

## **ELIMINATING BARRIERS FOR MSE'S IN THE PUBLIC PROCUREMENT MARKETPLACE OF CHILE**

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**ABSTRACT.** In Chile, as in virtually all countries, micro and small enterprises (MSEs) are a fundamental element in terms of their quantity, employment generation capacity, dynamism and influence in the development of the country. Usually these enterprises face disadvantages and asymmetries, having serious problems with achieving competitiveness. This situation has motivated the creation of diverse entities and government programs directed to support the invigoration of the MSEs. On the other hand it is interesting to observe the behavior of this type of companies in the Chilean public procurement marketplace (PPM), considering the strategic objectives and the actions carried out by the authority in those matters. An important issue is the consistence between the national policies on public procurement and the national policies regarding MSEs. Can we support MSEs and still be efficient in the PPM? The present paper describes the approach and the initiatives adopted by the Chilean authority on public procurement regarding the MSEs and establishes the intrinsic conditions of the present Chilean model of public procurement that have contributed to the performance of the micro and small suppliers in the PPM.

### **INTRODUCTION**

In Chile the public procurement purchases are carried out through [chilecompra.cl](http://chilecompra.cl), a complete platform, designed to achieve high transparency levels, efficiency and use of technologies of information in the public procurement. This platform is administered by the Public Procurement and Contracting Bureau (DCCP by its acronym in Spanish) whose institutional mission is to develop policies and initiatives, in order

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to create value and transparency in the PPM, through the introduction of technological instruments and administration excellence. It is in their essence an inclusive and non discriminatory system, and promotes high levels of suppliers' participation.

### **THE MSEs IN CHILE**

In Chile there are more than 1.4 million micro and small companies including self-employed workers. Approximately 97% of the formal companies are MSEs. This sector represents 62.6% of the private workforce (approx. 3 million work positions), and its sales represent 15% of the national sales.

Starting late 1990s, the Chilean Government has carried out special efforts to support the MSEs through a series of initiatives aimed at strengthen their development and to increase their competitiveness. New laws have been enacted to facilitate the creation, formalization and development of companies of smaller size. Today there is more access to credit, more resources for support programs and more access to information technologies (Servicio de Cooperación Técnica, 2005).

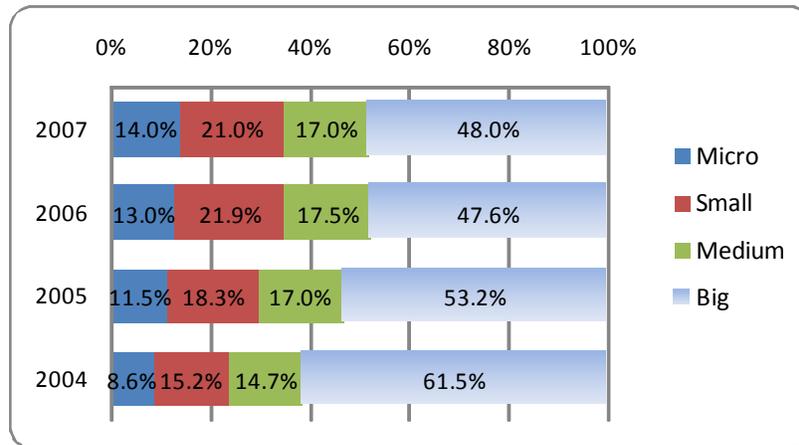
### **THE MSEs IN THE PUBLIC MARKETPLACE**

This section is based on data taken from "Balance ChileCompra 2007" (Dirección de Compras y Contratación Pública, 2007), and "Informe MIPE" (Dirección de Compras y Contratación Pública, 2007). The level of MSEs participation in this marketplace is wide and diverse, micro and small companies have been able to increase their levels of market share (sales) in the last years, from 23.8% in 2004 to 35% in the year 2007, with an amount exceeding U.S. \$ 1500 million as shown in Figure 1.

#### **Registered Suppliers**

Until December 2007 there were 270,031 registered suppliers in ChileCompra (cumulative total), representing a growth of 20.5% in one year. A 94% of registered suppliers are MSEs, and the micro enterprises represent the fastest growth segment, accumulating an increment of 17.5% over the previous year.

**FIGURE 1**  
Sales in the Public Marketplace, by Supplier's Size



Note: Notice the growing difference of these figures in relation with the participation of the MSEs in the sales of the national economy (15%).

### Supplier's Activity

If we consider 'active' the suppliers that have offered in an acquisition process, and/or have received a purchase order, more than 91% of the active suppliers corresponded to MSEs (2007), while 5.7% were medium and 3.3% were big enterprises. When analyzing the percentage of active companies, it is verified that 32.0% of the inscribed MSEs participated actively of the public marketplace during the 2007, while around 50% of the medium and big enterprises carried out operations in the same period. Although the participation of the MSEs is relatively smaller to that of the bigger enterprises, the absolute number of active companies is the highest (totaling more than 72 thousand suppliers).

### Effectiveness of MSEs

An interesting figure to consider is the suppliers' effectiveness, measured in terms of the ratio between the quantity of suppliers that have won tenders and the number of suppliers that have submitted offers, in a given period. In 2007, the MSEs effectiveness was 68.0%; for medium and large companies it was 79.3%. The evolution is presented in Table 1.

**TABLE 1**  
**Effectiveness of MSEs**

<b>Segment</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>
Medium and Big	79.1%	80.5%	79.3%	79.3%
MSEs	62.1%	64.9%	65.5%	68.0%

It can be appreciated that the figures of the MSEs are increasingly closer to those of the bigger enterprises. It is valid to wonder, is this behavior as expected? What are its causes? How is this related to the strategic objectives of the PPM? In the following pages we will issue the strategic/structural aspects and the different initiatives that have affected the performance of the MSEs.

### **GENERAL STRATEGIC GUIDELINES**

The national strategic orientation regarding the MSEs has as its central axis to provide the tools and conditions necessary for them to achieve their development and competitiveness by themselves, in this sense the expenses in these topics constitute investment, not subsidy. In Chile there are several entities associated with the productive development, training, regional development, etc. generating different support programs for the MSEs.

It is the policy of the Government of Chile that any company that might represent a good supplier of goods and services for the State should not be excluded from the marketplace of public procurement by reasons of absence of information, lack of technological knowledge and Internet access or discriminatory rules. In this sense, and in his own field, the DCCP has as one of its objectives to support the participation of all companies interested in doing business with the state, by removing barriers and improving capabilities to compete in tendering processes.

Although the DCCP is not by definition an entity dedicated to the development of the MSEs, motivating the maximum participation of the suppliers in the different purchase processes can constitute a contribution to the objectives of the public procurement. In this sense the thesis is that it is possible to support the MSEs in a way that is compatible with the efficient purchases and a transparent marketplace. Evidently an initiative

that supports the MSEs but that acts against the realization of efficient and transparent purchases will not be in line with the strategic objectives of the DCCP.

Regarding the initiatives implemented these should support the entrance and participation of the enterprises in ChileCompra system, but they cannot guarantee making of business. The purchasing decisions are still autonomous in each one of the public institutions, depending on the best value for money and depending on the companies' capacity to generate competitive offers in this marketplace.

### **STRUCTURAL FEATURES OF PUBLIC PROCUREMENT IN CHILE**

In the years preceding the entrance of the new model of public procurement (before 2004), the scenario faced by the potential suppliers of the PPM was very different than what happens today. In broad terms, each institution had its own way of buying, most of them through non automated systems. There were no unified standards or normative, the access to the information of the purchase processes was very difficult and in many cases it was not possible to obtain it. In addition the way of doing business was strongly based on contacts generated in situations and environments that were not accessible for small enterprises.

At this moment the Chilean model of Public Procurement is oriented from its foundations to promote the maximum participation of all the suppliers, it is an inclusive system. It is in essence public, transparent and participative (wide access). Among the relevant structural elements we can mention the following ones.

- Free registration in the platform of public procurement.
- Centralized platform, the suppliers need to register in a single system.
- Documentation needed is minimized. Registration allows providers to use the same documentation in multiple purchase processes, which constitutes a contribution to the effectiveness and efficiency of processes.
- Clear Rules: The system (platform and legal structure) promotes purchase processes with clear structure and conditions.

- All the information of the processes is public and easily accessible (via internet). This has diverse benefits. The wide availability of the information about purchase processes empowers the capacities of planning and exploration of new marketplace niches. There is a significant contribution to the transparency, by means of the public scrutiny.
- The previous elements determine a smaller cost per transaction.

Although these characteristics favor all type of suppliers, it is clear that the benefits are comparatively more significant for the smaller suppliers, considering the problems they face (Servicio de Cooperación Técnica, 2007).

### **CONSIDERATIONS CONCERNING SUPPORT TO MSEs**

In the definition of the policies related to the support to MSEs, the DCCP has decided not to intervene directly in the purchases processes. An intervention of this type would be, for example, defining a percentage of funds that should be reserved for MSEs suppliers (set-asides). Another example would be defining purchases categories that should be reserved for MSEs suppliers unless there is a justified cause for not making it. This type of initiatives has serious dangers, by introducing distortions that could lead to make inefficient purchases, what is in evident contradiction with Chilean strategy of public procurement. Given that the great majority of suppliers are MSEs, it would not be possible support them effectively without introducing massive distortions in the public marketplace. Similar case would happen with subsidies that could create fallacies of efficiency, when allowing suppliers to offer products apparently at lower prices, but with expenses in subsidies.

Taking as foundation the previously mentioned strategic objectives, the DCCP has developed a set of initiatives focused on providing to MSEs elements that enable them to increase their competitiveness and to reduce its disadvantages. Theses elements are mainly related to Information, Knowledge and Interaction. The information about the purchase processes, and the knowledge of the public marketplace is indispensable so that the MSEs can direct their resources to real business opportunities, and achieve good participation in the purchase processes. Likewise many MSEs don't have the infrastructure and technology that could enable them to take part in a competitive marketplace. In many

cases these suppliers don't have internet access nor facilities suitable for meetings with the buyers (and possibly with other suppliers). Another strategic element that the DCCP has considered is to favor the interaction among small suppliers, so that they can unite and together offer better or bigger products that could satisfy the requirements of the buyers.

We also should consider the additional benefits of this approach that empowers the ability of small suppliers to participate in other marketplaces, already having administration knowledge, electronic trade experience, interaction capacity, etc. The benefits go beyond what happens in the PPM. This approach is consistent with the national strategy regarding the MSEs that in its essence seeks to provide tools to the MSEs so that can develop themselves and it doesn't seek to subsidize them indefinitely. When considering the strategic guidelines regarding the public procurement and the performance of the MSEs, these elements support the notion that the applied focus has been the correct one.

## **IMPLEMENTATIONS AND EXPERIENCES**

### **Infrastructure**

A series of access points have been established since 2006, which provide the necessary infrastructure to suppliers so they can participate in the marketplace of public procurement. The main elements are the ChileCompra Business Centers, which constitute a place where MSEs can find various services that enable them to strengthen their entrepreneurial skills, and to participate better in the PPM and in other marketplaces. Its implementation is the result of the joint network formed by public and private agencies, which provide resources and services. These networks have been enhanced with the collaboration of major state entities that are related to the promotion of productive development and technology. These spaces are fully equipped, providing free Internet access, training, support and services so that entrepreneurs can significantly improve their chances of doing business with public agencies. Each computer is equipped with the necessary software (text processor, spreadsheet, among other programs) so MSEs people can prepare and review their bids in a comprehensive way. In addition, in all centers there are skilled and qualified personnel specially trained to assist those interested in the use of workstations and in the participation in the bidding processes. Currently there are 16 Business Centers, distributed in

major cities throughout the country. There are also external information centers, which after an accreditation process, are capable to provide access and general support about Chilecompra.cl platform, thus expanding the ability to support suppliers.

### **Training**

To facilitate the access of suppliers, DCCP provides continuous training on platform ChileCompra.cl. This includes in-person training, online training, development of downloadable manuals and guides, etc. The contents focus on the use of the portal, legal issues and other topics related to the public procurement and digital literacy. Table 2 presents the quantity of users trained for the years 2004 to 2007 and does not include downloads of manuals and guides available at portal chilecompra.cl

**TABLE 2**  
Quantity of Trained Users

<b>User Category</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>
Supplier	4,366	9,866	7,109	23,077
Buyer	11,192	22,125	23,725	25,456

### **Support and consulting services**

The DCCP provides continuous support about ChileCompra platform, in its legal and technical aspects. It has a permanent help desk, which receives approximately 20 thousand visitors per month, mainly by telephone. Other kinds of support operate via e-mail and discussion forums. It has been planned in the future provide advanced consulting services on issues concerning the development of micro-enterprises , as part of the services offered at the Business Centers. It has been also considered a range of complementary services such as secretarial, design, translation, etc.

### **Alliances**

There is a series of associates, from both the public and private world, who have been involved in the success of these initiatives. With regard to public entities, the initiatives have been supported by Regional Governments and Municipalities, productive and regional development agencies, etc. There are also partnerships with private entities such as

chambers of commerce, guilds, banks and private companies. The chambers of commerce and guilds have been an excellent information channel. DCCP is currently exploring opportunities on collaboration with universities, institutes and others to count on their support in generating more specific services, mainly those related to expert consulting.

### **Mass Media**

Various tools of information have been utilized to achieve greater awareness and participation in the PPM. These include massive e-mailing, usually targeting the suppliers of productive sectors on which there is little participation, and suppliers from regions in which some activity comes soon (trade fairs, training, etc.). Another channel is the [chilecompra.cl](http://chilecompra.cl) portal itself that provides a specific environment for suppliers, which includes news, statistics and other interesting contents. Additionally, the DCCP implements regular publications in press and local media in each region to promote activities.

### **Partnership Platform**

This new platform will allow companies partnering with other companies in its category (or similar) and respond in conjunction the invitations to tender issued by public agencies in [chilecompra.cl](http://chilecompra.cl). This initiative will begin to operate by 2008. In this partnership platform, the DCCP will provide technology to enable enterprises to contact and partnership, and also will provide support and technical assistance in conjunction with other public entities. It is expected that this initiative will stimulate competition and will increase participation opportunities of MSEs in larger biddings.

## **CONCLUSIONS**

The DCCP has implemented an approach (and initiatives) that simultaneously seeks to contribute to transparency/efficiency in the PPM and is consistent with national strategies related to MSEs. In this sense, one of the ways in which DCCP seeks to strengthen the transparency and efficiency in the market of the public purchases is by means of the promotion of the maximum participation of the suppliers, what has been translated in initiatives that certainly have eliminated or reduced barriers that affect the MSEs. This is reflected in the participation figures and growing effectiveness of the MSEs in the Chilean PPM.

The essential structural features of the present Chilean model of public procurement (publicity, transparency, wide access) have also contributed to this behavior. These features were not designed to support the MSEs as an original central purpose, but certainly the smaller enterprises were the most favored in comparative terms.

As an additional benefit of this approach, the experience, knowledge and capacities acquired by MSEs in the PPM allows them to participate in other marketplaces in better conditions. For many MSEs the PPM has been a “school”, in which they have learned to do business in a competitive e-marketplace.

An important element in implementing the initiatives above described has been the inclusion of all stakeholders, from the initial stages. While DCCP is a comparatively small institution (around 100 employees), it has built a supporting platform that drives the MSEs to improve their competitiveness in a potentially complex marketplace (in their technological and legal aspects), with the support of other institutions and organizations of the public and private sectors.

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