

## PROBLEMS FACING SMEs IN MACEDONIA PARTICIPATING IN THE PUBLIC PROCUREMENT

### POTESKOCE MSP-a PRILIKOM UČEŠĆA U JAVNIM NABAVKAMA U REPUBLICI MAKEDONIJI

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**Abstract:** *Public procurement is extremely important theme throughout the world, particularly in the developing countries. Lately, all the more interesting questions arise regarding their influence on transparency, accountability, and competitiveness. Electronic public procurement (public e-procurement) are a trend that is becoming more implemented and used in the field of public procurement. The aim of this study is to determine the impact of introducing mandatory e-auctions as a way of ending the public procurement procedures on small and medium-sized enterprises in Macedonia, and to identify problems and benefits faced by these companies during their participation in public e-procurement. The study includes a case study, concerning data and information gathered using interviews and document review.*

**Key words:** *Electronic public procurement, public e-procurement, public procurement, small and medium enterprises, SMEs*

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**Sadržaj:** *Javne nabavke su izvanredno značajna tema u celom svetu, a osobito u zemljama u razvoju. U zadnje vreme sve su više interesantniji njihovi uticaji u pogledu transparentnosti, pouzdanosti, i konkurentnosti. Elektronske javne nabavke (javne e-nabavke) su jedan trend koji je sve aktuelniji u domenu javnih nabavki. Cilj ovog istraživanja je da se utvrdi kakav uticaj ima na mala i srednja preduzeća u Makedoniji uvođenje obavezne e-aukcije kao način završavanja postupaka javnih nabavki, kao i da identifikuje probleme i koristi sa kojima se suočavaju ova preduzeća prilikom svog učešća u postupcima javnih e-nabavki. Istraživanje obuhvata studiju slučaja, a podatci i informacije su sakupljene koristeći intervjue i pregled dokumenata.*

**Ključne reči:** *Elektronske javne nabavke, javne e-nabavke, javne nabavke, mala i srednja preduzeća, MSP*

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## 1. INTRODUCTION

Electronic commerce presents a retail sale of product and services using the Internet, to any buyer in the world, no matter where he is [1]. Other authors, however, define electronic commerce as automation of commercial transactions using computers and network communication technologies [2]. However, perhaps the most comprehensive definition of e-commerce is the one that says it is the process of buying, selling, transferring or exchange products, services and/or information via computer networks, including the Internet [3]. Comprehended according to the definition, electronic commerce allows usage of multiple business models, one of the most common being electronic procurement (e-procurement).

E-procurement is the use of information technology by organizations in establishing contracts for the purchase of products and services [4], [5], i.e., it presents the using of electronic methods via the Internet to realize the procurement functions such as: identification of requirement, tendering process, payment and contract management [6]. Great popularization of e-procurement starts with the so-called electronic public procurement, that is, the reform that e-procurement brought into the public procurement process worldwide in the last two decades. That enabled e-procurement to increase the efficiency and effectiveness of public procurement, and also to improve their transparency and accountability [7].

However, because e-procurement is currently one of the key topics in the e-government arena, many organisations need guidance about proceeding with this new technology, system and processes. Namely, small and medium sized enterprises (SMEs), though representing a crucial role in employment and the whole economy [8], may find it difficult to become suppliers in public procurement [9], [10]. Particularly this is the case with SMEs in Republic of Macedonia where 99.7% of businesses are SMEs [11].

The purpose of this paper is to review the use of e-procurement by SMEs as economic operators and the impact that electronic public procurement can have on their operations. Specifically, the paper aims to answer the following research questions:

1. What kind of impact does the mandatory introduction of electronic auctions in the electronic public procurement in Republic of Macedonia have on SMEs, in the long term?



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2. What consequences are caused by implementation of recent amendments to the Law on Public Procurement of the Republic of Macedonia, which states mandatory publication of tender specifications in the field of health, in which one item is one lot<sup>136</sup>, on the performance of SMEs that arise as economic operators in these proceedings?

## 2. THEORETICAL FOUNDATION

Public procurement is the process by which public sector contracting authorities procure goods, services and works by other organizations (economic operators). Governments around the world spend around 20% of global GDP, where in most of the highly developed economies the total value of the purchased goods and services is equal to about third of their GDP, while in developing countries this percentage is up to 50% of GDP [12].

Electronic public procurement plays an important role in increasing the efficiency in the management of public resources [13]. In some countries, e-procurement implies only on existence of a website on which the contract notices, concerning the commencement of procedures for awarding public contracts are placed [12]. In others, the systems for e-procurement are much more sophisticated and cover more stages of the procurement process, such as: requirement definition, sourcing, solicitation, evaluation, contracting and contract management [14].

Regardless of which model is applied, public e-procurement, and e-procurement in general, allow the acquisition of the following types of benefits [15]:

- Tangible or quantitative - easily quantifiable, as costs (order cost, administrative cost, lead-time order cost and opportunity cost of capital) and time savings that translate into improved effectiveness and efficiency of organization, as well as revenue increase resulting from access to new markets or new business opportunities; and



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<sup>136</sup> In the procurement of drugs, medical devices and/or medical disposables, the contracting authority shall not form lots consisting of more items, unless the items are associated in their use and upon prior consent of the Public Procurement Council.

- Intangible or qualitative - such as: improved customer satisfaction, better integration of business processes, and better communication with other businesses that improve business relationships and so on, which are not so easily quantifiable.

But despite the advantages arising from public e-procurement, there are certain barriers to implementation and use of public e-procurement, which can especially be truth for small and medium enterprises. Some of these barriers are of an external nature (technology, infrastructure and legislation, environment), while the rest are from internal nature (resource constraints such as financial and human capital along with organizational and management characteristics such as organizational culture, decision maker's perception of risk and benefits of e-procurement system, firm size, business type, organization structure and others) [16].

All this contributes to put public e-procurement very high on the agenda of priorities of national and local governments around the world, yet their implementation and development is realized with due respect. Thus, European Union agreed that by the mid-2016, public e-procurement will be bring to a condition called end-to-end e-procurement, which represents "ICT and processing of transactions by the public sector organizations in the procurement of products and services from the beginning of the process, i.e. from the notification procedure for stakeholders (electronic publication of notices) down to its very end, that is to facilitated electronic payment for realized public procurement" [17]. European Union has also planned the publication of notices and tender documents (e-notification) to become mandatory starting from March 2016, to introduce mandatory electronic submission of bids (e-submission) from March 2017 (for advertisements published by central bodies), and from September 2018 (for advertisements published by all contracting authorities); while electronic payments should become the

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predominant method of payment of obligations of public procurement procedures from 2020. Despite the predetermined set of deadlines for the mandatory introduction of these stages of the procurement process for all member states, many of them have already introduced and practiced mandatory e-notification, e-access, e-submission, and e- invoice.

Macedonian public procurements are implemented in accordance with the following basic principles incorporated into the Public Procurement Act: 1) stimulating competition between economic operators; 2) equality of procedure participants, i.e. equal treatment of both participants and stakeholders; 3) transparency and integrity in awarding public contracts; 4) rational and efficient use of funds in the award of public procurement, or the well-known concept of "best value for money" [18].

The first version of the e-Procurement system in Republic of Macedonia was officially launched in April 2006. Primarily, the e-Procurement system was envisaged and functioned as a system with limited capabilities. Today, Macedonian e-Procurement system has grown into a single computerised system, available on the internet (<https://e-nabavki.gov.mk>), which is used to enable greater efficiency and cost-effectiveness in the field of public procurements. The system actually is publicly accessible web site managed by the Public Procurement Bureau that offers the possibility to completely treat the tender via the web site. Since 2008, it belongs to the stage 4 of online availability (which is the maximum for this type of services). It means that: case handling, decision and delivery of a standard procedure to tender can be treated completely via the web. So, since then, no other formal procedure is necessary for the applicant via "paperwork". In other words, the online sophistication for the e-Procurement application is a hundred percent (100%) [19].

The Electronic System for Public Procurement (ESPP) operated by the Public Procurement Bureau of the Republic of Macedonia was used by 1,390 contracting authorities and by more than 4,800 active economic operators in year 2014. There were 15,738 contract notices of different type and 22,022 contract award notices of different type publish in 2014, total number of published tender documents was 15,684, and because since 2012 the use of e-auction is mandatory for all public contracts, there were 29,477 e -auctions carried out, i.e. more than 112 e-auctions daily in average. In 2014, 21,938 public contracts were awarded, in the total amount of 60.4 billion MKD or more than 980 million EUR, which is around 34% of the Budget and 12% of GDP, compared to the previous year the total value is increased by 15%. Analysis of both the number and the value of concluded contracts by category of tenderer, shows that most of the contracts concluded in 2014 (15,652 contracts) fall within the category of SMEs, accounting for 48% of the total value of the concluded contracts. In facts, value share of the category large companies accounts for 35% (3,241 contracts), while micro companies account for the least - 5% of the total value of the public procurements carried out (2,967 contracts concluded), taking into account that they account the most in the simplified competitive procedure limited of up to 5,000 EUR [20].

However, there are different and often opposite opinions for benefits from the public e-procurement in Macedonia. For some, e-procurement has facilitated the process of conducting public procurement, but there are those, mainly small and medium enterprises, especially micro-enterprises in Republic of Macedonia who despite their great potential to stimulate economic growth and encourage innovation and competition, are still underrepresented in public e-procurement in relation to their weight in the economy.

### **3. RESEARCH**

#### **3.1. Methodology**

This research adopted the case study as a methodology that allows confirming the theoretical knowledge on electronic public procurement and the problems faced by SMEs in the Republic of Macedonia, during their participation in electronic public procurement in the country. The case study is based on a company named Secunda. Interviews were made with the operating director and financial director of the company (on 4.7.2015) and with the direct participants in public procurement - employees in the company who prepare tender proposals for participation in public procurement contracts (for the 4.8.2015), for providing the information needed to build this case study. Additional information was gathered by reviewing a large

number of documents, financial reports, analyses and reviews that have been prepared by employees of the company, and is focused on the various aspects of company's operations.

### 3.2. Analysis and interpretation of the survey results of an empirical case study of company Secunda

Secunda company was founded in 1999 and its main activity is the sale and servicing of equipment for clinical and industrial use, supply of reagents and consumables in the field of biochemistry, immunology, microbiology, chemistry, and sales of pharmaceutical products, laboratory appliances etc. It is a small company and cooperates primarily with public institutions in the field of health care: public health centers, hospitals, clinics, etc. This means that participation in procedures for the grant of public contracts is the most common and most important business of this company. Table 1 shows the submitted offers (bids) for the procedures of awarding public procurement by the company for the period from January 2009 to December 2014.

2009	2010	2011	2012	2013	2014
289	274	221	371	444	368

**Table 1 - Number of offers submitted by Secunda in procedures for awarding public procurement (2009-2014)**

The main income of Secunda coming from sales of its products and services to healthcare organizations through participation in public procurement procedures, so the mandatory introduction of electronic auctions (which represents an iterative process of negative bidding of the economic operators - auction bidders), contributes to reducing the originally submitted offers and consequently to reduced earnings of the participating companies. Also, with the introduction of the lowest price as a single criterion for selecting the best offer, the situation for SMEs deteriorated further, because the quality no longer plays a major role in this type of procurement and bidders intentionally reduce the quality of the offered products in order to have the lowest price and win the contract.

Despite these changes, Secunda still offers the same quality to its customers, although some noted a large percentage of lost sales of certain products and also reduced earnings, because the decrease in the prices that occurs because of the huge competition in the electronic auctions is immense. Table 2 shows a reduction in prices of certain items which are seen in the participation of Secunda electronic auctions in the last three years.

#	Name of the product	2012	2013	2014	Price decreases in % (2012-2014)
		*The prices are given for millilitre in MKD			
1	CHOLESTEROL	<u>2.87</u>	<u>2.79</u>	<u>2.22</u>	22.6
2	TRIGLICERIDI	<u>3.15</u>	3.02	<u>2.42</u>	23.2
3	VAKUM EPRUVETI SEDIMENTACIJA	6.78	6.05	<u>5.50</u>	18.9
4	VAKUM EPRUVETI SERUM	4.82	4.53	<u>3.30</u>	31.5
5	VAKUM EPRUVETI K EDTA	5.00	4.45	<u>3.30</u>	34.0
6	CALCIUM	<u>0.70</u>	1.26	<u>1.26</u>	(-80.0)

7	PHOSPHOR	<u>1.44</u>	1.28	<u>0.98</u>	31.9
8	MAGNESIUM	<u>1.43</u>	1.60	<u>1.26</u>	11.2
		* The prices are given for litre in MKD			
9	SULFURIC ACID 95-97%	500.00	351.54	<u>262.23</u>	47.6
10	METIL ALKOHOL	300.00	264.74	<u>259.47</u>	13.5
11	GLUCOZA ANHIDRID	1,100.00	807.24	<u>795.15</u>	27.7
12	ORTOFOSFORNA K-NA	1,000.00	699.61	<u>682.99</u>	31.7
13	HCL KONCENTRIRANA	400.00	308.14	<u>301.32</u>	24.7
		* The prices are given per test in MKD			
14	ASO immunological tests	<u>5.69</u>	<u>5.35</u>	<u>5.00</u>	12.1
15	CRP immunological tests	<u>4.26</u>	<u>3.92</u>	<u>3.62</u>	15.0
16	RF immunological tests	<u>3.65</u>	<u>3.42</u>	<u>3.11</u>	14.8

**Table 2 - Prices of the products held in electronic auctions for awarding a public procurement of a general hospital in Macedonia**

Prices given in Table 2 were the last offered priced by Secunda. Reduction in prices from 2012 to 2014 is evident in all presented products. It is important to emphasize that the prices marked in red (bold and underlined) are products that Secunda has lost in the proceedings for awarding a public contract or through electronic auction, while other items are those which Secunda was granted the contract for their procurement. In all of the marked products fall in prices in 2014 compared to the price of these products in 2012 is noted, except for the item number 6, who has seen price growth in 2014 relative to the price of 2012 by 80%. The reduction in the prices of the products ranges from 11.2% (for item number 8), to 47.6% (the item number 9). Five of the 16 products from the list have their prices decreased by 30 percent or more.

In an interview with the Chief Operating Officer of Secunda, it was stated of the enormous price reductions by other bidders (competition on the electronic auctions) is a result of lack of practice of valuing quality standard for suppliers (bidders) in Republic of Macedonia, and because there are suppliers who have inadequate warehouses for storage of the products, inadequate transport vehicles and procedures, and hence arises the possibility of such suppliers to reduce prices, since they don't have the same cost's structure as Secunda does.

Another amendment to the Public Procurement Law in 2013 caused additional difficulties of enterprises that deal with sales of medical products and equipment. Namely, the amendment directs for the mandatory use of "one item - one part" principle in order to allow maximum competition between economic operators in procurement of medicines, medical devices and medical supplies. Therefore, in 2013 (before the amendment come into force on 1.1.2014) when this change in the law was introduced, the number of auctions (due to a huge increase in the number of products subject to individual e-auctions) dramatically increased (Table 3).

Year	2011	2012	2013	2014	Total
Number of e-auctions in which Secunda participated	/	1960	3666	6383	12009

**Table 3 – Total number of e-auctions Secunda participated in (2011-2014)**

From Table 3 dramatic increase in the number of electronic auctions in 2014 compared to previous years can be seen. This is a result of the introduction of the amendment in the Act which refers to the principle of "one item - one part". This increase in the number of electronic auctions for Secunda reflects the need for additional resources in the context of more sophisticated and faster IT equipment required for uninterrupted monitoring of e-auctions, because simultaneously 5-6 e-auctions can be held and that presents a significant need for additional human resources, because sometimes 60 e-auctions are held on daily basis.

All this leads to additional negative effects on the operations of Secunda, so it is forced on taking commercial loans and repayment of interest for the company to be able to procure goods offered and realised in other procurement procedures. Also the engagement of people dealing with the recovery of held debts, i.e. they follow the institutions and collection of financial assets performed by them and signal if they notice a delay in the collection, also presents an additional cost and burden of this small enterprise.

#### **4. CONCLUSION**

Research findings suggest that the share of small and medium-scale enterprises engaged in electronic public procurement in the country is faced with a series of problems and difficulties. Some of these problems arise because of their nature and the lack of adequate resources (people, proper IT infrastructure, funds), and a large part is initiated by the systemic structure of the public procurement in the country. Namely, the introduction of lowest price as the sole criterion for selecting the best bidder in the public procurement procedures that must end with e-auctions, and whereas the public sector is an important buyer of products and services from SMEs, leads to the forced low-cost strategy of the SMEs as the only strategy for conquering a market share of public procurement. Thus, the reduced revenues and profits makes not only significant effects on the future business existence and bring it at jeopardy, but the current public procurement system also causes reduced quality of the products and services subject to procurement made by public institutions. The net effects of the current public procurement system in Macedonia can be treated from the following two key aspects. First seemingly positive, refers to certain financial savings in the public sector in spending public money through public procurement (which if 'total cost of ownership' concept is used, than this aspect can be shown as a debatable issue). The second aspect, however, on the other hand, refers to disabling SMEs (accounting for 99.8% of all business entities, whose importance to the national economy is great and strategic) and their discrimination forcing them to realize modest results from its operation, because they are forced to reduce prices of their offers and which decreases their incomes.

Certain improvements of this situation can be done, but following activities should be made by the state authorities in Macedonia:

- To evaluate and recreate the system of mandatory completion of procurement procedures with e-auctions.
- To re-introduce "economically most favourable offer" criterion for selecting the winning bid, instead of the criterion "lowest price".
- To upgrade the ESPP with a functionality to facilitate the participation on more e-auctions simultaneously by the means of so-called electronic agents.

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