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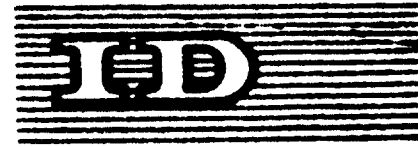
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GOVERNMENT PURCHASES FROM SMALL INDUSTRIES ✓

by

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EXPERT GROUP MEETING ON DOMESTIC MARKETING OF SMALL
INDUSTRY PRODUCTS - DUBLIN 29 MAY TO 3 JUNE 1972

Agenda Item 5. PROMOTIONAL AND ASSISTANCE ACTION -
THE ROLE OF THE GOVERNMENT, OF EXTENSION
CENTRES AND OF SELF-HELP.

5.1.4. The public institutional market - bidding and
preferential procedures.

Government Purchases from Small Industries

All over the world industries are relying more and more on government purchases. The governments have now a tremendous purchasing power and their purchasing policies can have a definite influence on the prospects of many industrial units.

In many countries government is the single largest buyer of consumer goods. The various departments of the government, civil and defence, buy a wide range of goods which are normally produced by small scale industries, such as shoes, uniforms, furniture, stationery, electrical goods, cutlery, crockery, leather goods, plastics goods, radio sets etc. Unfortunately in most countries small industries do not get a fair share of these purchases. Very often small units do not know what is required by the government departments and how to sell their products to the government. Government departments often buy on tender basis and small industries generally lack the skill and initiative to compete with large industries in an open competitive tender system. Small industries do not enjoy the confidence of the purchasing agencies of the government as regards quality of goods or promptness in deliveries and are therefore often left out from the lists of units from whom purchases on limited tender basis are made. Government departments are generally not very prompt in making payments and this adds to the difficulties of small units who have the chronic problem of shortage of credit facilities.

However experience in both developed and developing countries shows that if small industries are given the necessary support and

assistance by the government, they can participate effectively in the governments stores purchase programmes. Perhaps the USA and India are two good examples of countries where small industries have been able to get a fair share of government purchases as a result of the special measures of assistance and support introduced by the governments. The experience of these two countries should provide some useful guidelines to other countries interested in this programme.

A programme of assistance to small industries for participation in government purchases, particularly in developing countries, may have the following essential elements:-

1. Declaration of government policy.

At the very outset it is necessary for the government to declare its policy in clear terms about extending special support and assistance to small industries in the matter of purchases by government departments. In the USA, it was done through an Act of Congress (The Small Business Act of 1958) which stated that "it is the declared policy of the Congress that a fair proportion of the total purchases and contracts or sub-contracts for property and services for the government be placed with the small business enterprises". The Small Business Administration (SBA) has been specially charged with the responsibility for implementing this policy, and the Congress maintains a continuous watch on the progress of the scheme. In India, government policy for giving special support and assistance to small industries for participation in government purchases was announced as an administrative decision of the government. The central purchasing organization of the government and the various public organizations for the development of small scale industries have been made responsible for the implementation of this policy.

The manner in which the policy decision is to be taken is for each government to decide. It may be enunciated either through legislative action or by executive orders. But it is important that the government should declare its policy in unequivocal terms for the information of the small industries and the guidance of the

agencies engaged in purchasing operations on behalf of government departments.

2. Establishment of a Central Purchasing Organization.

In many countries purchases for government departments are made in a disorganized manner by a large number of independent purchasing agencies. Each department tries to preserve its own rights for purchase of stores, and follows its own procedures and systems for such purchases. If all purchases by the government are to reflect the policy of government regarding special support and assistance to small industries, it is necessary that there should be a central organization with overall responsibility for all purchases above a specified minimum value and for ensuring the faithful implementation of the government policy by all the subordinate purchasing agencies. Small industries will not be able to deal with large number of independent purchasing organizations; nor will it be possible for the government to keep an effective watch on the operation of large numbers of agencies as far as government policy of special support to small industries is concerned. On the other hand if there is a central purchasing department, it will be possible for the organizations responsible for the development of small scale industries to maintain close liason with it on behalf of the small units participating in government purchases.

3. 'Set-aside' Purchases from small industries.

One of the most effective measures of assistance to small scale industries is to 'set-aside' certain items for exclusive purchase from them. Among the items regularly purchased by government departments, there are some which can be described as typical small industry products. Even though a large number of small industrial units may be engaged in the production of these items, they may often find it difficult to compete with the few large industries in an open competitive system. It will therefore be helpful if the government purchasing agencies restrict their purchases from among the small units only.

Decisions for the items to be 'set-aside' for exclusive purchase from small industries should be taken only after the government is fully satisfied that small industries produce such items in sufficient quantities and to the right specifications and quality. Purchasing agencies should have a fair choice regarding quality and price even for the items 'set-aside' for exclusive purchases from small industries.

4. Price preference.

For items produced by both small and large industries, a price preference in favor of small scale industries is another effective measure of support to them. The price preference margin should not be too large to make it a subsidy to inefficient units. Nor should it be given in all cases. It should be limited to a few specified items where production on small-scale basis has to be encouraged in general interest. About 10 to 15 percent price preference is generally considered adequate and reasonable.

5. Sub-contracting.

Some government orders may be too large to be of interest to small industries. However small industries may be able to execute some parts of such orders on sub-contract from the prime contractor. In such cases government purchasing agencies should award the prime contract on the condition that specified parts of the contract should be sub-contracted to small industries. Such conditions about sub-contracting should be announced while inviting quotations for the supply of an item, so that interested small scale units can cooperate with large industries even at the stage of submission of tenders.

6. Technical and management assistance.

Small units who receive government orders may be in need of assistance and guidance on technical and management matters.

They may require technical guidance in adjusting their production programmes to conform to certain special specifications laid down by the purchasing department. Sometimes they may need assistance in the use of raw materials or tools and dies or the training of technicians. In some cases management support may be necessary to ensure execution of orders according to the delivery schedules fixed by the purchasing departments. In a case of sub-contracting, the small unit can to some extent receive technical guidance from the prime contractor. But in all cases the national organization for development of small scale industries and the institutions responsible for extension service to small industries should give the highest priority in providing technical and managerial assistance in order to ensure prompt and satisfactory execution of the orders by the units concerned.

In some cases the purchasing organization may have doubts on the technical or financial competence of small units to execute an order. The national organization responsible for the development of small scale industries should in such cases investigate the competence of the units, and, where necessary arrange special measures of assistance. If it finds that the unit concerned is competent to execute the orders satisfactorily, it should issue a certificate of competency which should be honoured by the purchasing departments.

7. **Financial assistance.**

The area where small-scale industries participating in government purchases require assistance most is financing. In fact it is shortage of finance which often makes it difficult for small industries to execute government orders promptly. It is therefore necessary to make special arrangements to make credit available to small units in addition to the normal credit facilities which may be open to small industries. This can be done by advancing special loans on liberalized terms or by the introduction of appropriate schemes of credit guarantees.

It is clear that the programme of assistance to small-scale industries on the lines indicated above will tantamount to a form of subsidy as against large industries, but this is an expenditure which governments have to incur in the overall interest of development of small-scale industries. Small industries in developing countries suffer from several handicaps and disabilities, and it is essential that they should receive support and assistance from the government to overcome these handicaps.

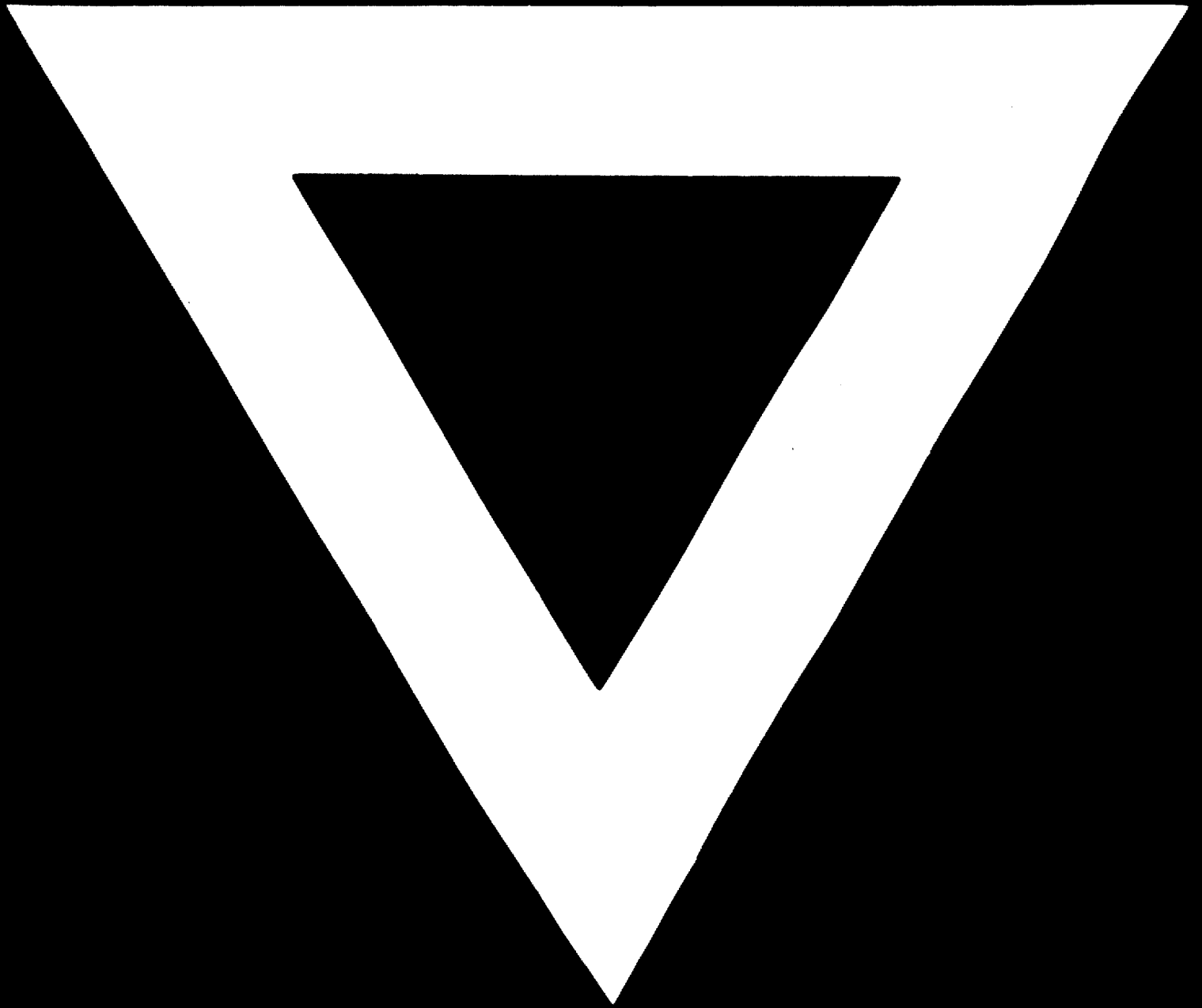
In developing countries small industries are expected to serve some very important objectives in national economic development. They help in providing a strong base for the industrial structure and building up a balanced industrial system. They provide new employment opportunities at relatively low capital cost, facilitate industrial decentralization, fill up the gaps in the demand for consumer goods and simple producer goods, and above all stimulate the growth of indigenous entrepreneurship. These are very important objectives for developing countries, and in order to achieve them, the governments concerned have to bear the inevitable costs involved at the initial developmental and promotional stages. The financial costs for an assistance programme for participation in government purchases are indeed very small compared with the great contribution such a scheme can make to the strengthening and stabilization of the small-scale industry sector.

An important question which arises in this connexion is whether the special facilities for small-scale industries for participation in government purchases should also be extended to purchases by the public sector companies. There are several public sector companies (engaged in activities such as mining, manufacturing, trading, construction etc) which buy a wide range of goods which are and can be produced by small industries. But unlike government departments, the companies are expected to work on commercial lines and therefore they may not like to incur the additional costs involved in schemes of price preference, 'set-aside' etc. They would prefer to buy purely on commercial considerations, and small industries may not be the best and cheapest sources for such purchases.

In some cases there will be a provision in the charter of the public sector companies empowering the government to issue directives to the companies on matters which in the opinion of the government are of important public interest. In such cases it is for the governments concerned to decide whether they should issue directives to the public sector companies asking them to give special support to small industries in their stores purchase programmes. In some cases government may choose to reimburse to the public sector companies the additional expenditure incurred by them as a result of price preference or 'set-aside' schemes. Sometimes public sector companies themselves may choose to introduce limited schemes of support to small-scale industries in their stores purchase programmes without claiming any reimbursement from the government. Even if the public sector companies do not fully participate in the scheme, the market offered by the government departments in most countries will be big enough to give the much needed support and strength to small-scale industries.

Iran has not yet introduced any scheme of special assistance to small industries in the matter of government purchases. The Organization for Small-Scale Industries and Industrial Estates of Iran (OSI & IIE) which was set up in 1968 as an autonomous organization under the Ministry of Economy, is currently engaged in the formulation of a comprehensive development programme for small-scale industries in the country. A study on the need and scope for introducing special measures of assistance to small industries for participation in government purchases has very recently been completed by the OSI & IIE, and recommendations in this regard have been submitted to the government. They are now under consideration by the government.





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