

REPUBLIC OF UGANDA

Improving SME Access to the Public Procurement Market

Final Report

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Acronyms	
A2P	Access to Procurement
BSO	Business Support Organisation
COMSEC	Commonwealth Secretariat
E& A	EDES & Associates
EU	Enterprise Uganda
GoU	Government of Uganda
NRP	National Register of Providers
NTL	Nichols Training Limited
PSFU	Private Sector Foundation Uganda
PDE	Procuring & Disposing Entities
PPDA	Public Procurement and Disposal of Public Assets Authority
SME	Small and Medium size Enterprises
TOT	Train of the Trainer
UKTI	UK Trade and Investment

0 Executive Summary

The A2P is an enterprise-level intervention to broaden SMEs access to public procurement markets by addressing the skills, competencies and proficiencies of SME owner-managers. The intervention embeds new capabilities and encourages adoption of new practices in SMEs so that they can build market share in public sector markets.

ComSec appointed NTL to review existing procurement legislation and practises in order to identify SME bottlenecks, generate strategic options for a SME support programme; develop a capacity building programme for SMEs and execute a pilot training project with selected business support organisations (BSOs) and Private Consultants. Other factors taken into account were consultations with SMEs through their relevant Business Associations; and specific consultations with Women's Empowerment Groups and Institutions.

The projects Strategic Partners include the PPDA, National Register of Providers (NRP), Enterprise Uganda (EU), Private Sector Foundation Uganda (PSFU) and the UK Trade and Investment (UKTI).

To establish a footprint for the A2P, the project focused on selected Procuring and Disposing Entities (PDEs) to establish greater accessibility for SMEs within their procurement practices. These are the Ministry of Finance Planning and Economic Development; Mulago Referral Hospital; National Housing and Construction Company; Uganda Prisons and Ministry of Education & Sports.

0.1 SME and PDE Needs

As a platform for developing the A2P, the experiences and barriers faced by SMEs, and the challenges of PDEs in engaging SMEs, was researched. A survey was administered to SMEs to gauge their experiences and challenges and additional qualitative insights were gained from focus groups, including a specific focus group to understand the unique challenges of woman-owned SMEs. PDEs completed a detailed questionnaire and were interviewed to determine their challenges.

From the survey it can be deduced that SMEs are not faring well based on their actual capture of procurement spend amongst the PDEs interviewed. Whilst there is clearly a proportion of SMEs which are both able to effectively tender for work and rely heavily on these types of contracts; there is also a much larger proportion of SMEs which are unable to successfully integrate tendered contracts into their revenue streams.

The reasons most cited are insufficient knowledge; lack of feedback; and a lack of opportunities to meet buyers, which points to a clear requirement for capacity building support to provide them with sufficient knowledge of the procurement process itself.

For most PDEs, working with SMEs is frustrating. SMEs have been awarded contracts and not delivered; many contracts offered by the PDEs are too large, or too complex for SMEs to effectively compete for; PDEs feel that a significant proportion of procurement contracts are being won by SMEs; and that the current system of preparing procurement plans resulted in delays and is 'haphazard' meaning too little time to consider SMEs.

0.2 The A2P Programme

The A2P programme is a direct response to the barriers and challenges identified. The A2P Process Model shows how SMEs can become engaged and successful at winning contracts. The elements of the Model are awareness, opportunity identification, tendering, reviewing and networking. Using the A2P Model, PPDA can put in place the delivery strategies and performance measures for a national programme.

PPDA will manage the A2P and throughout the execution of the assignment, senior PPDA Officers gained skills and knowledge by participating in all the technical aspects, the design of the training programme, selection of Trainers and SMEs and the actual delivery of the A2P.

The heart of the A2P is a 3-day SME training course which deals with the introduction to public sector procurement; identifying opportunities to supply the public sector; and the tendering process & effective tendering.

In order to build the capabilities for the A2P, and test some of the principles, the technical assistance included a pilot Train-the-Trainer and pilot SME Training Course.

To ensure that sustainability was embedded in the design delivery and implementation of the A2P programme, 16 Uganda procurement practitioners and professionals from the PPDA, Makerere University, Enterprise Uganda and other procurement consultancies took part in the pilot A2P Train the Trainer workshop. The trainers completed the 2-day course and were considered competent to deliver the A2P. Uganda now has a specialist talent pool of trainers that can be called upon to deliver the A2P.

The new Trainers worked under supervision of NTL and trained 103 SMEs from all parts of Uganda. A total of four 3-day workshops were delivered from the 22 November – 3 December. It is now necessary for the PPDA and partners to track the impact of the initiative for the next 12-18 months.

0.3 Recommendations

The recommendations aim to facilitate three developments regarding SMEs and Public Procurement in Uganda.

In order to develop a more favourable policy environment for SME procurement, the GoU should:

- Promote greater transparency and simplification of the national procurement system,
- Agree a SME definition to be used to identify under represented SMEs,
- Use regulatory leverage to resolve issues such as Bid Securities and Insurance,
- Consider regulations for Community Benefit Clauses in contracts, and
- Ensure a local SME engagement agenda in its procurement policies.

To ensure the actual delivery of the A2P programme, the PPDA and PDEs, aided by BSOs and Private Consultants, need to adopt and act on certain strategies.

PPDA should:

- Adopt the A2P programme and use the A2P Model as its main management guide,
- Spearhead the expansion of the A2P beyond Kampala and ensure the establishment of tender desks and help lines, especially in rural areas, and
- Ensure the long term sustainability of the A2P through an appropriate charging and cost recovery strategy.

PDEs should:

- Display their procurement plans on procurement notice boards and websites,
- Adopt procedures and practises that allow them to contract with SME consortia,
- Communicate future supplier aggregation plans to SMEs, and
- Work closer with BSOs on services such as ‘meet the supplier’ events.

BSOs and Private Consultants should:

- Formalise a training contract with PPDA to participate in the A2P,
- Align their business strategies in order to fully engage in the A2P, and
- Commit to a self-funded continuous improvement process.

Specific product and service recommendations primarily for PPDA as custodian of the A2P programme are:

- Differentiate support for ‘smaller’ and ‘larger’ firms within the SME range,
- Develop complementary products and services,
- Ensure SMEs unable to use the A2P are signposted to other relevant BSOs, and
- Investigate the option of a dedicated brokerage service to drive the A2P.

The A2P is an innovative practical project with a quick pay-back. Recommendations which relate to further development of the A2P are:

- Approaching the World Bank, DFID and PROINVEST to seek further resources to broaden the initial footprint in Uganda, and
- That ComSec should disseminate the best practice and success of the A2P programme throughout Africa and the Commonwealth as this represents a credible contribution to supporting SMEs to access new markets; and a good example of an ‘Economic Leveller’.

1 Introduction

1.1 Summary of Terms of Reference

ComSec provided technical assistance to the Public Procurement and Disposal of Public Assets Authority (PPDA), the agency administering the Government of Uganda's (GoU) public procurement and asset disposal system, to increase market opportunities for SMEs by improving access to public procurement contracts. The contract was awarded to Nichols Training Limited (UK).

The procurement legislative framework, institutional arrangements and existing programmes are based on established procurement practises. The current system has been operating for 5 years. It is being upgraded and new audit procedures, performance management tools, improved training programmes and the development of a national database are underway. This project aims to provide the PPDA with the means to use the public procurement system to increase market opportunities for SMEs.

The GoU needs to improve SME participation in the public procurement system and thereby provide an incentive for SMEs to improve their overall competitiveness. It needs to address the challenges that make it difficult for SMEs to access and compete for procurement contracts, and ComSec will help it to develop the strategies and tools to accomplish the objective.

In order to achieve this NTL needed to review existing procurement legislation and practises in order to identify SME bottlenecks, generate strategic options for a SME support programme; develop capacity building programmes for SMEs and execute a pilot training project with selected business development service providers. Other factors taken into account were consultations with SMEs through their relevant Business Associations; and specific consultations with Women's Empowerment Groups and Institutions.

The project Strategic Partners include:

- Public Procurement and Disposal of Public Assets Authority - PPDA
- National Register of Providers - NRP
- Enterprise Uganda - EU
- Private Sector Foundation Uganda - PSFU
- UK Trade and Investment – UKTI

1.2 Programme Concept

The Access to Procurement programme is an initiative for SMEs, which seeks to create greater opportunities for SMEs to effectively compete for the millions of Shillings / Dollars of contracts offered by major public sector and statutory bodies within Uganda.

Specifically, the programme seeks to establish greater accessibility for SMEs within the procurement practices of the following Procuring Disposing Entities (PDE) including:

- The Ministry of Finance Planning and Economic Development
- Mulago Referral Hospital
- National Housing and Construction Company
- Uganda Prisons
- Ministry of Education & Sports

The research element of the project included reviewing existing procurement legislation and practices in order to identify SME bottlenecks and generate strategic options for a SME support programme.

1.3 How A2P Benefits Uganda's SMEs

The barriers and challenges identified by the research have been addressed through the development of a bespoke training course.

The A2P programme is the first demand-led initiative of its type in Uganda, which means that the training and business support package delivered through the programme is directly tailored to the actual procurement needs and practices of the PDE's and the public sector in Uganda.

103 SMEs participated in the pilot training course in December 2010. The training and business support package offered covered a variety of themes pertinent to procurement and improving competitiveness for SMEs. The broad themes of the SME training include:

- An introduction to public sector procurement
- Identifying opportunities to supply the public sector
- The tendering process & effective tendering

Through this intervention of research and business support activities, the A2P programme creates the following benefits for Uganda's SMEs:

Box 1: Benefits Created For Uganda's SMEs Through A2P

- Stimulate an increase in the number of SMEs accessing and winning contracts
- Create increased knowledge and understanding of public procurement processes by Uganda's SMEs - More SMEs in Uganda will become "tender ready"
- Deliver transferable business skills which will improve the overall competitiveness of each business participating in the programme and its workforce
- Provide a "sounding board" to reflect back the real needs and procurement experiences of Uganda's SMEs to influence public sector procurement policy decisions
- Create a pathway to a more accessible public sector procurement environment for SMEs.

Like many countries across the globe, Uganda's formal and informal small businesses make an essential contribution to economic growth, employment and social well being, playing a vital role in both the economic and social regeneration agendas for Uganda:

Box 2: The Role of SMEs in the Economic Growth & Regeneration

- The majority of businesses within Uganda fall within the SME categorisation
- Small firms are acknowledged as key contributors to the economic and regeneration plans for the most marginalised communities and rural areas. Business start-ups create wealth and employment opportunities locally, promote reinvestment in other goods and services offered locally and stimulate wider prosperity within the country.
- Entrepreneurship can present important opportunities for individuals or groups who might otherwise be disadvantaged or excluded.
- Uganda's SMEs are recognised as vital drivers of growth and innovation.

This report is structured to facilitate effective assessment of progress against the programme's aims and outcomes; to provide easy access to the general reader; and to allow for future assimilation into policy, strategic and operational development activities.

2 Legislative Context

In Uganda the current procurement legislative framework, institutional arrangements and existing programmes have been in existence since 2003. It is being upgraded with new audit procedures, performance management tools, improved training programmes and the development of a national database (The National Register of Providers – NRP), being put in place. This project will provide stakeholders with the means to use the public procurement system to increase market opportunities for SMEs.

2.1 Definition of SME

The definition of SME globally is subject of much debate as the size and the respective turnover of the SME vary significantly depending on the sector that they operate in. For the purposes of this report SMEs have been defined using the definition in the Uganda SME Policy Document which is currently in draft. There is a need for the Government to agree a definitive definition of an SME.

As detailed below as there is a direct correlation to company turnover and the size of contract awarded for higher value, higher risk projects:

- A Micro enterprise is defined as an enterprise employing maximum 4 people; annual sales/revenue turnover of maximum Ugandan Schillings 12 million and total assets of maximum Ugandan Schillings 12 million.
- A Small Enterprise is defined as an enterprise employing maximum 50 people; annual sales/revenue turnover of maximum Ugandan Schillings 360 million and total assets of maximum Ugandan Schillings 360 million.
- A Medium Enterprise is defined as an enterprise employing more than 50 people; annual Sales/revenue turnover of more than Ugandan Schillings 360 million and total assets of more than Ugandan Schillings 360 million.

On the basis of the above definition 11% of the businesses who responded to the SME questionnaire defined themselves as Micro, 56% defined as Small and 33% were defined as Medium.

2.2 Summary of the Acts and Regulations

The need and significance of the A2P programme is profound and is highlighted by the significant changes in the legal framework for public procurement since 2003 and more recently in 2006, with the root and branch review of public sector procurement in Uganda. Research of initiatives and capacity building projects, since the passing of the Act has focused on developing the skills and processes of the responsible individuals (Procurement Officers / Professionals) within the Procuring and Disposing Entities, to understanding the robust procedures that have been put in place to ensure value for money, transparency and quality is delivered in the provision works, goods and services for and on behalf of Central and Local Government.

Consistently a 'Lack of capacity' and a need for 'continuous professional development for procurement officers' is required to ensure that the sound procurement principles stated in the Acts and Regulations are complied with and adhered to.

With the ongoing development and capacity building initiatives of organisations like the PPDA for the procuring entities, it is vital that SMEs in Uganda have a programme that will assist them in understanding the legal framework and The A2P programme is a timely and direct response this. The principal legal instruments governing public procurement at central /Local levels are:

- The Public Procurement and Disposal of Public Assets Act (2003)
- The Public Procurement and Disposal of Public Assets Regulations (2003)
- The Local Government (Amendment) Act, 2006
- The Local Government (Public Procurement and Disposal of Public Assets Regulations (2006)
- The Local Government (Public Procurement and Disposal of Public Assets) Guidelines (2008)

2.3 The Public Procurement and Disposal of Public Assets Act

The Public Procurement and Disposal of Public Assets Act (PPDAA/Procurement Act) was passed by Parliament in December 2002. The Procurement Act came into force shortly after in February 2003. The essential features of the Procurement Act are:

- To ensure that the decentralisation process which had commenced prior to 2003
- To ensure that PDE procurement activities are conducted in a decentralised environment
- To establish the Public Procurement and Disposal of Assets Authority (PPDA) and define its 'reason for being'
- To ensure that the PPDA is the primary conduit for complaints about public procurement
- To ensure the principles of procurement are adhered to and to offer legal support in the implementation in the Regulations

2.4 The Procurement Regulations

The Public Procurement and Disposal of Public Assets Regulation came into effect on the September 5, 2003 and sets out the operation guidelines in relation the interpretation of the Act.

This regulation applies to Central Government Ministries, Statutory bodies, Commissions and Referral hospitals. In order to harmonize procurements in Local Governments with the PPDA Act, the Local Government Act Cap 243 was amended to pave way for the issuance of the Local Governments (Public Procurement and Disposal of Public Assets) Regulations, 2006.

It is well documented and acknowledged by procurement officers and SMEs alike that one of the key challenges of the implementation and understanding of the documents is the size and complexity.

2.5 The Public Procurement and Disposal of Public Assets Authority (PPDA)

The Public Procurement and Disposal of Public Assets Authority (PPDA) is regulatory and monitoring body

The *objectives* of the PPDA are described in detail in the PPDA Act (Article 6):

- Ensure the implementation and application of fair non-discriminatory, competitive, transparent procurement and disposal practices
- Harmonize the procurement and disposal policies, systems and practices of Central Government, Local Government and statutory bodies
- Set, monitor and review standards for the public procurement and disposal systems in Uganda
- Build procurement and disposal capacity in Uganda

For the wider benefit of all stakeholders, the PPDA has summarised and published a process flow chart, which sets out the roles and responsibilities throughout the procurement cycle. It is imperative that SMEs and procurement officers fully understand the identified key 'Moments of truth'. This will ensure that they are better equipped to respond and improve the success rates of SMEs tendering for public sector contracts.

2.6 Procuring and Disposing Entities (PDE)

(Section 25) of the PPDA Act, states that a Procuring and Disposing Entity shall be responsible for the management of all procurement and disposal activities within its jurisdiction.

The PDE will consist of: an Accounting Officer, a Contracts Committee, Procurement and Disposal Unit (PDU), a User Department, and an Evaluation Committee.

The Accounting Officer is responsible for the overall execution of the procurement and disposal process in the PDE.

A key aspect of the regulations is that Section 34 (2) of the Public Procurement and Disposal of Public Assets Act, 2003, require the PDE to prepare a work plan for procurement based on the approved budget.

The procurement plan is a comprehensive statement of requirements to be procured over the life of the plan – usually one year. The procurement plan is put in place in order to, measure, monitor, review and evaluate agreed procurement objectives.

3 SMEs and Public Procurement in Uganda

As a platform for all further programme development; this section reports on the analytical work to identify SME bottlenecks, generate strategic options for a SME support programme, and provide guidance for developing the training materials. The focus is on two key distinct yet inter-linked areas, namely, the experiences and barriers faced by SMEs, and the challenges of PDEs in engaging SMEs.

3.1 Methodology and Respondent Profile

Primary and secondary information and data capture tools were used to collect both quantitative (SME Procurement Questionnaire – Appendix 3) and qualitative (Focus Group Questionnaire – Appendix 4) and PDE information (Questionnaire – Appendix 5). The focus groups and meetings with the PDEs were recorded.

Initial consultation and project planning meetings were held with the programme strategic partners to outline the project scope and deliverables. This was followed by communication to stakeholders and SMEs through their relevant business associations to enlist their support and to ensure that their views were accommodated and acted on.

Through the engagement with Enterprise Uganda and UKTI, the team consulted with Women's Empowerment Groups and Institutions, this culminated in a facilitated Women Owned Business focus group to ensure that gender issues were adequately dealt with and specific challenges of woman owned enterprises are incorporated in all outputs. A further three focus groups were carried out ensuring that the SME business profile matched the PDE profile of future procurement in Goods, Works and Services.

The views, experiences, business profiles and support need of Uganda's SMEs were captured through an in-depth procurement questionnaire, which also served as a 'gateway' prerequisite for the recruitment of the 100 SMEs wishing to take part in the SME training programme in December 2010.

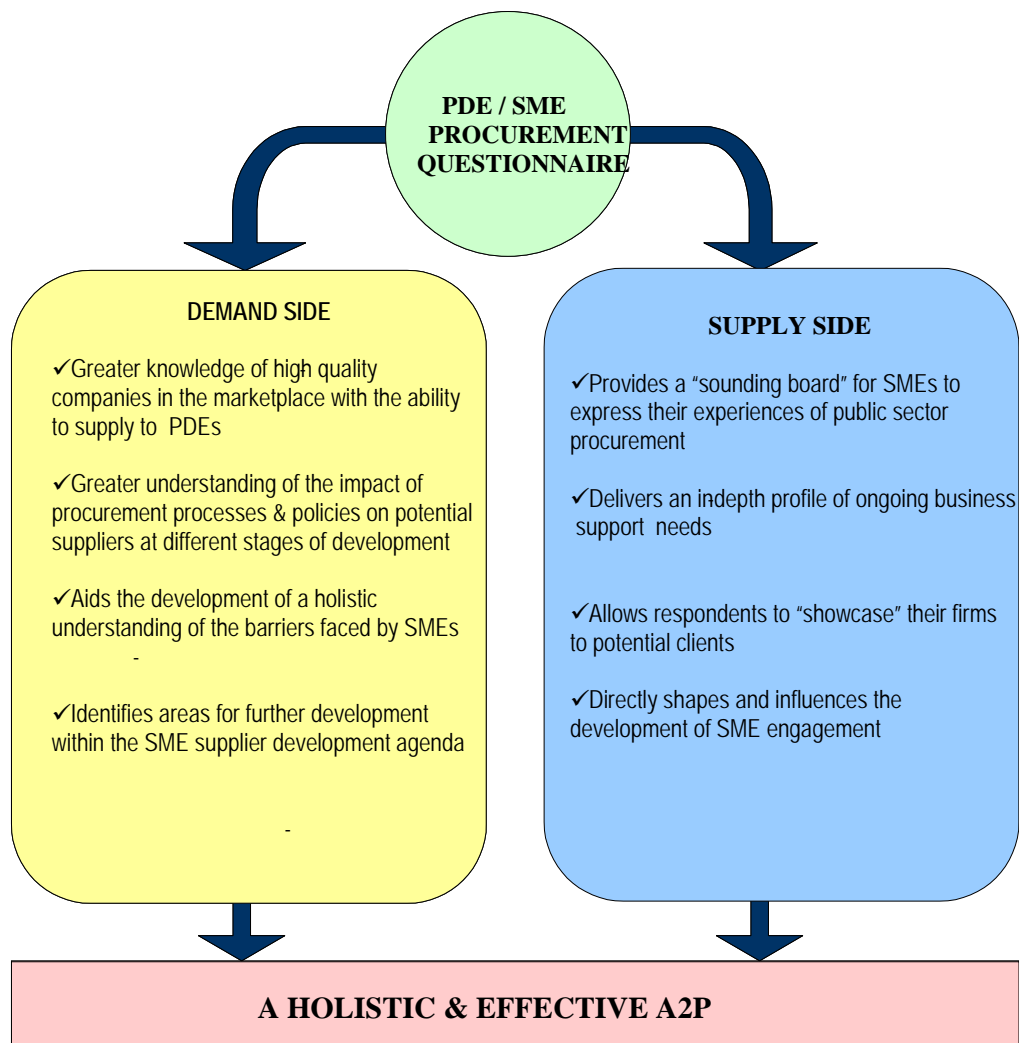
The SME Procurement Questionnaire was administered through the A2P programme strategic partners as well as a number of selected expert-level support organisations. This ensured that the opportunity to participate was extended to SMEs across Kampala and that SMEs from the target beneficiary groups of the A2P were effectively engaged.

More than 110 businesses were given the opportunity to participate in the questionnaire overall. A total of 57 SMEs have completed and returned the SME Questionnaire and 35 SMEs took part in the focus groups. 57 SMEs completed the questionnaire – 28 were Woman Owned businesses, accounting for 49% of all respondents.

Due to the significant penetration and response from women owned business in the overall sample, the team provided analysis on the basis of the whole sample and specific data, where responses have been unique to women owned business.

The illustration below outlines the key roles that questionnaire findings fulfil in addressing both demand and supply side needs.

Figure 1: Key Roles of the SME/PDE Questionnaire within The Successful Development Of The A2P



3.2 Challenges Faced by SMES

In order that the A2P programme can establish effective and deliverable improvements within the accessibility of public sector contracts, a detailed understanding of the key supply-side barriers that prevent these SMEs from effectively securing this type of work is essential.

3.2.1 Contracting and Tendering Metrics

When reviewing the responses to contracts secured through a tendered process, 29% of all businesses surveyed said that less than 5% of their turnover is accounted for by contracts. However more than 10% of the respondents stated that, more than 95% of their annual turnover is accounted for contracts won through tendering. These findings indicate a mixed situation within the SME sector. Whilst there is clearly a significant proportion of firms which are both able to effectively tender for work and rely heavily on these types of contracts; there is also a much larger proportion of firms which are unable to successfully integrate tendered contracts into their revenue streams.

3.2.2 Main Reasons for not Winning Tenders

Respondents selected from a list of 18 reasons why they did not win contracts. The outcome suggests that the main reasons are:

1. Insufficient knowledge of the formal tendering process & contractor expectations
2. No feedback was made available about previous unsuccessful tenders
3. Lack of opportunity to meet the decision makers/buyers
4. My company is too small to service large contracts
5. The procurement process is too lengthy
6. Payment terms offered, not suitable

Insufficient knowledge of the formal tendering process

This suggests an overwhelming need for the A2P programme as respondents have demonstrated a clear requirement for capacity building support to provide them with sufficient knowledge of the procurement process.

No feedback was made with regards to unsuccessful tenders

In order to learn from failed attempts, it is imperative that SME's have the opportunity to receive feedback so that they can improve their chances of winning public sector contracts. Whilst PDEs have a process in place to provide feedback, this has to be monitored to ensure that it is provided.

Opportunity to Meet the decision makers / buyers

Targeted 'Meet the Supplier' events can be arranged whereby potential SME suppliers are cherry picked to meet the specific procurement needs and have allotted timeslots with the buyers.

3.2.3 Identifying new Tendering Opportunities

An understanding of how SMEs identify new business opportunities is implicit to the communication and engagement strategies to be developed. Specifically this means, identifying the good habits of successful SMEs; and the barriers which prevent less successful firms from identifying possible commercial opportunities.

It is apparent that after newspapers (45%), established relationships (direct invitation – 24% and personal contact – 14%) are very important in terms of accessing contracts. This is supported by the most frequently used type of procurement (Micro Procurement, Restricted Domestic Bidding and Request for Proposal) which SMEs currently engage in.

This implies that there is a significant level of supplier retention within public sector purchasing. Logically, established relationships represent a barrier for those SMEs who are not currently engaged with the public sector. This is a markedly difficult situation to address given that any private sector firm will typically seek to be retained as a supplier through improvements in service, whereas procurers will aim to find reliable suppliers with whom they can build effective working relationships and reduce margins.

3.2.4 Habits of Successful Tenderers

As well as focussing on the perceived barriers to accessing contracts it is important that the A2P programme takes into account the successes of SMEs and explores why companies feel they have been successful in securing contracts in the past. Knowledge of successful habits can be shared through the programme so that other SMEs can learn from, and emulate these habits.

The reasons companies won contracts are interesting when considered along side the perceived barriers. Experience (29%) and knowledge (24%) are seen as being of particular importance, which helps explain the more positive position of companies with a longer trading history and more employees.

These findings suggest a need for further investigation of alternative methods of risk assessment which look to minimise the risk inherent within procurement whilst promoting greater accessibility for SME firms.

3.2.5 Training and Business Development

Internal business development investment amongst SMEs in areas such as quality assurances and training are highly effective tools for demonstrating organisational robustness as a competitive strength during the tender process. However, many SMEs consider that the financial and time investments necessary to secure prequalification exceed their perceived value of being prequalified.

Quality and equalities assessments are an essential element of public sector contracting; therefore it is necessary to test the views of SMEs towards prequalification to establish whether targeted strategic intervention is required to support SMEs seeking prequalification.

3.2.6 Internal Business Development & Quality Assurance Tools

Companies were asked to identify from a list of generic tools whether they were working towards or currently utilise business development and quality assurance tools, many of which are considered as the cornerstones of business development.

The fact that a lack of knowledge is seen as one of the main reasons for not winning contracts suggests that businesses need to be able to access more market information. The limited access to market research identified by respondents holds a key message for the development of A2P, especially if seeking to support newer SMEs. Drawing parallels with the difficulties experienced by SMEs seeking to identify possibilities to supply to the public sector, and also the difficulties of public sector officers seeking to procure from SMEs; there is a clear need for a brokerage and engagement facilitation model which looks to actively coordinate and communicate both the terms under which procurement can be conducted (what qualities/metrics potential suppliers must fulfil) and actual contracting opportunities themselves. There is also still a high level of need for SMEs in respect of the demand for staff development, sales and marketing and general business planning.

3.2.7 External Business Development Support

Business support has always played a key role within the delivery of economic regeneration. Over the last few years this provision has diversified considerably, shifting towards a broader spectrum of targeted initiatives which focus on the needs of individual businesses, gender and sector specific solutions within Uganda.

A greater understanding of how SMEs use external business support and their experiences of this support will allow A2P to ensure that programme delivery is effectively tailored to their needs; learning from what has worked well; and avoiding any potential pitfalls as identified through the real experiences of Uganda's SMEs. Companies surveyed identified these, and the top 5 are noted below:

1. Helped my company develop a business plan
2. Improved staff or management skill
3. Improved knowledge of our market place
4. Prompted improved internal efficiency
5. Help identify new business opportunities

It is both compelling and important to note that only 1% of the respondents stated that their business had benefited by improving their tendering skills through the engagement of business support and information sources. Again, our research concludes that there is good demand for generic business support services, but there is a need for the targeted specialist interventions that the A2P programme, will address.

3.2.8 Barriers to Engaging with Business Development Support

Respondents were asked to identify what they considered to be the main barriers to engaging with business development support which adds value to the design of A2P by identifying any potential pitfalls to avoid. The findings illustrate a spread across all response categories, clustering around a number of favoured issues, namely:

1. Insufficient funding available to cover costs
2. Don't know what is available
3. Insufficient staff resources available to commit to training

Cost and capacity are inevitably key issues, which suggest that BSOs need to improve the tangible business offer to SMEs to encourage them to initially engage with support organisations. This reflects key delivery considerations outlined earlier in this section, stipulating that beneficiary costs should be kept to a minimum and that flexible delivery methods should be used to provide outreach elements where possible.

Knowledge is again an issue for the businesses surveyed, with 13% of those surveyed suggesting that they don't know what is available. This is part of a wider engagement and communication issue and indicative of a wider strategic need to improve communication between strategic support/investment agencies, front-line deliverers and SMEs.

3.2.9 Procurement Development Training

Respondents were asked to identify the particular types of business support which they considered would help them tender more effectively for public sector contracts in the future. This will effectively inform the development of the business support package and ensure it is tailored to the real needs of its beneficiaries. The most frequently cited types of support required by SMEs are:

1. Business Planning
2. Completing tenders
3. Financial Monitoring Systems
4. Quality Assurance
5. Effective Marketing

Whilst the completion of tenders was consistently cited as a service that SMEs cited as support required for them, it is also very important to note that 'Generic' business support services such as business planning and financial monitoring systems was highlighted as key areas that SMEs have requested further support. This certainly has been the international experience in similar interventions.

3.2.10 Consortia Development

The key drivers for procurement globally are to provide quality, cost effective solutions, that improve efficiency, through savings. There is a growing trend of 'Monopsony' (Clusters of buyers coming together to procure services) on the demand side and the creation of sophisticated 'Monopolies' who come together and 'co-pete' on the supply side in order to deliver a one stop shop of end to end services.

The creation of sector based consortium models is one way of creating a bigger force for SMEs so that they can respond to the opportunities. An overwhelming 67% of the SMEs have not considered entering into a consortium to deliver a contract; and strategies to encourage this needs to be factored into the A2P.

3.3 Demand Side: PDE Perspective

This section considers the demand-side profiling element of A2P, which aims to guide the development of the SME training programme. It will also be directly tailored to the actual practices procurement legislation in Uganda. To engage stakeholders the team requested the PDEs to complete a questionnaire (Appendix 5) and followed up with face to face meetings with the following PDE's;

- The Ministry of Finance Planning and Economic Development
- Mulago Referral Hospital
- National Housing Corporation
- Uganda Prisons
- Ministry of Education & Sports

This culminated in a better understanding of the 'Local' supply environments that will underpin key decisions around the skills development, for SMEs in the next stage of the programme.

During key stakeholder interviews with PDE's undertaken by the A2P Team, each of the PDE's highlighted a number of specific issues that they considered as challenges in engaging with SMEs.

3.3.1 Lack of Knowledge of Tendering

The most frequently cited response by the PDEs in relation to the key challenges in engaging SMEs are that they lack the knowledge and understanding to submit compliant bids. There is a real need and demand for the A2P programme to provide the training and assistance to SMEs in understanding the requirements of the tendering process.

3.3.2 Poor SME Capacity to deliver

PDEs consistently cited examples where SMEs have been awarded contracts and they are not in the position or cannot deliver to the contract specification and price. Regarding consortia, PDEs views are that if set up appropriately, this could be a viable alternative.

3.3.3 Contract Size

Some contracts offered by the PDEs are too large, or too complex for SMEs to effectively compete for. Significant differences in the procurement protocol and accessibility of contracts exist between the banding by value systems of procurement management operated by each PDE. Again, SME consortia bids, would be a viable alternative.

3.3.4 Identifying and engaging with potential SME suppliers

Many key players consulted felt that a significant proportion of procurement contracts were already being won by SMEs, but there is a need for a steady supply of new entrants. This view is held because there is no formal SME definition, so PDEs are uncertain as to how to classify the businesses they deal with. The definition of SME has to be relative to the sector

that the business operates in, so that classification of SME under representation can be agreed and strategies put in place to address this.

There is a need for consolidated communication, engagement and matching strategies, underpinned by centralised foundations and aims, and integrated with the operational activities of each PDE.

3.3.5 The Drive for Rationalisation

The GoU drive to reduce cost and in most cases the number of suppliers to the public sector does not favour the use of SMEs as it aims to establish a supplier base which is made up of a smaller number of larger suppliers. It is essential that there is early planning and dialogue with SMEs so that they can plan and prepare for this inevitable but painful transition.

3.3.6 Dissemination of procurement plans and tender opportunities

Some PDEs outlined that the delays in preparing comprehensive procurement plans meant that some procurement was “Haphazard”. Therefore dissemination to SMEs varied. It is suggested that the PDEs work closer with local BSOs who represent the SMEs that they wish to engage. PDEs should be encouraged to display their procurement plans on the procurement notice boards and also to post them on PPDA websites and their own entity websites.

3.3.7 Contract Design

PDEs express difficulties in developing terms and conditions (Community Benefit – Clauses – Based around employment, skills and training) within contracts that are favourable to smaller firms and support the ‘Local’ SME engagement agenda (particularly in rural areas) whilst upholding the legal regulations governing competitiveness and other best value concerns. PDEs will need further support with this.

3.3.8 The role of Procurement Officers

Positively, all of the PDEs acknowledged that the need for continuous professional development for front line individuals is an ongoing need, but is challenging due competing pressures on limited resources. Future PDE capacity building strategies must include a process for supporting initiatives to assist procurement officers adjust effectively to changes.

3.4 Section Conclusions

This section draws together all conclusions. The careful use of intermediaries and targeted engagement meant that the response base to the questionnaire included a diverse mixture of SME businesses. Due to the significant penetration and response from women owned business in the overall sample, the report provides analysis on the basis of the whole sample and specific data, where responses have been unique to women owned business.

3.4.1 Conclusions related to engaging with SMEs

- Overall SMEs cited ‘Insufficient knowledge’, ‘Lack of feedback’ and a ‘lack of opportunities to meet buyers’ as the most frequently cited barrier as to why their company has not yet won, or does not win more contracts. These priorities are to be addressed in the design of the training programme and providing more opportunities to ‘meet the supplier’.
- At the focus group events respondents also cite the requirement for submitting Bid Bonds / Bid Securities as part of their tender submissions as prohibitive for SMEs. SMEs also raised concern with regards to contracts predominately being awarded on the basis of the lowest price and subsequent contract variation which negates the principle of value for money.
- SMEs also have their concerns in respect of a lack of transparency and integrity in the procurement process.
- There are clearly a significant proportion of firms which are both able to effectively tender for work and rely heavily on these types of contracts; there is also a much larger proportion of firms which are unable to successfully integrate tendered contracts into their revenue streams.
- SMEs win contracts because they have knowledge and experience with tendering. The system rewards companies with a longer trading history and technically competent employees. There is a significant level of supplier retention within public sector purchasing. Logically, established relationships represent a barrier for those SMEs who are not currently engaged with the public sector.
- Most businesses had used some form of external organisation for advice or training in the past. The research concludes that there is good demand for generic business support services, but there is a need for the targeted specialist interventions such as the A2P to address tendering. Generic business support services such as business planning, and financial monitoring systems were highlighted as key areas that SMEs need help with.
- A lack of funding, organisational capacity and a lack of knowledge about what is available, and a lack of commercial impact achieved from previously used support hinder some businesses who would otherwise be engaged.

3.4.2 Conclusions related to engaging with PDEs

- The most frequently cited response by the PDEs in relation to the key challenges in engaging SMEs are that they lack the knowledge and understanding to submit compliant bids. Some contracts offered by the PDEs are too large, or too complex for SMEs to effectively compete for. PDEs also complained about the performance of SMEs once they have been awarded contracts and are not in the position or cannot deliver to the contract specification and price. Any intervention that can improve SMEs chances of

winning and delivering contracts, including the use of consortia bids, would be considered useful by PDEs.

- The drive to reduce cost and in most cases the number of suppliers to the public sector does not favour the use of SMEs as it aims to establish a supplier base which is made up of a smaller number of larger suppliers.
- Some PDEs outlined that the delays in preparing comprehensive procurement plans meant that some procurement was 'haphazard and information dissemination to SMEs varied.
- There are some difficulties in developing terms and conditions (Community Benefit Clauses – Based around employment, skills and training) within contracts that are favourable to smaller firms and support the 'Local' SME engagement agenda (particularly in rural areas) whilst upholding the legal regulations governing competitiveness and other best value concerns.
- All of the PDEs acknowledged that the need for continuous professional development for front line individuals. But this is challenging due to competing pressures on limited resources.

4 The A2P Programme

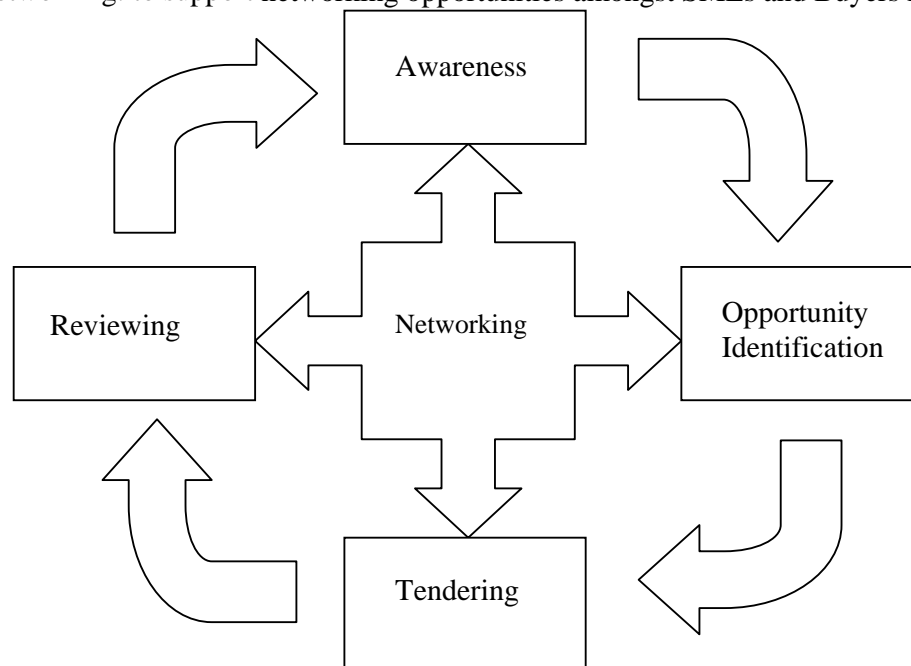
The A2P is an enterprise-level intervention to broaden SMEs access to public procurement markets by addressing the skills, competencies and proficiencies of SME owner-managers or SME teams. The intervention builds the capabilities and encourages the development of the processes within SMEs so that they are able to attempt to build market share in public sector markets with a realistic chance of success. It is based on the delivery of a bespoke training course for SMEs and organisational arrangements designed to ensure the sustainability of the programme.

4.1 The A2P Model

The A2P is designed for SMEs with or without tendering skills and experience. The A2P provides SMEs with the necessary skills and confidence to prepare and submit insightful, focussed tenders. Flexible training methods are used which cut response time to putting together effective tender documentation.

The A2P Model outlines the process whereby SMEs can become engaged and successful at winning contracts. It is primarily focused on public sector contracts but the skills, competencies and proficiencies are mutable and can be applied to any procurement market. The elements of the Model are:

- Awareness: to create better awareness of how the public sector procures,
- Opportunity Identification: to identify procurement opportunities and learn how to respond to them properly and successfully,
- Tendering: to improve tendering abilities and capacities and to become fit to tender for public and private sector contracts,
- Reviewing: to learn from successes and failures, and
- Networking: to support networking opportunities amongst SMEs and Buyers in PDEs.



4.2 Managing the A2P

It is expected that PPDA will oversee the A2P. To this end, senior PPDA Officers participated in delivering the project outcomes. This included all the technical features, such as the design of the training programme, selection of Trainers and SMEs and the actual delivery of the A2P. PPDA should have the requisite skills and competencies to manage a long term A2P programme.

Using the A2P Model, PPDA can put in place the delivery strategies and performance measures for a national programme. This approach is consistent with PPDA's current training model, which is based on a sub-contractor approach. The A2P is set up to operate in similar fashion. The sustainability and issues related to growth still need to be looked at in the context of a new national MSME programme under consideration.

4.3 SME Training Course: Delivery and Programme Content

The A2P programme consists of three key modules. These are outlined below and the detail is provided in Appendix 8.

Module 1 (Day 1) - An introduction to public sector procurement - Understanding public sector procurement and the legislative & Regulatory framework in Uganda

Objective:

To understand the scope and roles of Public sector and SMEs, define Procurement and identify the organisations within the public sector and the goods and services they buy. To demystify and explain in simple terms the legislative and regulatory framework in Uganda.

Outcome:

By the end of the day the SME will:

- Be able to define the terms 'public sector' and 'procurement' and the role of SMEs
- Understand the types of goods and services purchased by the public sector
- Appreciate the legislative and regulatory framework in Uganda
- Appreciate the advantages and disadvantages of working for the public sector
- Group Exercises - Review of specific barriers and challenges faced by delegates and explore possible solutions

Module 2 Day 2 - Understanding the Procurement Process Understanding the Procurement cycle & Tendering Process

Objective:

In order to successfully tender for public sector work it is imperative to understand the tender process and procurement cycle. To appreciate the procurement thresholds and methods available through the PPDA Act and Regulations from the PDE (Demand Perspective). To demystify and explain in simple terms the steps in the tendering process from the SME (Supply Perspective).

Outcome:

By the end of the day the SME will:

- Understand the Procurement Cycle (Demand Side)
- Understand the Tendering Process (Supply Side)

Module 3 (Day 3) - The tendering process & effective tendering (Understanding how to respond and complete a compliant tender)**Objective:**

This session provides practical steps in putting together a compliant bid. The knowledge will be developed by actually going through Standard Bidding Documents for Short Listing / Pre qualification and Request for Proposals.

Outcome:

By the end of the day the SME will:

- Understand the necessary steps to put together a compliant bid
- Understand how to complete a Standard Bidding Documents for Short Listing / Pre qualification and Request for Proposals

4.4 The Training Programme for Trainers

A broad person specification was created based Trainers experiences in Uganda. This is in terms of Trainers understanding and interfacing with SME businesses, their understanding and experience of procurement in Uganda and their level of training delivery experience. This provides a checklist against which future trainers can be selected to deliver the A2P.

The delivery of the Trainer the Trainer takes place over two days. The first day is a fully interactive session which re- sensitises the Trainer to the various methodologies and approaches to training. The second day the Trainers have exposure to and observe the delivery of a module of the SME procurement training programme and then each Trainer has to deliver the same module to the other trainers and the facilitator. This peer evaluation forms the main component for helping to develop competencies to deliver the SME programme.

The materials used in the Pilot training course are in Part 2 of the report (Appendix 7).

4.5 The Pilot Train-the-Trainer course: 16 Trainers

One of the key deliverables of the programme was to ensure that sustainability was embedded in the design delivery and implementation of the A2P programme. 16 Uganda procurement practitioners and professionals from the PPDA, Makerere University, Enterprise Uganda and other procurement consultancies took part in the A2P Train the Trainer workshop.

The trainers completed the 2-day course and were considered competent to undertake the SME training. Of these, 4 exceptional Trainers were identified as lead trainers for the pilot SME course. To select these trainers, a combination of CV, presentation, formal peer evaluation and feedback was used. The remaining trainers are now part of a specialist talent pool of trainers that can be called upon to deliver ongoing support to the A2P programme.

4.6 Pilot SME Training Programme: 103 SMEs

A total of four 3-day workshops were delivered from the 22 November – 3 December and 103 SMEs across Uganda attended the training sessions at the Lake Victoria Serena Hotel. The SME training programme outlined in the previous section was implemented.

The consulting team ensured that ‘Localism’ was embedded by using the 4 highest evaluated Trainers. In order to make the learning experience more relevant and to build on the recommendations of the research report, the consulting team created four groups of SMEs with representation from a cross section of sectors, relevant experience and success in tendering for public sector contracts.

Participants were introduced to all aspects of public procurement legislation including the ‘grey areas’ and interactive exercises were used to consolidate and underpin the information provided. These explored procurement from both the supplier’s and buyer’s standpoints, enabling both sides of the process to be appreciated; and full supporting documentation is provided in the form of a portfolio containing detailed hand outs and a memory key with additional supporting information.

4.7 Section Conclusions

- The A2P programme is a direct response to the barriers and challenges identified by the research to help bridge the gap between the demand and supply. It is an enterprise-level intervention to broaden SMEs access to public procurement markets by addressing the skills, competencies and proficiencies of SME owner-managers or SME teams
- The heart of the A2P is a bespoke training course for SMEs; and the requisite organisational arrangements to ensure the courses are delivered and further support is available. It is designed for SMEs with or without tendering skills and experience; and flexible training methods are proposed which cut response time to putting together effective tender documentation.
- The A2P Model outlines the process whereby SMEs can become engaged and successful at winning contracts and PPDA, who will manage the A2P, are encouraged to use it to develop the strategies and performance measures for a national A2P programme.
- The pilot training course for Trainers and SMEs has built the initial A2P capacity in Uganda and provides all stakeholders with the foundation for long term decisions and actions around SMEs and public procurement. Elements for sustainability are integral to the A2P and it is possible for the programme to be rolled out with minimal subsidy. There is every indication that SMEs are willing to pay up to \$200 for the course, which fully covers the cost of the A2P programme.
- The success of the A2P will be seen in an increase in the number of SMEs accessing and winning contracts and the SMEs who benefited have to be tracked and reviewed over the next 18 – 24 months.

5 Stakeholder Validation

During the course of the project numerous approaches were used to ensure that key stakeholders participated in the development of the technical elements of the project, deliberated the key findings of the research and were involved in the selection of Trainers and SMEs who benefited from the pilot training.

5.1 Formal Project Team

The PPDA and consulting team met regularly to review the work-in-progress. Senior PPDA Officers participated in delivering the project outcomes which included all the technical features, such as the design of the training programme, selection of Trainers and SMEs and the actual delivery of the A2P.

5.2 Focus Groups

Four focus groups, including a group of women business owners engaged with the consultants on their experiences, expectations and potential challenges. Their comments have been incorporated in findings and recommendations.

5.3 Strategy Meeting: 22 October 2010

Following the completion of the A2P research report a stakeholder workshop was hosted by the PPDA and the Commonwealth Secretariat and technically supported by NTL. This brought back all the stakeholders engaged in the development of the research report to present the key findings, conclusions, recommendations and to also prepare for the next phase of the project. The details are included in Part 2 of the Report (Appendix 6).

The workshop was a critical part of the project and provided the foundation for further work. It was held at the Hotel Africana on the 22 October 2010. The keynote speaker was the Honorable Minister Fred Jachan Omach (Ministry of Finance, Planning and Economic Development) and was attended by 45 delegates from the Ministry of Finance, the PPDA, the Commonwealth Secretariat, SMEs, the trainers and delegates of the train the trainer programme, representatives from the Procuring and Disposing Entities and representatives from Business Development Agencies, such as Enterprise Uganda and Private Sector Foundation Uganda.

The Honorable Minister set out the strategic relevance of procurement and what the A2P needs to achieve. He also stated the role and significance of SMEs in the Ugandan economy (coining the acronym 'See Me Everywhere' in describing SMEs) and expressing the need for Uganda to have a clear definition of SME. The Honourable minister concluded his keynote speech by opening the workshop and asking delegates to suggest sustainability options.

The consulting team reviewed the key findings of the SME research report, presenting the views of SMEs and PDEs, culminating with the team detailing the conclusions and recommendations.

Delegates considered two key challenges relating to the future of the A2P. The first is on charging and other cost considerations. The cost of this course is estimated to be \$1500 for 20 SMEs. The group contributed ideas and options for the long term sustainability of the

A2P. The second was about organisations collaborating on the A2P. It was always intended that the A2P would be collaboration between the PPDA and BSOs. The options and contribution of participants have been incorporated into the project findings and recommendations.

The majority of participants 67% responded that the workshop event met their expectation, with 33% stating that the workshop exceeded their expectation. Workshop delegates said it was a good platform to exchange views and discuss pertinent issues with the PPDA and the PDEs and a great opportunity to engage with such a diverse group of participants.

5.4 Final stakeholder event: 3 December 2010

The Commonwealth Secretariat, PPDA and the consulting team held an event at the Serena Hotel, Kampala to share the project outcomes with the broader stakeholder community. 85 guests representing SMEs, buyers from various public bodies, executives from business support organisations, senior officers of the Ministry of Finance, and the media, attended the A2P final stakeholder event.

Charles Ocici, the Executive Director of Enterprise Uganda, noted that the government was seeking to partner with the private sector to come up with sustainable programmes that would fast-track the development of SMEs; and the A2P is typical of a sustainable programme that could succeed. As a result of this project 16 new procurement specialists were trained to be the backbone of efforts to help SMEs develop new skills. These trainers trained 103 SMEs during the pilot phase of the A2P.

6 Recommendations

Based on the Conclusions in each of the sections above, the following recommendations aim to facilitate three developments in Uganda:

- i. The development of a more favourable policy environment for SMEs who want to access public contracts;
- ii. The adoption of a strategies by PPDA and PDEs, aided by BSOs and Private Consultants, for supporting SMEs to win a bigger share of public procurement contracts; and
- iii. Establishment of a portfolio of market-led products and services for PPDA and its partners to achieve the objective.

6.1 Policy Recommendations

- The GoU should strive to ensure greater transparency and simplicity of the national procurement system to create an environment conducive for innovation and fairness for SMEs,
- The definition of SME has to be agreed at Policy level so that the PPDA can assess SME under representation and use the A2P programme and other strategies to address this,
- The GoU should, through its regulatory leverage, drive meaningful engagement and dialogue with relevant bodies in respect of the issue of Bid Securities, Insurance and bank products such as a carefully developed 'Invoice finance' service which will reduce some of the problems of delayed payments,
- The GoU should support the refinement of regulations on terms and conditions within large contracts that can create favourable conditions for SMEs, such as Community Benefit Clauses, which are based on employment, skills and training, and
- The GoU should incorporate a local SME engagement agenda in its procurement policies, particularly in rural areas, whilst upholding the legal regulations governing competitiveness and other best value concerns.

6.2 Strategy Recommendations

6.2.1 Strategy Recommendations for PPDA

- The PPDA should adopt the A2P programme as part of its main business and ensure that the resources are organised for its ongoing operations based on the need and demand for the A2P programme,
- The PPDA should use the A2P Model, which outlines the process whereby SMEs can become engaged and successful at winning contracts, as its main management guide to develop the detailed strategies, business plans and performance measures for a national A2P,

- The PPDA must ensure that the expectations of participant SMEs are carefully managed as much of the development work is largely exploratory and it is not possible to guarantee contracts for firms which take part,
- PPDA should spearhead actions to expand the reach of the A2P beyond Kampala and it is recommended that training should be available accessible and affordable to SMEs outside of Kampala through BSOs and Private Consultants providing ‘Tender Desk’ and ‘Tender Help Lines’ in rural areas,
- The PPDA should determine the charging and other cost considerations to ensure the long term sustainability of the A2P; and the decisions can be based on an emerging consensus that the A2P should be non-residential and the range of prices that participants could find acceptable is between \$150 - \$200 per course in Kampala, and between \$100 - \$150 outside of Kampala, and
- The PPDA should review and evaluate the impact of the pilot training in 12 – 18 months time in terms of the value of actual contacts won by the participating SMEs.

6.2.2 Strategy Recommendations for PDEs

- PDEs need to consolidate communication, engagement and matching strategies, underpinned by centralised foundations and aims, and integrate these into their operational activities, which can be achieved by a commitment to display their procurement plans on the procurement notice boards, and on their own websites and those of the PPDA,
- PDEs should gear themselves for SME consortia bids by ensuring that their procedures and practises are able to assess, contract and engage with SME consortia,
- PDEs should ensure that their future supplier aggregation plans are communicated to SMEs timeously in order for SMEs to plan and prepare for this inevitable but painful transition, and
- In order to improve the communication of procurement opportunities to SMEs, PDEs should work closer with local business support intermediaries who represent the SMEs that they wish to engage, and avail themselves of opportunities to meet with and engage directly with SMEs through services such as ‘meet the supplier’ events.

6.2.3 Strategy recommendations for BSOs and Private Consultants

- BSOs and Private Consultants will not be able to participate in the A2P unless they avail themselves of the training and development opportunities provided by the PPDA and it is recommended that they consider a formal contractual arrangement or memorandum of understanding with the PPDA,
- BSOs and Private Consultants should consider the strategic implications of participating on the A2P and be willing to align elements of their strategy and operations in order to fully engage in the A2P, and

- Those engaged with the A2P need to commit to a self-funded continuous improvement process to remain updated on new legislation and regulations relating to procurement.

6.3 Product and Service Recommendations Primarily for PPDA as Custodian of the A2P

- PPDA should ensure that the A2P programme adds value to ‘smaller’ and ‘larger’ firms within the SME categorisation, by differentiating the type of support offered, and assisting PDEs to identify appropriate strategies to engage firms at different stages within this spectrum,
- It is recommended that the training product developed through this project serve as the foundation for a range of complimentary products and services such as Sectoral Consortia Programme Development and Meet the Supplier Events, Brokerage Services, such as ‘Tender Help Desk’,
- New products and services resulting from the A2P based on internet technologies must accommodate a general lack of high-level usage of the Internet, and plans for these products and services need to incorporate the related capacity building needed to overcome this constraint (e-tools for procurement, e-procurement and market research),
- SMEs unable to use the A2P as they are in too early a stage of development to benefit from the support provided, need to be signposted to BSOs with more appropriate provision to support them in bridging this gap, with an option to return at a future date, and
- In the medium term there is a need for dedicated brokerage strategies between the demand and supply environments so greater knowledge of what actual opportunities exist is facilitated through effective communications tools and engagement and management of the SME supply chain. This is an area for Uganda to consider proprietary solutions such as the Procurement Intermediary Model TM (Second Tier Managed Commissioning Service – offered by NTL)

6.4 Recommendations relating to Further Development of the A2P

- It is recommended that the PPDA in association with business support intermediaries approach other funding bodies such as World Bank, DFID and PROINVEST and seek further resources to broaden the footprint of this initial project and hence improve the prospects for sustainability of the A2P.
- The Commonwealth Secretariat should disseminate the best practice and success of the A2P programme throughout Africa and the Commonwealth as this represents a credible contribution to supporting SMEs to access new markets; and a good example of an ‘Economic Leveller’.