represents a significant portion of global economic activity, with governments spending. However, traditional procurement systems often exclude MSMEs due to complex procedures, high compliance costs, and lack of transparency. This exclusion limits the potential of MSMEs, which are critical drivers of economic growth, innovation, and employment.

E-Government Marketplaces (e-GMs) are digital platforms that facilitate the procurement of goods and services by connecting governments with suppliers, including MSMEs. By leveraging digital technologies, e-GMs simplify procurement processes, reduce administrative burdens, and enhance transparency, making it easier for MSMEs to participate in public procurement

5.1. The Importance of MSMEs in Public Procurement

MSMEs account for approximately 90% of businesses and 50% of employment worldwide (International Trade Centre, 2021). Despite their economic significance, MSMEs often face significant barriers to participating in public procurement, including:

- **Complex Procedures:** Lengthy and cumbersome bidding processes deter MSMEs from participating.
- **High Compliance Costs:** The costs associated with preparing bids and meeting regulatory requirements are often prohibitive for small businesses.
- **Lack of Information:** Limited access to procurement opportunities and market information restricts MSME participation.
- **Bias Toward Large Firms:** Procurement processes often favour established companies with greater resources and experience.

e-GMs address these challenges by creating a more inclusive and accessible procurement environment.

5.2. What Are E-Government Marketplaces (e-GMs)?

E-Government Marketplaces (e-GMs) are digital platforms that enable governments to procure goods and services electronically. These platforms typically include features such as:

- **Supplier Registration:** MSMEs can register and create profiles, showcasing their capabilities and products.
- **Tender Publication:** Governments publish procurement opportunities, including detailed requirements and evaluation criteria.
- **Bid Submission:** Suppliers can submit bids electronically, reducing paperwork and administrative burdens.
- **Contract Management:** Digital tools facilitate the negotiation, signing, and monitoring of contracts.
- **Supply Chain Management :** Government can track and ensure that goods and services are delivered on time. They can also use the system to manage supplier performance.

- **Payment Integration:** Automated payment systems ensure timely and transparent transactions.

5.3. Benefits of e-GMs for MSMEs

- **Enhanced Access to Procurement Opportunities**

e-GMs provide MSMEs with equal access to procurement opportunities, regardless of their size or location. By centralizing procurement information on a single platform, e-GMs ensure that MSMEs can easily find and participate in relevant tenders. For example, GeM in India has over 6 million registered MSMEs, accounting for more than 50% of total transactions on the platform (GeM, 2023).

- **Simplified Procurement Processes**

e-GMs streamline procurement processes by automating routine tasks and reducing paperwork. This simplification lowers the administrative burden on MSMEs, enabling them to focus on delivering quality goods and services. For instance, CHILECompra reduced the average time for bid submission from 30 days to just 7 days, significantly improving efficiency (OECD, 2019).

- **Increased Transparency and Fairness**

e-GMs promote transparency by publishing all procurement-related information online, including tender notices, evaluation criteria, and contract awards. This transparency reduces the risk of favouritism and corruption, ensuring that MSMEs are evaluated fairly. According to a World Bank study, e-GMs have been shown to reduce corruption risks by 30-50% in public procurement (World Bank, 2020).

- **Cost Savings and Efficiency**

By reducing administrative costs and optimizing procurement processes, e-GMs enable MSMEs to achieve cost savings. For example, CompraNet in Mexico reported savings of over \$1 billion annually through increased competition and efficiency (OECD, 2018).

- **Capacity Building and Support**

Many e-GMs offer training and support programs to help MSMEs navigate the procurement process. These programs include workshops, webinars, and online

resources, empowering MSMEs to compete effectively. For instance, GeM provides free training sessions for MSMEs, helping them understand procurement rules and improve their bidding strategies (GeM, 2023).

6. Engaging the Private Sector in MSME Supplier Development

Governments can incentivize large private sector organizations to assist MSMEs in developing their capacity to supply goods and services effectively. Private sector involvement can take multiple forms, including mentorship, capacity building, and subcontracting arrangements.

a. Encouraging Corporate Social Responsibility (CSR) in Procurement

Many large corporations have CSR initiatives aimed at social and economic development. Governments can align procurement policies with CSR goals by:

- Requiring large contractors to include MSME partners in their supply chains.
- Offering incentives such as tax breaks or preferential treatment in tenders to companies that actively mentor or support MSMEs.

b. Subcontracting Opportunities

Large contracts often exclude MSMEs due to their size and scope. By mandating subcontracting to MSMEs, governments ensure that smaller businesses also benefit from public procurement.

c. Private Sector-Led Incubation Programs

Governments can encourage private sector-led incubation programs, where large corporations work with MSMEs to improve their technical, operational, and financial capacity. These programs can enhance MSMEs' ability to compete for government contracts directly.

d. Knowledge Transfer and Training

Through partnerships, large companies can transfer industry-specific knowledge, training MSMEs in areas such as quality control, compliance, and tender preparation. This collaborative approach strengthens the overall supply chain.

7. The Role of the Financial Services Sector in MSME Support

Access to affordable financing is one of the biggest challenges faced by MSMEs in participating in government procurement. Financial institutions, supported by government policies, can play a pivotal role in addressing this barrier.

a. Discounted Financing for Government Contracts

Financial institutions can offer specialized credit products tailored for MSMEs supplying to the government. These products may include:

- **Invoice Financing:** Allowing MSMEs to receive advances against pending government payments.
- **Working Capital Loans:** Short-term loans with favourable terms, enabling MSMEs to fulfil contract obligations.
- **Factoring Services:** Where financial institutions purchase receivables at a discount, providing immediate liquidity.

b. Government-Backed Credit Guarantees

Governments can establish credit guarantee schemes to reduce the risk faced by financial institutions in lending to MSMEs. These guarantees improve access to financing for small businesses.

c. Partnerships Between Banks and Procurement Platforms

E-GP systems can integrate with financial institutions to streamline financing processes. For example:

- Banks can receive real-time updates on awarded contracts and provide pre-approved loans.

- Financial platforms can directly link MSMEs with procurement portals for seamless transactions.

d. Financial Literacy and Advisory Services

To empower MSMEs, financial institutions can offer training programs on financial management, budgeting, and leveraging government contracts for growth.

8. The Role of Small Business Development Agencies in MSME Success

Small Business Development Agencies (SBDAs) play a critical role in supporting MSMEs awarded government contracts. These agencies provide tailored services that enhance the capacity of MSMEs to meet contract requirements and sustain long-term growth.

a. Capacity Building and Training

SBDAs offer workshops, mentoring, and training programs designed to:

- Build MSME knowledge of procurement processes.
- Enhance skills in areas such as financial management, quality control, and compliance.
- Train MSMEs in leveraging digital platforms like e-GP systems and e-GMs.

b. Advisory Services for Contract Management

SBDAs provide guidance on contract execution, including:

- Budgeting and resource allocation.
- Meeting timelines and quality standards.
- Managing subcontractors and suppliers effectively.

By offering such advisory services, SBDAs reduce the risk of non-compliance and ensure that MSMEs fulfil their contractual obligations efficiently.

c. Business Development Support

SBDAs help MSMEs expand their capacity to take on larger contracts. This includes:

- Facilitating access to technology and equipment.
- Offering market intelligence to identify future opportunities.
- Assisting in the development of business plans to scale operations.

d. Advocacy and Networking

SBDAs serve as a bridge between MSMEs and other stakeholders, advocating for favourable policies and fostering connections with potential partners, financiers, and mentors.

e. Monitoring and Evaluation

SBDAs monitor MSMEs' performance post-award to:

- Provide feedback for continuous improvement.
- Identify systemic challenges and recommend policy adjustments.

f. Leveraging Public-Private Partnerships

Through collaborations with the private sector, SBDAs can offer:

- Access to mentorship programs led by large corporations.
- Joint ventures that enhance MSME competitiveness.
- Shared resources like co-working spaces and shared logistics systems.

Integration of SBDAs in Procurement Ecosystems

a. Pre-Award Support

SBDAs can assist MSMEs in preparing bids by:

- Simplifying tender documents.
- Offering pre-qualification training.
- Assisting in the preparation of competitive proposals.

b. Post-Award Support

Once MSMEs secure contracts, SBDAs can help with:

- Navigating government payment cycles.
- Coordinating with financial institutions for working capital.
- Providing operational support to ensure timely and quality delivery.

c. Technology Enablement

SBDAs can integrate their services with e-GMP systems, allowing MSMEs to access training, advisory, and support services directly through digital platforms.

d. Advocacy for MSME-Friendly Policies

SBDAs can use their expertise to influence procurement policies, advocating for:

- Reduced bureaucratic hurdles for MSMEs.
- Quotas for disadvantaged groups.
- Improved payment terms for small businesses.

9. Framework for Inclusive Procurement (EcoSystem)

An Inclusive Procurement Framework is a structured approach that ensures diverse businesses, including small, minority-owned, women-owned, and disadvantaged enterprises, have equitable access to procurement opportunities. It involves all role players in procurement industry engaging in an Eco-system that puts MSMEs at the centre of a procurement. The ecosystem divides role players into five groups i.e. Buyers, Sellers, Integrations and Logistics, Government Agencies and Financial Institutions

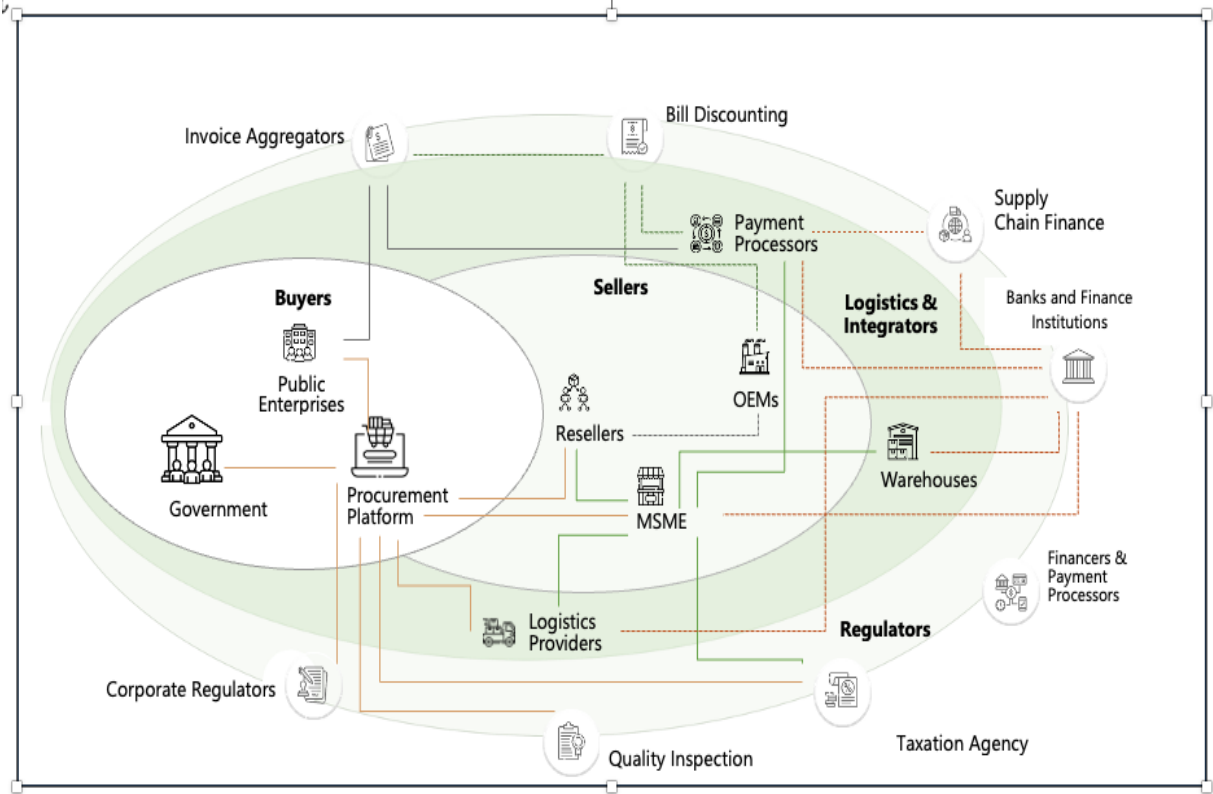


Fig1

Government And Legislation

The legislature and government are central to enabling this framework. They are responsible for enacting laws and regulations that ;

- Recognises that MSMEs are the engine room of the economy
- MSMEs can drive Gross Domestic Growth
- Employment can be generated through the establishment and growth of MSMEs.
- Growth of MSMEs is broad-based in nature and enables wealth distributions across geographical location and demographics.
- Recognises the need to promote entrepreneurial activity especially women, youth, disabled persons, veterans etc.
- Recognise historical injustices and seek to use procurement as a redistributive and redress tool to affected communities through preferential procurement.
- Recognises the asymmetrical competition between large corporates and MSMEs and seek solutions to address the imbalance.

Legislation and regulations promulgated by governments to address some of these issues tends to be numerous and disparate. This has made it difficult for procurement offices to develop coherent policies and procedures that guide their procurement to meet the goals as intended in the legislation. Countries recognised this challenge and subsequently developed procurement legislation that seek to amalgamate all related laws into a single coherent procurement act.

This legislation often provides for centralised procurement office responsible to the implementation of the act through developing policies and guidelines, overseeing their implementation and monitoring performance. Office of the chief procurement office (OCPO) is generally then established as the implementing head of the centralised procurement office.

Procurement Platform

The implementing agent, be it the OCPO or any other entity/commission will require tools to implement the procurement act and regulations and policies and procedures thereof. Ideally a single platform that is agile to handle all the requisite policies and procedures and at the same time accessible by all public procurement entities to transact with goods and

services providers would be ideal. This platform among other things should at the minimum have the functional modules and technical specifications listed in ANNEXURE 1

10. Conclusion

Government procurement, supported by digital technologies (e-GP & e-GMP), private sector collaboration and financial services sector offers a powerful opportunity for fostering inclusive growth. By co-opting SBDAs, governments can provide holistic support to MSMEs, from capacity building to post-award performance. This integration ensures that MSMEs not only win contracts but also grow sustainably and contribute significantly to a broad based national economic development and employment.

ANNEXURE 1

GENERAL SPECIFICATIONS FOR AN eGP and eGMP

Functional Requirements

1. Procurement Planning Module

The module enable government agencies to have their plans, budgets, and forecast procurement published on the system.

2. User Management

▪ User Roles & Authentication

- Secure user authentication (multi-factor authentication optional)
- Role-based access control (citizens, suppliers, government agencies, administrators)

▪ User Registration & Profile Management

- Registration for suppliers, citizens, and government entities
- Profile update and verification workflows

3. Supplier Management

▪ Supplier Registration & Verification

- Vendor registration with business verification (tax clearance, business registration)

▪ Product & Service Listing

- Upload and manage products/services with categories and pricing

▪ Rating & Compliance

- Government compliance tracking (certifications, past contract performance)

4. Procurement & Bidding System

▪ Tender & RFQ (Request for Quotation) Management

- Government agencies post tenders and procurement needs
- Support of different procurement methods (Open and Restricted Tendering, RFQ, RFP, RFI, Single Source, E-Auctions, Reverse Auction, PPP etc)
- Automated notifications for suppliers on relevant tenders

- **Bid Submission & Evaluation**
 - Secure bid submission system
 - AI-based bid evaluation (optional) or manual review workflow
- **Awarding & Contracting**
 - Automated selection based on criteria or manual awarding
 - Digital contract signing and tracking

5. Marketplace

- **Product/Service Catalogue Management:**

Allow suppliers to create and manage catalogues of products/services offered.
- **Search and Filter:**

Enable buyers to search and filter products/services by category, keyword, price, and other criteria.
- **Order Management:**

Manage orders, including order placement, tracking, and fulfilment.

6. Payment and Financial Management

- **Payment Gateway Integration:**

Integrate with payment gateways to facilitate secure online payments.
- **Order and Invoice Management:**

Generate and manage invoices, including payment tracking and reminders.
- **Financial Reporting:**

Provide financial reports and analytics, including transaction history and revenue insights.

7. Reporting and Analytics

- **Procurement Analytics:**

Provide insights into procurement processes, including tender performance, supplier engagement, and contract management.
- **Marketplace Analytics:**

Offer insights into marketplace activity, including sales trends, product popularity, and supplier performance.
- **Customizable Reporting:**

Allow administrators to create custom reports and dashboards to meet specific needs

8. Integration, Interoperability and Security

- **API Integration:**

Provide APIs for integration with other systems, including ERP, CRM, and payment gateways.

- **Data Encryption:**

Ensure all data is encrypted in transit and at rest.

- **Access Controls:**

Implement robust access controls, including authentication, authorization, and auditing.

Non-Functional Requirements

- **Scalability**

Support for increasing number of users and transactions

- **Performance**

Fast response times for search and transactions

- **Availability**

99.9% uptime guarantee

- **Usability**

User-friendly interface accessible to all stakeholders



1190A Opera Rd, Radiokop, Johannesburg | South Africa |
Tel: +27 (10) 210 7176
www.sentientworks.co.za

Copyright 2025