

How to foster a more inclusive environment for SMEs in PPPs?

Full Description

Have you ever walked around a megastore, lost in the aisles of choices, only to go home without the one item you set out for? Conversely, have you ever wandered into a much smaller “mom and pop” shop and found everything you need?

Many reasons compel us to support small and medium businesses: tailored knowledge, personalized service, and the satisfaction of contributing directly to the local economy.

The benefits of supporting such small and medium-sized enterprises, or SMEs, carry over into Public-Private Partnerships (PPPs). But often, these enterprises find themselves “crowded out” by the bigger players in infrastructure. SMEs in developing countries may find it particularly costly and time-consuming to comply with complex pre-qualification criteria or bidding documents, leaving them unable to compete with market leaders. This is unfortunate because SMEs participating in PPPs can build local capacity and expertise, decrease costs, facilitate logistics, encourage increased competition, and create broader opportunities for economic development.

These vital and homegrown engines of growth are the focus of a [new section on the PPP in Infrastructure Resource Center \(PPPLRC\)](#) that links the [policies](#), [laws](#), and [contractual clauses](#) that can foster a more inclusive approach to [SMEs in PPPs](#).

There are many ways to include more SMEs in PPPs. For example, government-endorsed procurement or financing incentives can encourage participation, and capacity-building programs can facilitate implementation. Careful application of such incentives is needed, however, so as not to undermine the value-driven nature of PPPs.

Here are more details about these incentives:

Inclusion of provisions within the public procurement or PPP legal regime to incentivize SME participation.

- Include an SME or local content plan with the bid. Governments can specify that PPP procurement processes articulate how the project could benefit or promote local enterprises. For instance, [Ghana’s Public-Private Partnership Bill](#) requires private sector PPP proponents to submit a local content plan during the procurement process, in response to any request for proposals. The bill also stipulates demonstration of a program to build or transfer skills and technology over time to the local private sector.
- Support industry-specific SMEs. In India, the [Jawaharlal Nehru National Solar Mission](#) promotes a shift to renewable sources of energy by offering incentive packages that support solar and thermal system manufacturing plants. The government initiative also urges partners to support SMEs through mentoring, networking and financial assistance.
- Necessitate SME participation in procurements of a certain size. For example, Australia’s [Victorian Industry Participation Policy](#) states that governments must consider competitive local suppliers, including SMEs, when awarding contracts valued at 1 million Australian dollars or more in regional Victoria, or 3 million Australian dollars or more in metropolitan Melbourne or for state-wide activities.

Raise awareness, through investment promotion agencies, trade facilitation agencies, or chambers of commerce, of local industry capacity.

- One example is found in the Sierra Leone Local Content Act that established the Local Content Agency, which provides support to suppliers, exporters and importers, gives local content certification,

and establishes rules for tendering processes.

Leverage the large contractors' policies for sustainable supply chains. Some examples include:

- The [Skanska - Skanska Sustainable Procurement](#) guidelines, which requires the Swedish construction firm to practice “equal and diverse procurement” that includes SMEs, ethnic minority businesses, and suppliers from other under-represented or protected groups.
- The “supplier diversity goal” of U.S. firm Bechtel, as explained in their [Executing Work with Bechtel 2017](#) guide, which encourages maximizing opportunities for companies near the project site as well small and disadvantaged businesses.

Many of these policies can be combined. An approach that encourages bidders to present a small business subcontracting program (that outlines targets) can be complemented with information services for larger-scale investors about available SMEs, who are in turn offered support to improve their capacity in performing public contracts.

What happens, you may ask, to existing operators? For example, a new rapid transit line can put bus operators out of business. In Colombia, the [Integrated System of Public Transportation in Bogota](#) issued early regulation that encouraged owners of public transportation vehicles and drivers to join the new system through new operation contracts. You can [read other examples of inclusive PPP operations in this dedicated section](#) of the PPPLRC.

The question is not whether it is possible for PPPs to include SMEs, but rather how. An inclusive approach to public procurement as well as more promotion of local industry and sustainable supply chains are only some examples of how SMEs can carve a larger role in PPPs.

[We welcome your suggestions](#) on other options that can help PPPs contribute towards more inclusive growth.

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