

**YANGON UNIVERSITY OF ECONOMICS
MASTER OF DEVELOPMENT STUDIES PROGRAMME**

**BARRIERS OF
SMES ENGAGING PUBLIC PROCUREMENT PROCESS
(CASE STUDY IN HEALTH COMMODITY SUPPLIERS
IN YANGON)**

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**BARRIERS OF
SMES ENGAGING PUBLIC PROCUREMENT PROCESS
(CASE STUDY IN HEALTH COMMODITY SUPPLIERS
IN YANGON)**

**A thesis submitted in partial fulfilment of the requirements for the
Master of Development Studies (MDevS) Degree**

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ABSTRACT

The local suppliers receive business opportunities in a form of limited or open tenders when the public procurement processes are conducted. Despite having their capacity, sizes, and year of experience small and medium size enterprises (SMEs) are unsuccessful in public procurement processes due to various barriers. The objective of the research is to examine the barriers that the SMEs in Yangon faced when engaging in public procurement tenders. The research focused on the health commodity suppliers in Yangon and concluded that the complicated public procurement procedures in initiation with legal requirements preliminarily filter the SME participation. Language does not make difficult for SMEs to compete with the well-established international players, but various qualification criteria prevent from success. Ethical aspect deters the SMEs from participating in tendering due to lack of feedbacks and room for improvements. Financial requirement is an interference to SMEs because of dispossession of adequate financial assets. Demanding for excessive information during tendering exercises in combination with short tendering notices leave them behind.

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LIST OF ABBREVIATIONS

| | |
|----------|--|
| 3MDG | Three Millennium Development Goal |
| cath lab | catheterization laboratory |
| CT | Computed tomography |
| Deval | German Institute for Development Evaluation |
| Devex | Development Expenditure |
| DICA | The Directorate of Investment and Company Administration |
| DISI | The Directorate of Industrial Supervision and Inspection |
| EU | European Union |
| GAD | General Administration Department |
| GDP | Gross Domestic Product |
| ICT | Information and Communication Technology |
| ILO | International Labour Organization |
| INGO | international non-governmental organisation |
| IPV | independent private value |
| LDCs | Least Developed Countries |
| MOALI | Ministry of Agriculture, Livestock and Irrigation |
| MoC | Ministry of Commerce |
| MoHS | Ministry of Health and Sport |
| MRI | Magnetic resonance imaging |
| NGO | non-governmental organization |
| OECD | Organisation for Economic Co-operation and Development |
| OSMEP | Office of SME Promotion |
| PDU | Procurement and Disposal Units |

| | |
|---------|--|
| PFM | Public Financial Management |
| PPDA | Public Procurement and Disposal Act |
| PPDGM | Public Procurement and Disposal General Manual |
| PPOA | Public Procurement Oversight Authority |
| PPRRSC | Public Procurement Rules & Regulations Steering Committee |
| SME | small-to-medium enterprise |
| SSID | The Small-Scale Industrial Department |
| UN | United Nations |
| UNDP | United Nations Development Programme |
| UNESCAP | United Nations Economic and Social Commission for Asia and the Pacific |
| UNGM | United Nations Global Market Place |
| USAID | United States Agency for International Development |
| USD | United States Dollar |
| VND | Vietnamese Dong |
| WHO | World Health Organization |

CHAPTER I

INTRODUCTION

1.1 Rationale of the Study

Both health and education play a crucial role in enhancing productivity and economic growth. Development and advancement of education improves understanding and data, reflected in enhanced production factors. Education improves human ability to boost manufacturing and attain high economic growth rates. Better health is essential to human well-being and happiness. As healthy populations live longer, are more productive, and save more, it also makes a significant contribution not only to financial advancement but also to economic development.

International donors and their execution accomplices have been entering Myanmar on a growing scale. According to a Devex release, in healthcare division, there were roughly 20 international givers and 59 recorded international NGOs working across Myanmar in mid-2015. Help to Myanmar in healthcare sector come to \$4.5bn in 2013, nearly an 800% increment from the \$504m issued in 2012. According to USAID estimates, donor aid from the Global Fund, the World Bank and the Three Millennium Development Goal (3MDG) Fund funded approximately \$1bn in total in the period from 2014 to 2018, specifically dedicated to improving the country's health infrastructure and the provision of care.

According to health care guide 2018, Myanmar government has been increasing budget allocation for both the healthcare and education sectors since 2011. From 2013 to 2018 government health expenditure increased from USD 279 million to USD 789 million. However, this figure still represents just over 1% of Myanmar GDP. These funds are earmarked for activities such as the purchase of advanced medical equipment, including electro-surgical technology, the provision of free medical treatment for government employees and the training of medical professionals.

Foreign medical equipment suppliers in the country are also working to address demand for medical technology. Some suppliers launched operations in the country soon after sanctions were lifted in 2012, and now provides advanced imaging equipment to public and private hospitals, including MRI machines, CT scanners, catheterization laboratory (cath lab), ultrasounds and x-rays. These foreign aid organizations strategically tend to promote local economy normally in every aspect while implementing activities and it is also encouraged by their donors.

It is naturally an attractive opportunity for the local health commodity suppliers to engage public procurement sector. When the SMEs win the tenders the return from successful business will contribute an extent to the Myanmar economy. The local suppliers (vendors) are given opportunities intentionally in a form of limited competitions or equal opportunities in a form of open competitions when the public procurement processes are conducted. Despite having openings local suppliers moreover confront challenges to win businesses in open procurement forms and the chances are some way or another given up to the other competitors from the territorial, regional or worldwide. Unusualness to the procedures and practices of the public sector procurement therefore SMEs to gain business normally become challenging. However, there can also be many other issues which the SMEs may have faced in the procurement processes.

1.2 Objective of the Study

This study is to examine the barriers that prevent small and medium-sized enterprises (SMEs) from gaining businesses when participating in the public procurement processes.

1.3 Method of study

Descriptive method is mainly used in this study. Primary data source is utilised for data collection. Primary data and needful information to analysed was collected from suppliers with structured questionnaires by using online survey and personal interviews. Both quantitative and qualitative methods are applied based on collected data. Collected responses are analysed as per descriptive method and the results are categorized as per the conceptual framework being followed.

1.4 Scope and Limitations of the Study

As a largest city in Myanmar, Yangon is the most area where the most SMEs in this study are located and thus to be chosen. The main public procurement practitioners in health sector such as the United Nations procurement working groups and INGOs networks are approached to acquire supplier (SMEs) information. The accuracy of the finding absolutely relies on the responses. It is a challenge to ask the respondents their challenges since most of the questions seek the weakness and unsuccessful situations. To receive truthful responds it is important to reach to the right person when collecting data and conducting interviews.

1.5 Organization of the Study

This thesis consists of five chapters. Chapter I introduces with rationale, objectives, methods and scope of the study and organization of the study. Chapter II describes the studied literature review related to the topic of the study and the procurement conceptual framework this study followed. Chapter III focus on background and characteristics of SMEs in Myanmar and their involvements in public procurement processes not only in Ministry of Health and Sport but also in non-governmental sector. Then, analysis of barriers in procurement operation with compliance to conceptual framework is examined in Chapter IV. Chapter V is concluded with the findings and suggestions.

CHAPTER II

LITERATURE REVIEW

2.1 Definition of SMEs

2.1.1 Definition of SMEs in EU countries

There is no universal definition for SMEs since the definition depends on who is defining it and where it is being defined. In EU countries, the definition of SMEs is different. Small enterprises comprise those legal entities which have fewer than 50 employees, with less than ten million euros annual turnover and/or total balance sheet of less than ten million euros. Medium-sized enterprises have less than 250 employees, less than 50 million euros turnover and/or total balance sheet of less than 43 million euros (The World Bank, 2017).

2.1.2 Definition of SMEs in South-East Asia

Definitions of what constitutes an SME vary, often quite significantly, across countries. Some countries even stipulate different definitions for SMEs depending on the business sector concerned, i.e. the definition of an SME in agriculture differs from that of an SME in the manufacturing sector. In fact, countries do not always use the same criteria to define SMEs. Most SME definitions, however, use a company's number of employees as one criterion. While in some countries the size of the workforce is the sole criterion to distinguish small, medium-sized and large enterprises, others use additional criteria such as annual sales, value of assets or value of invested capital (UNESCAP, 2009).

SME definitions in the Asia-Pacific region are also diverse. In Cambodia, Firms that employ between 11 and 50 employees and have fixed assets of \$50,000 to \$250,000 are categorized as small. Firms with 51-200 employees and fixed assets of \$250,000 to \$500,000 are medium-sized. While in Indonesia, fewer than 100 employees.

In Lao People's Democratic Republic, "Small enterprises are those having an annual average number of employees not exceeding 19 persons or total assets not exceeding

two hundred and fifty million kip or an annual turnover not exceeding four hundred million kip”. “Medium sized enterprises are those having an annual average number of employees not exceeding 99 persons or total assets not exceeding one billion two hundred million kip or an annual turnover not exceeding one 1 billion kip”.

For Malaysia, the definition of SME depends on the business sector. Different criteria based on the number of employees and annual sales turnover. Same as Malaysia, Thailand defined, SMEs on different criteria, based on number of employees and fixed capital size. In Philippines, fewer than 200 employees, and less than P 40 million in assets.

In Vietnam, SMEs are defined as independent production and business establishments that are duly registered according to the current law provisions, each with registered capital not exceeding VND 10 billion or annual labour not exceeding 300 people (UNESCAP, 2009).

2.2 Definition of Public Services

Public service is a service which is provided by government to people living within its jurisdiction, either directly (through the public sector) or by financing provision of services. The term is associated with a social consensus (usually expressed through democratic elections) that certain services should be available to all, regardless of income, physical ability or mental acuity. Even where public services are neither publicly provided nor publicly financed, for social and political reasons they are usually subject to regulation going beyond that applying to most economic sectors. Public policy when made in the public's interest and motivations can provide public services. Public service is also a course that can be studied at a college or university. Examples of public services are the fire brigade, police, air force, and paramedics (Wikipedia, Wikipedia, n.d.).

2.2.1 Definition of Health

Health is a state of complete physical, mental and social well-being and not merely the absence of disease or infirmity. The bibliographic citation for this definition is: Preamble to the Constitution of WHO as adopted by the International Health Conference, New York, 19 June - 22 July 1946; signed on 22 July 1946 by the representatives of 61 States (Official Records of WHO, no. 2, p. 100) and entered into force on 7 April 1948.

Education and health are basic objectives of development; they are important ends in themselves. Health is central to well-being, and education is essential for a satisfying

and rewarding life; both are fundamental to the broader notion of expanded human capabilities that lie at the heart of the meaning of development. At the same time, education plays a key role in the ability of a developing country to absorb modern technology and to develop the capacity for self-sustaining growth and development. Moreover, health is a prerequisite for increases in productivity, and successful education relies on adequate health as well. Thus, both health and education can also be seen as vital components of growth and development—as inputs to the aggregate production function. Their dual role as both inputs and outputs gives health and education their central importance in economic development (Todaro, 2015).

2.2.2 Definition of Public Procurement

Government procurement or public procurement is the procurement of goods, services and construction on behalf of a public authority, such as a government agency (Wikipedia, Wikipedia, n.d.).

Many decisions taken by departments have a procurement implication that can impact on the overall cost of carrying out the decision. Here cost includes the total cost of the good or service and not simply the price that is paid (Further Education Library of Procurement, 2015).

In the private sector, procurement is viewed as a strategic function working to improve the organisation's profitability. Procurement is seen as helping to streamline processes, reduce raw material prices and costs, and identifying better sources of supply. Helping to reduce the 'bottom line'. Indeed, in many organisations the importance of procurement is recognised by having their head of procurement placed at an Executive Board level (Further Education Library of Procurement, 2015).

In the public sector, the concept of a 'bottom line' is less well defined - there are no shareholders' dividends to be paid out or publicly declared profit (or loss) announcements. There is however a need to maximise the output, in terms of teaching and research, within the available funds. These funds come, substantially, from public funding in the form of grants, student fees etc. The sector's shareholders as tax payers, students and/or staff, therefore, places an inherent requirement that the funds provided are managed in a manner that is accountable and demonstrates both probity and value for money (Further Education Library of Procurement, 2015).

At higher levels of expenditure, this need for openness, transparency and non-discriminatory action is required by legislation. The European Procurement legislation, implemented in the UK, means that all requirements for supplies/services (>£172,000 approximately) and works (> £4.3 million approximately) are advertised and tendered in accordance with published rules.

Within an institution, its expenditure is made up of two distinct elements - pay (salaries and wages) and non-pay (all other expenditure). Procurement is concerned with the management of a significant proportion of the non-pay expenditure and ensuring that the best possible value for money is obtained when committing this expenditure. Non-pay spend includes the day-to-day running costs of the institution as well as its capital expenditure. This expenditure can be further divided into that which is used to obtain goods and services from suppliers and other expenditure such as payments made to other educational establishments or to HM Revenue and Customs. The procurement function is concerned with obtaining the required goods and services from appropriate suppliers to enable the institution to meet its strategic objectives in an economic, efficient, and effective manner. Research has shown that within an institution, its non-pay expenditure is usually between 30 - 40% of its total expenditure (Further Education Library of Procurement, 2015).

2.3 Public Procurement Procedures

The basic presumption in public procurement is that contracts of a specified type and value will be procured using an advertised, competitive procedure that is open, fair and transparent, ensuring equality of opportunity and treatment for all candidates and tenderers. There are only limited circumstances where a procedure without advertised competition is permitted (EU-OECD, 2011).

There are four main competitive procedures.

(1) Open procedure: The open procedure is a single-stage process. A contracting authority advertises the contract opportunity and then issues full tender documents, including the specification and contract, to all economic operators that request to participate. Economic operators submit both selection (qualification) information and tenders at the same time in response to the contracting authority's advertised requirements. The contracting authority may receive a large number of tenders; it cannot control the number of tenders that it receives, but not all of those tenders will necessarily be considered.

Only tenders from suitably qualified economic operators that have submitted the required documents and that meet the selection criteria are considered. Tenders can be evaluated on the basis of either the lowest price or the most economically advantageous tender. No negotiations are permitted with economic operators, although contracting authorities may clarify aspects of the tender with tenderers (EU-OECD, 2011).

(2) Restricted procedure: The restricted procedure is a two-stage process. The contracting authority advertises the contract opportunity and economic operators submit requests to participate and then provide selection stage (pre-qualification) information which is used by the contracting authority to establish whether the economic operators are qualified to perform the contract and to select the economic operators that are to be invited to tender. The contracting authority is permitted to limit the number of economic operators that it invites to tender and to draw up a shortlist of economic operators. This means that not all of the economic operators that qualify have to be invited to tender. The contracting authority issues the full invitation to tender documents, including the specification and contract, to the economic operators that it has selected or shortlisted. This means that, unlike the open procedure, the restricted procedure allows the contracting authority to limit the number of tenders that it receives. Tenders can be evaluated on the basis of either the lowest price or the most economically advantageous tender. No negotiations are permitted with economic operators, although contracting authorities may clarify aspects of the tender with tenderers (EU-OECD, 2011).

(3) Competitive dialogue procedure: The competitive dialogue procedure is a two-stage process. The contracting authority advertises the contract opportunity, and after submitting requests to participate the economic operators first submit pre-qualification and selection stage information, which is used by the contracting authority to establish whether the economic operators are qualified to perform the contract and to select the economic operators that are to be invited to tender. The contracting authority is permitted to limit the number of economic operators that it invites to tender and to draw up a shortlist of economic operators. The contracting authority issues the invitation to participate only to the economic operators that it has shortlisted, and it then enters into a competitive dialogue phase with those economic operators. During the competitive dialogue phase, all aspects of the project can be discussed with the economic operators and the number of solutions can be reduced as part of the process. Once the contracting authority is satisfied that it will receive proposals that will meet its requirements, it declares the competitive dialogue phase closed

and invites tenders. Under this procedure, tenders can only be evaluated on the basis of the most economically advantageous tender (EU-OECD, 2011).

(4) Negotiated procedure with prior publication of a notice: The negotiated procedure with prior publication of a notice is a two-stage process. The contracting authority advertises the contract opportunity, and the economic operators first submit prequalification and selection stage information, which is used by the contracting authority to establish whether the economic operators are qualified to perform the contract and to select the economic operators that are to be invited to tender. The contracting authority is permitted to limit the number of economic operators that it invites to tender and to draw up a shortlist of economic operators. The contracting authority issues the invitation to negotiate only to the economic operators that it has shortlisted. It receives initial proposals and then enters into negotiation with the shortlisted tenderers in respect of those proposals. Tenders can be evaluated on the basis of either lowest price or most economically advantageous tender (EU-OECD, 2011).

2.4 Public Procurement in Myanmar

Significant changes were made in 2011 which tendering processes were changed from close to open competitive tendering. Procurement processes were become decentralized. Further changes were observed since April 2013 with the President's Office Directives 2013 with tender rules and committees and Ministry of Construction Directives 2014 and updated in 2016.

Public Procurement Rules & Regulations Steering Committee (PPRRSC) was established in 2015 to lead procurement reforms and re-organized in July 2016 with Deputy Minister of Planning and Finance as Chair.

In 2016 Joint ADB-JICA-World Bank Country Portfolio Review developed joint Action Plan includes procurement which develop comprehensive directives/ procedures for public procurement that includes approval thresholds. It provides capacity building programs to broaden awareness and skills levels on development partners' procurement processes and related issues. The policy, legislative, and regulatory framework were strengthened through reforms under the Procurement Law to be drafted.

Tender Procedure for Procurement of Civil Works, Goods, Services, Rental and Sale of Public Properties for the Government Departments and Organizations were issued by President's Office in April 2017. The development of national standard bidding

documents is ongoing. Procurement Law was expected to be enacted in 2018 and E-procurement to be gradually adopted (Nai, 2017).

2.4.1 Progress of Procurement Reform in Myanmar

Myanmar is embarking on a triple transition: from an authoritarian military system to democratic governance; from a centrally directed economy to market-oriented reforms; and from several decades of conflict to peace. Since 2011, leaving behind decades of isolation, fragility and conflict, a reformist government has steered unprecedented political and economic reforms intended to open Myanmar to the global economy, boost growth, and reduce poverty (Liu, 2015).

As part of its economic reforms, Myanmar seeks to establish a modern public procurement regime and has taken a series of actions including the issuance of two Presidential Instructions and two directives on Public Procurement to establish the basis for an open and competitive public procurement system (Liu, 2015).

Due to increased donor financing, Myanmar has to prepare for a substantial increase in public spending. Substantial increases in public investments will require a robust public procurement system. While current legislation is a great start, “we are still facing a lot of practical problems,” said the Deputy Minister of Construction at a workshop on procurement of civil works. The existing directives will need to be strengthened to meet varying and growing needs (Liu, 2015).

To combat emerging challenges, the Myanmar government has been partnering with the World Bank in the Modernization of Public Finance Management (“PFM”) Project, which supplements Myanmar’s efforts in developing a stronger public financial management system including a modern national public procurement system (Liu, 2015).

To ensure an inclusive process, the Ministry of Finance is in the process of establishing a steering committee of members drawn from various line ministries to define a strategy for the development of a modern public procurement regime. “The World Bank is honored and committed to provide full support to the Government of Myanmar in its efforts to establish an effective public procurement system,” noted Abdoulaye Seck, the World Bank Country Manager in Myanmar, and the World Bank team has been supporting the Myanmar Government to implement the PFM project (Liu, 2015).

Currently, the demands of development are outpacing the process of national reform. To meet the urgent needs of the government, the World Bank is working with the

line ministries to strengthen their procurement practices and address current problems in public procurement that are hindering efficient public service delivery. Foremost among these initiatives is the World Bank's engagement with the Myanmar Ministry of Construction (MoC). The MoC finds itself at the forefront of challenges involved in contracting out for construction of public facilities, considering the agency commands the national imperative to improve infrastructure like roads and bridges. While MoC prepared "Directive on Execution of Works by Contract," (i.e. "Works Directive") in January 2014, they are facing challenges with implementing the Works Directive.

To help Myanmar manage emerging challenges, the World Bank is organizing series of workshops to address specific problems that demand immediate solutions. The first workshop was held with the MoC in December 2014 under the title "Improving Implementation of the Myanmar Directive on Execution of Works by Contract. (Liu, 2015)"

Several procurement specialists from the Bank with rich experiences in public procurement shared their global knowledge and good practices from various countries. Eager to provide targeted assistance, the Bank specialists first worked with MoC to identify specific challenges they were confronting and then offered various solutions to best match the issues raised by MoC. The success of the "dialogue-style" and "solution-driven" workshop generated strong interest from MoC to prioritize necessary actions and quickly revise the Works Directive (Liu, 2015).

Moving forward, similar workshops will continue to be organized to address Myanmar's practical challenges in implementing the existing legislation as well as establishing a strong and effective public procurement system to ensure better public service delivery (Liu, 2015).

2.5 Review on Previous Studies

Bidding is a process in public procurement in which if not keenly administered can result to disappointments to the bidders. Public procurement can be defined as the supply chain system for the acquisition of all necessary goods, works and services by the state and its organs when acting in pursuit of public interest (Bovis, 2007).

Public procurement makes up a major part of any country's economy, measuring anywhere from ten to over 30 per cent of Gross Domestic Product. Globally, this amounts to trillions of dollars spent annually by governments. Given this scale and the potential

impact on the economy, many countries have begun to use public procurement to achieve certain social and environmental policy objectives, directing their spending towards the disadvantaged groups they wish to strategically support to help overcome obstacles to participation in the procurement process. This serves to achieve simultaneous goals of procuring necessary goods and services while doing so in a way that aligns with other government initiatives, such as achieving the Sustainable Development Goals. This is referred to as ‘preferential public procurement’ (William Nielsen, 2018).

Many governments, in both developing and developed economies, have introduced preferential procurement policies and programmes to support SME development. Indeed, the World Bank’s 2017 Benchmarking Public Procurement report, which surveys 180 economies, shows that 47 per cent of countries indicate they provide SME specific public procurement incentives (William Nielsen, 2018).

Public procurement policies can create new market opportunities for supporting the development of small and medium-sized enterprises (SMEs). But while public procurement makes up a major portion of government spending, SMEs consistently struggle to win government contracts. This is due to a series of pervasive obstacles experienced by SMEs (William Nielsen, 2018).

Overcoming these obstacles can lead to economic and socio-economic benefits. However, there is a lack of knowledge surrounding preferential public procurement policies for SMEs (William Nielsen, 2018).

Common Barriers

Effective preferential procurement policies address the obstacles many SMEs experience when attempting to participate in public procurement processes. These are summarised in the table below (William Nielsen, 2018).

Table (2.1) SME Barriers to Participation in Public Procurement Processes

| | |
|--------------------------|---|
| Pre-bidding stage | Restricted communication and publication of contract opportunities |
| | Overly narrow pre-qualification criteria, placing too much emphasis on past experience or firm size |
| | Uncompetitive bidding processes |
| | Difficulties due to size of contracts |
| | Quality and the ‘understandability’ of information provided is limited |

| | |
|-----------------------------|--|
| Application stage | Excessive bureaucracy and documentation requirements |
| | Excessive requirements of financial guarantees (i.e. bid security deposit) |
| | Grant enough time to prepare quotations |
| | Lack of capability in writing a formal bid proposal |
| | Unclear selection criteria – how best to meet government’s needs unclear |
| Selection stage | Preference for large bidders with long track records |
| | Institutionalized discrimination |
| | Too much focus on the price, and not on value for money |
| Post-selection stage | Absence of rationale for awards |
| | Payment terms are not complied with i.e. delayed payments |
| | Unsuitable payment terms offered |
| | No feedback shared for future learning |
| | Difficulty in business complaints being heard and addressed |

The Public Procurement Oversight Authority (PPOA) (POPPA, 2007) from Kenya states that the tendering/bidding process should be fair and transparent for all candidates. The contribution of small and medium enterprises (SMEs) to employment, growth and sustainable development is widely acknowledged. However, the SMEs who contribute a great percentage to the economy today have been the victims to unfair and corrupt public procurement practices and even have been barred from accessing the public procurement market. Improved access for SMEs results in more competition and is as one can expect likely to lead to better value for money for procurers, thus for the society. Small and Medium Family Enterprises plays important roles in the economy (POPPA, 2007). SMEs need to have access to, and the opportunity to win, government contracts. What must not happen is that the process unintentionally favours large firms in some way and discourages small firms. It should be noted that, it is not about giving preferential treatment to SMEs but about facilitating a more level playing field.

According to a 2009 Economic Survey Report, the sector contributed over 50% of job creations in the year 2008 (Memba, 2012). Public procurement has important economic and political implications and ensuring that the process is economical and efficient is crucial. This requires in part that the whole procurement process should be well understood by the actors: government, the procuring entities and the business community/suppliers and other stakeholders, including professional associations, academic entities and the general public (Odhiambo W. & Kamau, 2003). Badenhorst (Badenhorst-Weiss, 2012), highlights that public procurement is increasingly recognized as a profession that plays a key role in the successful management of public resources, and a number of countries have become increasingly aware of the significance of procurement as an area vulnerable to mismanagement and corruption and have thus made an effort to integrate procurement into a more strategic view of government efforts.

According to the PPOA's Public Procurement and Disposal General Manual, (PPDGM) the legal framework of Kenya's public procurement system was strengthened with the enactment of the public procurement and disposal Act 2005 which came to operation on 1st January 2007 with the publication of the Public Procurement and Disposal Regulations, 2006. Public Procurement system in Kenya evolved from a crude system with no regulations to an orderly legally regulated procurement system. In the past decades, the public procurement system in Kenya has undergone significant developments. From being a system with no regulations in the 1960s, and a system regulated by Treasury Circulars in the 1970s, 1980s and 1990s, the introduction of Public Procurement and Disposal Act (PPDA), 2005 and the Procurement Regulations of 2006 has introduced new standards for public procurement in Kenya. The PPDA (2005) clearly establishes the procurement methods to be applied, advertising rules and time limits, the content of tender documents and technical specifications, tender evaluation and award criteria, procedures for submission, receipt and opening of tenders, and the complaints system structure and sequence.

According to Public Procurement and Disposal General Manual (2009), in a developing country like Kenya, the public procurement sector is often the largest domestic market since the public procurement system is the bridge between public procurements and private sector providers. In the recent models of procurement bidding/auctions it is typically assumed i) that the object of bidding is very complex, ii) that there are at least potentially major quality differences in the bids, iii) that these qualities of bids are initially the bidders' private information, and iv) that delegation is inevitable. Indicative bidding is a practice

commonly used in sales of complex and very expensive assets. That is, the most qualified bidders will not be reliably selected to be on the short list competing in the second-stage bidding. Given the widespread use of indicative bidding and the billions of dollars involved, this efficiency loss could be substantial.

Increasing competition in the current economy is forcing companies to formally evaluate the risks of participating in bidding in order to avoid undercapitalisation (Ruggeri F. & Rios, 2004). Scientists at the University Rey Juan Carlos, Madrid, have developed a general framework for addressing the issue of bid formulation in procurement auctions. The goal of this project is to improve their current approach to bid formulation by considering all the inherent uncertainties in the process. Among other things, this involves providing models for internal risks (cost uncertainty), external risks (abnormal unforeseen events) and economic risks (uncertainty regarding winning the auction). Bids have become the most common market mechanism for allocating contracts in the modern economy and are seen as more democratic, and as such are particularly desirable for the dispersion of public contracts, and are also seen as more efficient, in the sense that the contract will be awarded to the company that values the contract most.

Within the independent private value (IPV) paradigm, as the number of potential bidders increases, bidder's equilibrium bidding behaviour can become less aggressive (Zheng, 2007). Thus, increasing competition may not be always desirable for the government, meaning that our result, while somewhat counter intuitive and surprising because of the pure IPV paradigm under consideration, can have important policy implications. This result can also be used to test empirically whether entry is an important part of the decision-making process. According to (Zheng, 2007) the result is driven by the interaction of two opposite effects: the competition effect and the entry effect. They continue to add that while the competition effect is always negative as usual, the entry effect is always positive and therefore this positive entry effect suggests to a winning bidder that may have overestimated the intensity of entry.

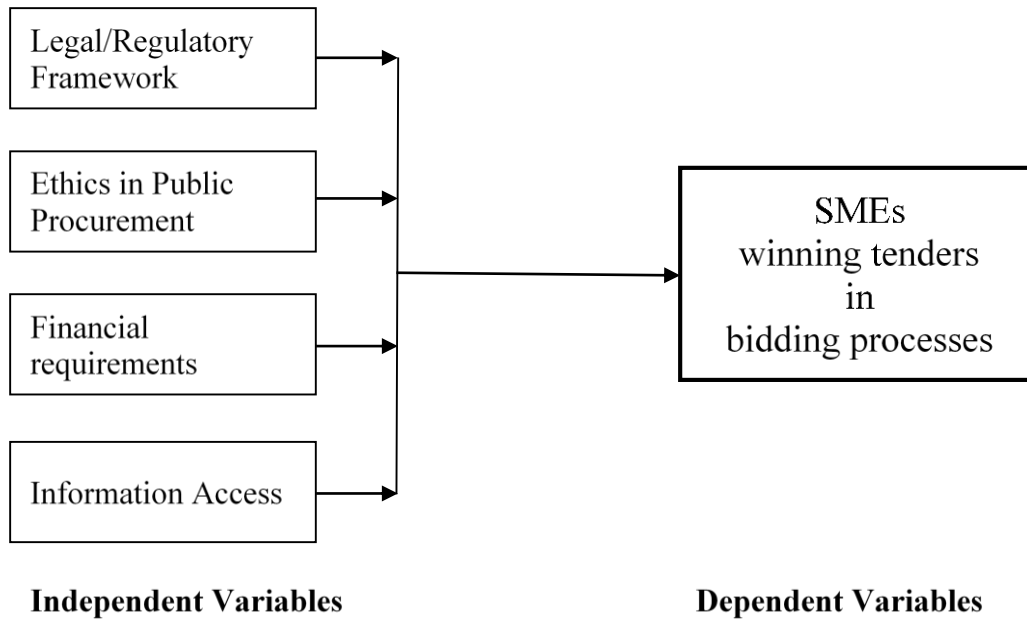
The Public procurement market in Kenya like other countries worldwide deal with a wide range of supplies. Though these contracts vary mainly in size, some are clearly within the capabilities of Small and Medium size Enterprises (SMEs). However, SMEs are side-lined from participating in public procurement despite their qualifications, sizes and level of production and despite this preferential treatment of SMEs, comparative tallies of public contracts secured by SMEs in Thika District against those secured by large enterprises are still very small. The study examined the challenges that the SMEs in Thika

District face when bidding for tenders and it seeks to determine why they risk losing tenders. The research design used was descriptive and exploratory. The study established that there is a clear Legal/Regulatory framework established in the country to knob public procurement though these guidelines are not open to public scrutiny. The conditions for tendering are not the same for each tenderer and there are ethical malpractices sighted during the process. SMEs encounter financial challenges which include financial regulations and shortage of own financial resources. Information on public procurement and tendering to the SMEs is not adequately available as most respondents were not aware of its existence. The research concluded that the existence of the legal framework makes it difficult for upcoming SMEs to compete with the established players thus discouraging their participation. Ethical aspect hinders the SMEs from participating in tendering due to in-transparency in the process. Financial requirement is a hindrance. Information on public procurement and tendering is not adequately available to the SMEs thus poor access to the little information availed to them (Nkonge, 2013).

Conceptual Framework

According to insights (Kothari, 2004), a concept which can take on different qualities of qualitative values is called a variable. If one variable depends on or is a consequence of another variable, it is dependent variable. The variable that is antecedent to the dependent or that makes it to change is called an independent variable. A conceptual framework consists of independent variables which cause changes in the dependent variable. The independent variables in this case are: Legal/Regulatory framework, Ethics in public procurement, Financial Requirements and Limited Information which affect the dependent variable namely; successful bidding/SMEs bidding successfully (Nkonge, Challenges faced by Small and Medium Enterprise Suppliers when bidding for tenders, 2013, p. 199).

Conceptual Framework



Source: Nkonge, Challenges faced by Small and Medium Enterprise Suppliers when bidding for tenders, 2013, p. 200

Figure (2.1) Conceptual Framework

(a) Legal/Regulatory Framework

The legal and regulatory framework establishes the rules within which all the financial institutions, instruments, and markets operate in each country. According to (Thai, 2001) apart from public procurement regulations and rules, the legal environment refers to a broad legal framework that governs all business activities including research and development (regulations dealing with safety and health of new products), manufacturing (safety and health regulations at workplace and pollution control), finance (regulations dealing with disclosure of information), marketing (regulations dealing with deceptive advertising, disclosure of product characteristics), personnel (regulations dealing with equal opportunity for women and minorities), and contracts. He continues to add that in developing and particularly transitional countries, where legal systems are not comprehensive, government contracts may need detailed provisions (Nkonge, Challenges faced by Small and Medium Enterprise Suppliers when bidding for tenders, 2013).

According to (Puddephatt, 2012) a weak national regulatory framework is often the root of challenges facing SMEs in public procurement. In general, a strong legal framework

establishes the basis for competitive and transparent public procurement process, which is relevant for large and small business alike. This makes clear and comprehensive regulation essential in enabling fair participation in public procurement for all bidders, including SMEs. Puddephatt continues to add that public procurement rules will be implemented in a country's legislation in form of a statute or code. Sometimes, provisions will be included in the country's constitution. He goes on to say that in South Africa, the country's constitution writes that its system of contracts must be "fair, equitable, transparent, competitive and cost-effective". In relation to small business, countries may specify legal quotas for public procurement suppliers and establish internal caps for SMEs. In Kenya, for example, the proportion of government contracts awarded to SMEs according to the president's directive should be 10 per cent. Puddephatt continues to add that abuse of public procurement systems arises largely due to weak or inconsistent enforcement of the rules. In this respect, there is still a considerable gap between the regulatory framework and its effective implementation in Kenya and what is more is that, laws tend to be manipulated for the benefit of the minority. On the other hand, (Perry, 2011) states that procurement frameworks are thought to have a number of advantages, including value for money through centralisation, reductions in bureaucracy and the establishment of beneficial long-term relationships with suppliers. However, it has been suggested that frameworks can have a negative impact on SMEs in tendering for and delivering contracts (Nkonge, Challenges faced by Small and Medium Enterprise Suppliers when bidding for tenders, 2013).

(b) Ethics in Public Procurement

According to (Kenneth, 1989), ethics is discussed from a very narrow perspective as being primarily concerned with such issues as bribes and confidentiality. He continues to add that ethics is concerned with the philosophical study of morality as guide by internal conviction against what is wrong and right. According to (Public Procurement and Disposal Act, 2005) it is very important that the public procurement function is discharged with probity, transparency and accountability in a manner that secures best value for public money. In their journal 'Benefits of Transparency in Public Procurement for SMEs' says that many barriers facing SMEs in public procurement are related to the lack of transparency in the procurement process (Puddephatt, 2012). They continue to indicate that this manifests itself in form of obscure tenders and decision-making processes and is bolstered by a culture of corruption – typically with weak accountability mechanisms and lack of scrutiny over allocation of public funds. Probity requires the purchasing process to

be conducted ethically; honestly; and with fairness to all participants. According to Economic Recovery Strategy for Wealth and Employment Creation, (2003), in all government activities, public procurement is most vulnerable to corruption and fraudulent practice (Nkonge, Challenges faced by Small and Medium Enterprise Suppliers when bidding for tenders, 2013).

According to Puddephatt (Puddephatt, 2012) one way for governments to assist SMEs in achieving their full potential is through their public procurement system. However, SMEs' entry into this potentially lucrative market is often hindered by challenges such as corruption, red tape and lack of transparency in tendering, to name but a few. Puddephatt continues to add that in Egypt, where public procurement makes up a significant portion of the economy and has the potential to play a major role in incentivizing SME growth, collusive tendering (bid rigging) corruption and in - transparency remain serious obstacles for SMEs (Nkonge, Challenges faced by Small and Medium Enterprise Suppliers when bidding for tenders, 2013).

Beside its direct hindrances on access to the public procurement market, lack of ethics is harmful because it enables a culture in which there are no checks on corruption. The journal on the Benefits of Transparency in Public Procurement for SMEs states that corruption is the abuse of public office for private gain which is inevitably harmful for the overall economy and SMEs in particular. Transparency International's handbook on curbing corruption in public procurement highlights that each phase of the procurement process is vulnerable to corruption. According to Puddephatt (Puddephatt, 2012), in developing countries where corruption is still a pervasive issue, transparency initiatives are key to unlock many challenges facing SMEs in benefitting from the public procurement market. He continues to add that through active disclosure of documentation and creation of a level playing field for SMEs in public procurement, these initiatives can maximise SME growth, and indirectly contribute to overall economic development and post-recession recovery (Nkonge, Challenges faced by Small and Medium Enterprise Suppliers when bidding for tenders, 2013).

(c) Financial Requirements

According to (Ganbold, 2008), the ability of SMEs to grow depends highly on their potential to invest in restricting, innovation and qualification. All of these investments need capital and therefore access to finance. Ganbold highlights that the consistently repeated complaint of SME about their problems regarding access to finance is a highly relevant

constraint that endangers the economic growth of the countries (Nkonge, Challenges faced by Small and Medium Enterprise Suppliers when bidding for tenders, 2013).

According to International Finance Corporation (2011), SMEs play a key role in economic development and make an important contribution to employment and GDP. Financial access is critical for SMEs' growth and development. In their early stages of development, SMEs rely on internal sources of funding, including the owner's savings, retained earnings, or funding through the sale of assets. According to this report, access to finance remains a key constraint to SME development, especially in emerging economies. The report continues to add that access to finance is disproportionately difficult for SMEs in LDCs, with 41 percent of SMEs in LDCs reporting access to finance as a major constraint to their growth and development, as compared with 30 percent in middle-income countries, and only 15 percent in high-income countries. Banks are wary of lending to SMEs. Loans must be heavily securitized with personal assets, and start-ups are normally excluded from credit. Interest rates are hardly affordable. Most enterprises are too small for VCs to consider, and the sector is largely viewed as immature and scarcely profitable for the moment (Nkonge, Challenges faced by Small and Medium Enterprise Suppliers when bidding for tenders, 2013).

According to (Wanjohi, 2012), lack of access to credit is almost universally indicated as a key problem for SME's. This affects technology choice by limiting the number of alternatives that can be considered. Many SME's may use an inappropriate technology because it is the only one they can afford. In some cases, even where credit is available, the entrepreneur may lack freedom of choice because the lending conditions may force the purchase of heavy, immovable equipment that can serve as collateral for the loan. Wanjohi continues to add that financial constraints operate in variety of ways in Kenya where undeveloped capital market forces entrepreneurs to rely on self-financing or borrowing from friends or relatives. Commercial banks' lending activities have traditionally concentrated on large enterprises and consumer credit, with very little involvement in SME financing (Nkonge, Challenges faced by Small and Medium Enterprise Suppliers when bidding for tenders, 2013).

Lack of access to long-term credit for small enterprises forces them to rely on high cost short term finance. There are various other financial challenges that face small enterprises. They include the high cost of credit, high bank charges and fees. The scenario witnessed in Kenya particularly during the climaxing period of the year 2008 testifies the need for credit among the common and low earning entrepreneurs. Numerous money

lenders in the name of Pyramid schemes came up, promising hope among the ‘little investors,’ that they can make it to the financial freedom through soft borrowing. The rationale behind turning to these schemes among a good number of entrepreneurs is mainly to seek alternatives and soft credit with low interest rates while making profits. Financial constraint remains a major challenge facing SME’s in Kenya (Wanjohi, 2012).

(d) Information Access

SMEs need to have access to adequate information to enhance productivity and to facilitate market access. The establishment of an active SMEs sector and the effective utilisation of quality business information - has been identified as crucial in attaining long-term and sustainable economic growth for developed and developing countries, alike Corps (2005). Poor information quality can create chaos. Unless its root cause is diagnosed, efforts to address it can be worthless. The priority ranking of the SMEs needs, clearly puts information provision at the top of the list of services to be provided. The SMEs development is hampered by an “information-poor” environment.

In most developing countries, market signals on business opportunities, customer trends, methods of organisation, etc., are not communicated, effectively, to the SMEs. The SMEs perform better in information-rich environments. To achieve quality within the information rich environment, some notable challenges need to be handled head on. Small and Medium Enterprises (SMEs) in Uganda face the following difficulties identified by the Commonwealth Secretariat (2010): insufficient knowledge of the formal tendering process; no feedback was made available about previous unsuccessful tenders (Obanda, 2011).

According to Obanda ensuring easy access to all relevant information on business opportunities in public procurement is of key importance for SMEs. He states that in Uganda, it is apparent that after newspapers, established relationships are very important in terms of accessing contracts and opines that the Commonwealth (2010), findings show that 38% of the respondents stated that opportunities were communicated through either direct invitation from the buyer or through some form of personal contact. Logically, established relationships represent a barrier for those SMEs who are not currently engaged with the public sector.

The increased use of Information and Communication Technology (ICT) is vital given that the whole country is covered by the mobile telecommunication network and hence has internet accessibility. Particularly develop websites that may be helpful to SMEs by enabling cheap and quick communication, for example, downloading the contract

documents and any supplementary documents without incurring copying or mailing costs. Adopting this would enable publication of public procurement notices online; multi-functional search engines; direct downloading of contract notices and accompanying documentation; electronic tendering facility enabling local governments to receive bids electronically in conformity with the regulations.

Obanda insists that Procurement and Disposal Units (PDUs) should be the local desks that help SMEs to increase their involvement in public procurement contracts and they should help SMEs familiarize themselves with their respective websites. He continues to add that training of the relevant stakeholders will also stimulate an increase in the number of SMEs' accessing and winning contracts as more tenders will become SME compliant. An increased involvement of SMEs into public procurement will result into higher competition for public contracts, leading to better value for money.

(e) SMEs Bidding Winning Tenders

Measurement of successful bidding entails various factors that need to be put in place to be sure that the bidder wins the tender each and every time, he/she bids. The most effective bid winners prefer to draw a veil over those factors that make them successful. Bidding is fair and, equally important such that it may make legitimate a transfer that would otherwise be suspect. However, the bidding process can be a minefield of potential litigation, with bidders complaining of the lack of a fair and consistent approach to tendering and accusations of favouritism and corruption.

Public procurement can be defined as the supply chain system for the acquisition of all necessary goods, works and services by the state and its organs when acting in pursuit of public interest (Bovis, 2007). Best practice guidance for successful SME engagement handbook states that policy makers and politicians believe that procuring more from SMEs will: strengthen the economy, regenerate local communities, generate stakeholder goodwill. This is so because studies indicate that in both advanced economies and developing countries SMEs contribute on average 60% of total employment (Ayyagari, 2007).

SMEs generally are more innovative, more flexible, can offer higher levels of customer service and can contribute to their client's wider organisational objectives in relation to sustainability. The organisation gains a more flexible, nimble, and diverse supply chain where risk is spread and hopefully a lower lifecycle cost is achieved. The EU Code of Best Practices for SME access to procurement introduced in 2008 stated that increased

involvement of SMEs in public procurement would result in higher competition for public contracts, leading to better value for money for contracting authorities. The document also suggests that more competitive and transparent procurement practices will have a positive impact on the European economy by unlocking the growth and innovation potential of SMEs. According to an Organisation for Economic Co-operation and Development (OECD) report, successful bidding will depend on many other things in the procurement process amongst them well established procurement patterns that do not allow room for collusive tendering (bid-rigging) and so transparency in the procurement process is key for a bid to win.

CHAPTER III

SMES AND PUBLIC PROCUREMENT

3.1 An Overview of SME Development in Myanmar

According to an ILO supported study in 2014, it was suggested that SMEs are already playing an increasingly important role in Myanmar economy with an estimated 2.8 million SMEs in Myanmar and around 39,000 start ups annually. In the same way, a UNDP supported Myanmar Business Survey found that the private sector is overwhelmed by small businesses with less than 10 workers and that they tend to be focused in a few sub sectors; primarily food, beverages and tobacco products in the manufacturing sector.

3.2 History of Small and Medium Enterprises in Myanmar

Following several industry-specific legal regulations, the classification of firm legal ownership categories varies accordingly. The 1990 Myanmar Private Industrial Enterprise Law described private industrial enterprises as any individual, partnership, or company that manufactures finished goods from raw materials, using any form of power in any building. However, cottage industries and joint ventures with government do not included in this definition. Again, the 1991 Promotion of Cottage Industries Law defines cottage industry as small-scale production, repair, maintenance, or service activities performed by family members or jointly between family members, with up to nine workers. The number of workers is not limited in the case of production of handicrafts.

The 1914 Myanmar Companies Act laid the legal foundation for incorporated business in Myanmar and recognizes the following types of companies: sole proprietorships, joint ventures between local and foreign business partners, joint ventures with relevant government departments and organizations, and foreign companies. Family businesses are categorized by law as cottage industries.

The Private Industrial Enterprise Law stipulates definitions with regard to various types of private enterprises. When it comes to other types of enterprises, they are being categorized in accordance with the Myanmar Companies Act. History of SMEs

development department journey started in 2012 April 4 SMEs development centre was formerly under the MOI to enhance development of SMEs. In 2014, SMEs development department extended throughout the country with 53 branches and in 2015 SMEs development law was enacted and policy was approved then SMEs development rule was officially approved in 2016. SMEs working committee and responsible bodies were founded to coordinate all the necessary tasks among various ministries in 2018.

3.3 Definitions of SMEs in Myanmar

In Myanmar, the definition of what constitutes an SME was recently changed through the enactment of the 2015 SME Law. Before that, SMEs were defined according to the 1990 revised Industry Law based on four criteria: power used (measured in horsepower), number of employees, capital investment, and value of annual production. The new definition reduced the number of criteria from four to three, dropping the criterion on power usage (Thomas Bernhardt, 2016).

1. This law shall be called The Small and Medium Enterprises Development Law.
2. The following expressions contained in this Law shall have the meanings given here under.
 - (a) The Small Enterprise means the following enterprises in which the value of the land is not included in the capital investment—
 - (1) The enterprise, if it mainly operates manufacturing business, in which number of employees shall not exceed than 50 as permanent or capital investment shall not exceed 500 million kyats;
 - (2) The enterprise, if it is labour intensive or mainly operates piecework business, in which number of employees shall not exceed 300 as permanent or capital investment shall not exceed 500 million kyats;
 - (3) The enterprise, if it mainly operates wholesale business, in which number of employees shall not exceed 30 as permanent or annual income of the previous year shall not exceed 100 million kyats;

(2015, SMEs Development Law, 2015)

At the same time, however, a much more granular application of the employment criterion was introduced and thresholds between size categories were changed significantly. In the old definition, small firms were those with 10-50 workers, medium-

sized firms those with 51-100 workers, and large enterprises those with over 100 employees. In the new definition, there is no lower boundary for the small enterprise category so that, effectively, it also includes micro enterprises (typically defined as firms with less than 10 employees). Moreover, the new definition now distinguishes between different economic sectors (manufacturing, services, other) and even between different business activities within these sectors (labour-intensive manufacturing vs. other manufacturing; wholesale vs. retail vs. other service business) – this is where the granular application of the employment criterion kicks in. Overall, Myanmar’s new SME definition can, thus, be deemed quite complex (Thomas Bernhardt, 2016).

Small and Medium Enterprises (SMEs) are defined based on their number of employees, type of activities, amount of capital invested, or level of turnover.

The private industry law 1999 is the governing regulatory framework for all SMEs in Myanmar. Then in 2015, a more SME specific regulation of “a small and medium sized enterprise law” was enacted. The SMEs law defines small enterprises as those with between kyat 50 million and 500 million and 1 billion kyat in capital or between 60 and 600 staff. When a company exceeds the SME capital or employee thresholds it has to change its registration details.

SMEs may be registered with any of the following authorities:

- The Directorate of Investment and Company Administration (DICA)
- The Directorate of Industrial Supervision and Inspection (DISI)
- The Small-Scale Industrial Department (SSID)
- Municipalities
- General Administration Department
- Other authorities

Directorate of Investment and Company Administration

The Law on the Development of Small and Medium Businesses (Pyidaungsu Hluttaw Law No. 23/2015) requires all SMEs with total private capital investment to register. This is considered beneficial for companies in terms of access to credit and the judicial system and make it possible to participate in advanced training (OECD 2016). By the end of 2017, according to the new company law, the only institution responsible for the registration of enterprises becomes Directorate of Investment and Company Administration (DICA), which was founded under the Ministry of National Planning and Economic Development.

Directorate of Industrial Supervision and Inspection

The Directorate of Industrial Supervision and Inspection (DISI) was set up under the Ministry of Industry in 2012 and is providing administrative guidelines and enforcing regulations on their operations for Myanmar enterprises with a view to enhance their capacities. First, those firms implementing industrial processes are supposed to register as ‘industrial’ with DISI. This is of particular importance for firms located in industrial zones, but it also affects establishments outside these zones (Taung, 2015).

Small Scale Industry Department

The Small-Scale Industry Department (SSID) under Ministry of Agriculture, Livestock, and Irrigation (MOALI), whose self-explanatory name reveals the kind of companies for which it is responsible. According to the Ministry’s homepage, it seems to be especially important for weaving and handicraft enterprises (MOALI, 2017).

Municipalities

As per a report issued by UNDP in 2015, municipal offices (or city/township development committees/departments of development affairs) had the highest registration coverage achieved among government entities, and that around 71 per cent of all Myanmar manufacturing companies were registered with this authority (UNDP, 2017). However, municipalities do not actually register businesses but only license them, so most companies who want to obtain certain benefits, such as access to credit and electricity, need to register with additional authorities. On the other hand, it seems to be almost impossible for companies to operate without a municipal licence because municipalities’ officials arrive personally at all businesses to collect licence fees. The fees for licences vary across states (Matthew Arnold, 2015). All states and regions have registration coverage at the municipal level of above 50 per cent particularly.

General Administration Department

The General Administration Department (GAD) is affiliated with the Ministry of Home Affairs and has the task of managing the country’s administrative structure, connecting the different ministries, as well as the national and the regional levels, with the aim of ensuring coherence. According to a report by UNDP in 2015, the registration with GAD does not affect many businesses because its main task is the issuance of licences for shops selling alcoholic beverages.

The person who want to submit application for **SME Member card** must have the relevant license, permit or registration certificate. If the small and medium enterprises are not required to have license, permit or registered certificate, they shall be eligible with the following facts:

1. No impact on public health for those who live in surrounding area.
2. Less impact on natural and socio-economic environment and provide environmental conservation to comply with the regulation
3. Fire safety.
4. No adverse effect on safety of workplace and health of workers. (Issuing SME Member Cards to recognize as SMEs) (www.moismeregister.gov.mm 2019)

The following enterprises shall be operated according to the definition contained in SME Development Law –

- (a) Manufacturing businesses;
- (b) Labour-intensive businesses;
- (c) Wholesale businesses;
- (d) Retail businesses;
- (e) Service businesses;
- (f) Other businesses. (SMEs policy Myanmar 2015)

Around 40 per cent of businesses are credit rationed or are having constraints in getting access to credit. While a larger share of small and medium enterprises (12 per cent), as compared to micro firms (6 per cent) apply for credit, all firms share similar challenges in terms of getting formal loans: examples might be ;difficulties in assuring collateral, providing appropriate land titles, and too-short loan maturity times. Females own 23 per cent of micro firms, 21 per cent of small companies, and 13 per cent of medium and large enterprises, while 3 per cent of micro, 10 per cent of small, and 28 per cent of medium and large companies are managed by females. Small, medium, and large firms are slightly more risk loving than micro firms (UNDP, 2017).

3.4 Sale Structure of SMEs in Myanmar

As indicated by SME data, manufacturing in Myanmar is dominated by the food and beverages sector, which accounts for up to 43.5 per cent of all firms in the sample and 57.7 per cent for the national weighted sample. The textiles and wood sectors are second

and third largest in their share of firms with 11.1 per cent (8.8 per cent weighted) and 8.1 per cent (6.2 per cent weighted), respectively.

Table 3.1 displays the number of customers for firms' most important product, which varies slightly across the different sectors. The customer base in the textiles industry is relatively small, with 53.6 per cent of firms having one sole customer and 24.3 per cent having between two and five customers. This reason behind is due to the more artisanal micro and small firm weaving industry selling to sole customers who are then in charge of distribution. Similarly, the tobacco industry, in which 14.8 per cent of firms have one sole customer and 33.3 per cent have between two and five customers, which points towards small-scale tobacco production for local customers (e.g. cheroots). Contrary to this, the food and beverages sector accounts for 38.5 per cent of firms with more than 21 customers, as well as the wood (39.4 per cent) and other manufacturing (43.8 per cent) sectors, which therefore have the largest consumer base among all sectors.

Table (3.1) Share in number of customers (non-weighted) per sector and per size

| | | Number of customers | | | | | |
|------------------------|----------------------|---------------------|------|------|-------|-------|------|
| Sector | Description | 1 | 2-5 | 6-10 | 11-20 | 21-50 | >50 |
| | | Food and beverages | 2.7 | 18.7 | 18.6 | 21.6 | 17.4 |
| | Rice mills | 1.1 | 19.4 | 19.4 | 21.5 | 12.9 | 25.8 |
| | Tobacco | 14.8 | 33.3 | 20.4 | 11.1 | 16.7 | 3.7 |
| | Textiles | 53.6 | 24.3 | 8.7 | 6.9 | 2.9 | 3.6 |
| | Apparel and leather | 10.2 | 26.1 | 20.5 | 12.5 | 15.9 | 14.8 |
| | Wood | 3.0 | 18.2 | 16.3 | 23.2 | 17.2 | 22.2 |
| | Paper and publishing | 3.7 | 29.6 | 18.5 | 14.8 | 7.4 | 25.9 |
| | Other manufacturing | 1.6 | 15.6 | 18.0 | 21.0 | 19.3 | 24.5 |
| Firm size and category | Micro | 8.9 | 18.7 | 18.5 | 19.4 | 160.0 | 18.5 |
| | Rice mills | 1.3 | 18.9 | 20.1 | 20.1 | 12.0 | 27.7 |
| | Small | 8.2 | 20.4 | 14.1 | 18.0 | 16.7 | 22.6 |
| | Rice mills | 0.0 | 26.1 | 13.0 | 30.4 | 17.4 | 13.0 |
| | Medium | 4.1 | 17.9 | 13.0 | 22.0 | 17.9 | 25.2 |
| | Rice mills | 0.0 | 0.0 | 25.0 | 25.0 | 25.0 | 25.0 |
| | Large | 16.7 | 16.7 | 0.0 | 25.0 | 8.3 | 33.3 |
| Observations | | 213 | 475 | 430 | 481 | 404 | 493 |

Note: weighted results follow similar structure

Source: Authors' calculations based on Myanmar MSME 2017 data

The customer base regarding size of the firm seems relatively similar for micro and small firms, with firms distributed across all intervals. Medium firms seem to have a slightly higher customer base, while large firms have the largest share of sole customer

firms, which would point towards large firms with a high production level selling to intermediaries. Values for rice mills, while exclusively being part of the food and beverages sector, demonstrate a similar customer structure as the whole sector, although the difference in the proportion of customers in the ‘21–50 customers’ category and in the ‘more than 50 customers’ category seems to vary more for rice mills (13 percentage points) than in the whole sector (4 percentage points). In terms of size, rice mills’ customer base seems to increase for the whole sample.

Further analysis by Deval in the report SMALL AND MEDIUM ENTERPRISE SURVEY MYANMAR 2015 showed that the branch in which it operates influences the probability of an enterprise being located in industrial zones. Firms located in an industrial zone mainly operate in the machinery and metal products (30%) or the food, beverages or tobacco/cheroot sectors (23%). The highest share of enterprises located in industrial zones can be found in the machinery/equipment/vehicles and metal products (manufacturing) sector and the repair branch (service sector).

Table (3.2) Branches of SMEs present in industrial zones, in percent

| | Description | Percentage of SMEs Located in industrial zones |
|----------------------|--|--|
| Manufacturing Sector | Machinery & equipment, vehicles and metal products | 30 |
| | Food, beverages or tobacco/cheroot | 23 |
| | Petroleum, chemicals, plastics/rubber | 7 |
| | Other manufacturing sectors | 5 |
| | Textiles and/or shoes | 3 |
| | Wood, straw, weaving, and/or furniture | 3 |
| | Mineral products | 2 |
| Service sector | Repair | 20 |
| | Wholesale | 2 |
| | Retail | 2 |
| | Other service sectors | 1 |
| | Restaurants and hotels | 1 |

Source: German Institute for Development Evaluation (DEval) SME Survey, 2015

3.4.1 Characteristics of SMEs in Myanmar

Many Myanmar SMEs companies are quite small and have only a few employees. This is a limited time to perform all the necessary tasks, such as innovation, manufacturing,

marketing, sales and accounting for all business-required personnel; for example, a business owner can also be a manager, who oversees all aspects of the company. This can be a disadvantage if the workers do not have the necessary skill sets to perform several tasks well; Nevertheless, this type of business structure contributes to the long-term stability, rather than concentrating on short-term results.

Most small and medium-sized enterprises concentrated in a small number of products and services. This limited approach allows these companies to establish strong relationships with its business partners, which in turn, provides stability for small and medium-sized businesses. Small and medium-sized businesses, as a rule, makes the necessary changes to their services or products that are tailored to customers' needs; The downside of this is that SMEs are mainly based on existing partnerships and may suffer financially if the relationship ends.

Small and medium business is a simple business structure that allows us to be very flexible and make the necessary changes quickly and without requirements such as address or board members shareholders for approval. This flexibility, however, does not necessarily mean that the company is following local and national regulations advice or legal team of a larger organization to consider before putting the changes into place.

The small size of the company can be an advantage when it comes to specialization and fill niche markets with products. However, size can be a disadvantage when it comes to obtaining financing for the business. Many SMEs based on the personal assets of the owners and management to finance companies. Resource limitations also affect the marketing and the ability to enter new markets with their products, due to budgetary constraints (Business, 2016).

3.4.2 Contribution of SMEs to Myanmar Economic Growth

SMEs are integral to the economic growth of Myanmar. Over 90 per cent of all business in Myanmar is classified as Small and Medium Sized Enterprises, and the government has recognized that SMEs are main driver for the country's future national economic development.

The topic SME stakeholders cover farmers, growers, producers, wholesalers, retailers, those who transport these produce and products and the ones who give services concerning these, for the goods to reach consumers in their respective sectors along with

“Supply Chain.” Until now, the lack of international cooperation and insufficient private sector investments are the main obstacles for Myanmar SMEs.

To get better technology, productive and innovation, Myanmar SMEs need to increase access to finance, to enhance the policy and regulatory environment, and promote entrepreneurship and human capital development. However, some Myanmar entrepreneurs who can afford enough investment are not very interested to put their capital in SME sectors, as they seemingly do not see immediate profit from this business. Instead, they are more willing to invest in export, import and general trading.

As a result, Myanmar has failed to produce value added products, making the lower income for the country, while increasing import volumes has caused the country suffer budget deficits every year.

The Department of Industrial Supervision and Inspection under the Ministry of Industry has categorized into 13 sectors—foodstuff, textile, lodging, house-hold utensils, literature and artistic industry, raw material industry, mineral process and production, agricultural and farming equipment, vehicular manufacturing, electrical equipment production, general industrial workshops. Among them, foodstuff industry has got highest registration.

These local entrepreneurs complained about better financial support with almost zero interest rate, and strong markets for their potential products from SMEs. In production of consumer goods, Myanmar local products still need to give guarantees on hygiene and tastes in comparing with some neighbouring countries.

Myanmar has now opened and is persuading international investments. As a host country, Myanmar need more investments to be able to produce safe and hygienic items more and more, with attractive packaging designs. If it fails to do so, the country will continue requiring high-priced foreign import items.

In this regard, local SME entrepreneurs need to seek advice and assistance from relevant departments and government and non-government association without delay as the neighbouring countries are getting momentum in producing global consumer products.

Myanmar has developed Small and Medium Enterprises Development Law 2015. The law with 14 chapters carries the provisions that clarify business and the role of business association to human resource development and technology. Every law needs enforcement and should be monitored for practical implementation to address issues in the real situations.

In fact, sophisticated technology tools or fully digital production process are not serious necessity for SMEs innovation. New business models, creating new lines of products, better efficiency in production processes, as well as in intensifying their promotion efforts are the driving force for promotion of SME sector.

Semi-state bodies or authorities will be needed to implement Government initiatives based on an SME development strategy. SME bodies should develop more capacities to be able to work freely without excess interference of government. A broad range of stakeholders should be invited for SME development. While the assistance of government departments is fundamental support to SMEs, a cooperative society of private business community, educational and technological institution play pivotal role.

In ASEAN, cooperation on SME development began way back in 1995, when fostering SME development became one of the priority areas in respect of policy focus and resources.

Thailand has set the target to increase contribution by SMEs to national GDP up to 50 per cent by 2021 by supporting innovation-driven SMEs that aim to offer high-value products and services through the 5-year SME Promotion Plan of the Office of SME Promotion (OSMEP).

The current SME's contribution to the kingdom's GDP as of 2017 is 42.2 per cent. It can also be traced that the percentage of SME employment to total employment in Thailand grew steadily from 76.0% in 2007 to 83.9% in 2011.

For developing regionally competitive SMEs, it is crucial to ensure realistic access to finance not to encounter inefficiency and low productivity. Organizing seminars, workshops and exhibition at home and abroad will help interact between Myanmar SMEs and their regional counterparts, suppliers and potential counterparts (Aung Khin, 2019).

3.5 Concept and Scope of Procurement

Procurement is a process of identifying and acquiring goods and services. It comprises sourcing, purchasing and covers all activities from identifying potential suppliers through to delivery from seller to the requestor. The process emphasizes that the requested items such as goods, services or works are procured at the best possible cost to meet the needs of the requestor in terms of quality, quantity, time, and location.

Public procurement is an important function of government. The sheer magnitude of procurement outlays has a great impact on the economy and needs to be effectively

managed. Efficiently handling the procurement outlays becomes a policy and management issue which pose as a challenge for public procurement practitioners. Public procurement has been utilized as an important tool for achieving economic, social and other objectives and therefore, a need to comply with a myriad of legislations and guidelines and this presents a challenge.

3.5.1 Myanmar Government Tendering Rules

Presidential Notification 1/2017 related to the tendering rules was issued on 10 April 2017. The rule covers all types of Government procurement requirements such as goods or services, selling assets, or leasing out land. The rule described about the Tender Committee who will assigns the scrutiny and selection of the winner to the Tender Receiving and Scrutinizing Committee.

3.5.2 Tender Evaluation and Selection Process in General

The tendering organisation evaluates the tender in accordance with the evaluation method and criteria described in the tender documents. Tender evaluation criteria are dependent on the requirement or procuring goods specified in the tender document. When exercising a public procurement process different organisation applied different guideline and policies as set by the organisation. As minimum, in general, the tender evaluation process is carried out as follows.

As a first stage the preliminary examination is carried out. At this stage, the tendering organisation review the compliance to the eligibility and formal criteria as specified on the tender documents. The bidder is checked if eligible as defined in the tender such as compliance with the specification of the business such as if the business is not blacklisted then to be consider in the further tender evaluation stages. The completeness of the bidding documents is identified. In some strict tendering processes, the incomplete documents may consider for rejection and excluded from the further evaluation process. The organisation also checks if the bidder accepts the general terms and conditions of the contract. This may include payment terms and method.

As a second stage qualifications of the bidder is assessed as per qualification criteria such as if the bidder is in continuous business of supplying similar goods and services for certain number of years, if the bidding organisation can demonstrate previous experience

of having been supplying similar goods and services, if the bidder's business is registered in the country etc.

As a third stage technical compliance of the offered goods/services is examined. The technical qualification will be decided for compliance compared to the requirements specified on the tender document. Typically, the goods offered in the quotation are compliant compared to the requirements as per the schedule of requirements.

Upon having passed to technical qualification the financial evaluation process is carried out. The bid submissions that are found to be technically acceptable shall be evaluated based on price and/or cost effectiveness. Normally the bid submission with the lowest priced, most technically acceptable offer is declared as tender winners.

3.5.3 SME Involvement in Public Procurement

Recently, the rules on selection criteria that decide which companies can participate in a tender procedure allow more and more SMEs to bid for public contracts. By encouraging to divide large sum contracts into more manageable lots, contracting authorities making tenders more accessible to SMEs. At the same time, the documentation requirement for procurement procedures are considerably reduced and streamlined. The mandatory use of e-procurement allows SMEs to exploit the full benefit of the Digital Single Market and will bring efficiency gains.

3.6 Barriers to Entry

In microeconomic theory restrictions preventing any firm on the market to exhibit free entry is called barriers to entry. Potential entrants are discouraged by a few reasons. Firstly, fixed costs are too high for the new entrants to enter the market or they do not possess enough capacity to compete for a share on the market against their counterparts. Secondly, competition on the market may be restricted by collusive behaviour of incumbents whose objective is to hold current market share and do not let any company to grab a piece of this pie. The competition on the market can also be restricted by state regulation through licenses, quotas, or patents. These regulations used to be called artificial and natural barriers to entry. While new entrants are attempting to enter to the market the existing business entities are struggling to keep their business successful. This thesis is intended to search barriers of existing business entities in public procurement sector particularly of the SMEs that supply medical commodities in Yangon.

CHAPTER IV

SURVEY ANALYSIS

4.1 Survey Profile

In Yangon Region, Directorate of Industrial Supervision and Inspection which manage the SME development centre is implementing on SME registration. Basic requirements are set up to verify the individual who apply for SME member and member cards are being issued. The individuals who owns a relevant license, permit or registration certificate can apply for SME membership. When the small and medium enterprises are not required to have license, permit or registered certificate, they shall be eligible with the following facts:

- no impact on public health for those who live in surrounding area.
- less impact on natural and socio-economic environment and provide environmental conservation to comply with the regulation
- fire safety.
- no adverse effect on safety of workplace and health of workers.

SME smart cards are issued to qualified individuals to recognize them as SME. At the time of data collection 2,849 SME members have been registered in Yangon region. It is identified that there are only fifty-four SMEs who fall under the medical commodities and learned that all of them are the herbal medicines manufactures. None of the SMEs listed has experience in public procurement processes.

The study was thus focused on other valid list of suppliers in Yangon than the SME list. It is learned that suppliers who participate in public procurement processes are registered systematically and organised in United Nations Global Market Place (UNGM) web portal. The web portal publishes all the procurement opportunities as it arises from the United Nations programmes internationally. The web portal supported an organised list of suppliers around the world and thus the research aimed to use the list. The list includes two hundred and nine suppliers which forty-eight are medical commodity suppliers. All the listed suppliers have experience in participating public procurement process.

Target population refers to the larger population to which the researcher ultimately would like to generalize the results of the study. It is therefore the entire group of individuals, events or objects having a common observable characteristic. The target population for this study intended initially was a selected group of SME suppliers in Yangon. However, the number of relevant SME suppliers for this study are very few and therefore reference is taken to suppliers from Myanmar in the product category of this study that are registered in United Nations Global Marketplace (UNGM). In accordance with the purposive sampling method, participants who are suppliers from public procurement sector are carefully chosen with confidence that the specific information is acquire and their willingness to participate in the survey. A total of 48 firms from Yangon that are registered in UNGM as medical commodity as main product category are selected as target population. Although it is perhaps the easiest method of sampling but will be efficient to carry out the research because the selected participants are the key players who have experience in public procurement exercises.

4.2 Survey Design

A research design is a presentation of the plan, the structure and strategy of investigation, which seeks to obtain or answer various questions. It is a detailed plan for how research study will be conducted according to the data required to investigate the research questions in an economical manner. The survey was conducted in October 2019. All of the 48 suppliers registered in UNGM were approached during the study period. The English version of the questionnaire was well structured, and the respondents were approached via online web survey. To ensure effectiveness in data collection some participants were contacted via phone. They were informed in advance of a pre-scheduled phone call. A typical phone interview lasted approximately 30 minutes.

In accordance with the conceptual framework described in Chapter II the researcher developed a standardized questionnaire that captured the various variables under study (Appendix 1). Five sections composed the questionnaire; business profile, awareness to public procurement business opportunities, general experience when participating public procurement processes, qualification requirements and barriers which limit the suppliers in competition at different stages of public procurement processes. A questionnaire is a research instrument that gathers data over a large sample. The questionnaire aimed to translate the research objectives into specific questions, and answers from each question to

provide the data for hypothesis testing. The advantages of a questionnaire over other instruments include the fact that questionnaires are practical and large amounts of information can be collected from a large number of people in a short period of time and in a relatively cost-effective way. The questionnaires can be carried out by the researcher or by any number of people with limited affect to its validity and reliability. The results of the questionnaires can be quickly and easily quantified by either a researcher or using a web-based form. The questionnaire was divided into five main sections. Section 1 was to identify the profile of the company where all participants involved would identify themselves and background of their company, year of operation. Section 2 verifies if the respondents are aware of the business opportunities and how they observe them. The Section 3 then start to ask if the respondents has general experience in public procurement exercises. The section 4 and 5 identify the issue faced by the suppliers in public tender exercises from different phases of procurement processes such as qualification requirements in clear answers, common barriers of public procurement exercises in point scale which allow the respondents to express their experience in how much they agree or disagree with particular problem statements.

The responses provided by the participants were analysed at qualitative and quantitative levels. At the quantitative level, data was summarized using descriptive statistics. The researcher obtained a detailed information about the phenomenon being studied, and then tried to establish patterns, trends and relationships from the information gathered. The statistical methods generated initially were bar graphs and pie charts. However, the table formats are used to describe the analysed data.

The result part already wraps up the issue of barriers for the participation of SMEs in public procurement at the beginning. The telecommunication with representatives of SMEs and their direct view on the possibility to participate in public procurement were emerged supporting identified the barriers.

4.3 Survey Data Analysis

The best preparation for conducting a case study analysis is the quality of the research investigation. With the creation of the data methodology in a systematic way the findings are built. Gathered data are analysed firstly by using the pattern matching analytical technique. Analysis of the quantitative data is through descriptive statistic such as percentages and mean frequency table by using the spreadsheets. The qualitative findings

have been analysed using direct quotation. The analysis outlined the conceptual framework based on theoretical propositions of expected findings in the case data, and thereafter compared an empirically based pattern with predictions from the theoretical study.

4.3.1 Business Profile

This study was conducted to analyse the business profile of the respondents. The sample size of the study was 48 firms which main product category is health commodity and experienced in public procurement processes. The key personnel of the firms were approached when collecting the data required for this survey. From 48 targeted population 39 responded with answers that were helpful to carry out the analysis. The staff size of the firms of the respondents were firstly analysed as shown in the Table (4.1)

Table (4.1) Number of full-time employees in your company/business

| No. | Number of employees | No. of firms/companies |
|-----|---------------------|------------------------|
| 1. | 1 to 15 | 8 |
| 2. | 15 to 30 | 6 |
| 3. | above 30 | 24 |
| 4. | Non-respondent | 1 |

Source: Survey Data, 2019

According to the survey data as described in Table (4.2) 82.05% of the respondents have above five years of operational experience and 12.82% of the respondents have operational experience of three to five years. About 5.13% are still young with less than three years of experience and thus less experience in public procurement processes.

Table (4.2) Year of the company in operation

| No. | Year of the company in operation | No. of firms/companies |
|-----|----------------------------------|------------------------|
| 1. | 0 to 3 years | 2 |
| 2. | 3 to 5 years | 5 |
| 3. | above 5 years | 32 |

Source: Survey Data, 2019

In connection with the business profile the respondents were requested to indicate the product assortment which they carry.

Table (4.3) Type of medical commodities in product/supply assortment

| No. | Type of medical commodities | Number of responses |
|-----|---|---------------------|
| 1. | Medical devices, Medical instruments, Medical equipment, Medical consumables | 6 |
| 2. | Medical equipment | 2 |
| 3. | Pharmaceuticals | 15 |
| 4. | Pharmaceuticals, Medical devices, Medical equipment, Medical consumables | 3 |
| 5. | Pharmaceuticals, Medical devices, Medical instruments, Medical equipment, Medical consumables | 8 |
| 6. | All of the above | 5 |

Source: Survey Data, 2019

As indicated in Table (4.3) most of the respondents are pharmaceuticals suppliers which is 38% of the respondents. 21% represents the health commodity suppliers but except medical equipment. It is identified the suppliers which carry only medical equipment are only about 5%. Since medical equipment are expensive and thus higher investment compare to other type of medical commodities. According to the respondents 13% trade all type of medical commodities.

Table (4.4), below, shows that all the respondents have experience in participating public procurement processes.

Table (4.4) Experience in participating public procurement processes (tenders, request for quotations etc.)

| No. | Experience in public procurement processes | No. of firms/companies |
|-----|--|------------------------|
| 1. | Yes | 39 |
| 2. | No | 0 |

Source: Survey Data, 2019

As shown in Table (4.5), respondents were also verified of experience having in public procurement processes conducted by either or both the Ministry of Health and Sport and non-governmental organisations.

Table (4.5) Experience applicable to tender/quotation processes conducted

| No. | Public bodies | No. of firms/companies |
|-----|---|------------------------|
| 1. | Ministry of Health and Sport | 9 |
| 2. | Ministry of Health and Sport, non- governmental organization (UN, INGOs, NGOs etc.), both | 4 |
| 3. | non- governmental organization (UN, INGOs, NGOs etc.) | 4 |
| 4. | both | 22 |

Source: Survey Data, 2019

According to the Table (4.5), respondents indicated that 56.41% have experience in public procurement processes conducted by both Ministry of Health and Sport and non-governmental organisations. In contrast 23.08% have experience solely in participating tendering opportunities arises from Ministry of Health and Sport and 20.51% has experience in non-governmental organisation procurements.

4.3.2 Awareness to public procurement business opportunities

About 84.62% of the respondents seek public procurement business opportunities in newspapers, journals, websites and through business partners. According to the Table (4.6), advertisements on television is the least search. The business opportunities are sought mostly either from the business partners or all possible sources.

Table (4.6) Sources of business opportunities

| No. | Sources of business opportunities regularly monitored | No. of firms/companies |
|-----|---|------------------------|
| 1. | Business partners | 8 |
| 2. | Newspaper & journals | 4 |
| 3. | Newspaper & journals, Business partners | 2 |
| 4. | Newspaper & journals, TV, Websites, Business partners | 8 |
| 5. | Newspaper & journals, Websites | 2 |
| 6. | Newspaper & journals, Websites, Business partners | 9 |
| 7. | TV | 1 |
| 8. | All above | 5 |

Source: Survey Data, 2019

4.3.3 General experience

According to the Table (4.7), below, most of the respondents mentioned less language issues which is only 35.90%. 15.38% mentioned that they will likely to be faced.

Table (4.7) Language issues in tender/quotation documents

| No. | facing language issues in tender/quotation documents | No. of firms/companies |
|-----|--|------------------------|
| 1. | Yes | 14 |
| 2. | No | 19 |
| 3. | Maybe | 6 |
| | Total | 39 |

Source: Survey Data, 2019

As language normally could be a barrier in public procurement processes when to deal with international organisations the respondents were inquired for information. In connection with the previous question the respondents are asked to choose challenge faced due to language in different type organisations. The answers were collected at three levels. Some of the respondents did not answer this question, see Table (4.8). Further to the language issue most of the respondents indicated that the highest language challenges are faced in when dealing with public procurement exercises conducted by United Nations, with INGO is the second highest and dealing with Ministry of Health and Sport (MoHS) is the lowest.

Table (4.8) Challenge faced due to language

| No. | Organisation | Highest | Second highest | Lowest |
|-------|--------------|---------|----------------|--------|
| 1. | INGO | 2 | 16 | 1 |
| 2. | MOHS | 0 | 2 | 21 |
| 3. | NGO | 2 | 6 | 4 |
| 4. | UN | 17 | 2 | 2 |
| Total | | 21 | 26 | 28 |

Source: Survey Data, 2019

According to the Table (4.9), below, in terms of experience in not having enough time to prepare and submit an offer in business opportunities it is a 66.67%.

Table (4.9) Lack of enough time to submit an offer

| No. | experienced lack of enough time to submit an offer | No. of firms/companies |
|-----|--|------------------------|
| 1. | Yes | 26 |
| 2. | No | 13 |

Source: Survey Data, 2019

Relating to enough time to submit offer in a public procurement process the respondents were inquired further to identify the nature of barriers specifically. The questions were broken down to possible situation regarding the insufficient time to submit an offer. According to the Table (4.10), significantly short notices are the main issue for suppliers to submit offers in tendering exercises as 48.48% of the respondents experienced of short notices. The short tendering period is the second major issue identified which was indicated by 33.33% of the respondents. About 12.12% of the respondents claimed that the time allowed for tender submission preparation is unrealistic. From the 2 out of 33 respondents (6.06%) a mixture of all the three main barriers is observed very rare. As there were 18.18% non-respondents this could be assumed that this volume of respondents was not experienced of insufficient time.

Table (4.10) Typical reasons for insufficient time to submit an offer

| No. | Reasons for insufficient time to submit offer | No. of firms/companies |
|-----|--|------------------------|
| 1. | Short notice (informed by the procuring/tendering dept) | 16 |
| 2. | Short notice (informed by the procuring/tendering dept), Tender/quotation period was too short, Time given to prepare submission was unrealistic | 2 |
| 3. | Tender/quotation period was too short | 11 |
| 4. | Time given to prepare submission was unrealistic | 4 |
| 5. | Non-respondents | 6 |

Source: Survey Data, 2019

4.3.4 Qualification requirements

According to the Table (4.11), below, respondents indicated that basic qualification requirement on a tender/quotation process such as eligibility, pre-qualification, legal and administration requirements demand in the public procurement sector and processes are significantly challenged for about 69.23%.

Table (4.11) Issues in basic qualification requirements

| No. | Any issues in not meeting basic qualification requirement on a tender/quotation process? | No. of firms/companies |
|-----|--|------------------------|
| 1. | Yes | 27 |
| 2. | No | 12 |

Source: Survey Data, 2019

A step further to basic qualification requirement is the professional qualification. The professional qualifications entail previous experience in supplying similar type of goods; possession of professional certificates; business registration/business license; requiring high qualifications and certificates etc. From the Table (4.12) it was analysed that the professional qualification requirements are being challenged for about 69.23%. This indicates that the professional certificates as well as business registration or licenses prevents suppliers from qualifying in a procurement process due to lack of presence of requested documents and certificates.

Table (4.12) Issues in professional qualification requirements

| No. | Any issues in not meeting professional qualification requirement | No. of firms/companies |
|-----|--|------------------------|
| 1. | Yes | 12 |
| 2. | No | 27 |

Source: Survey Data, 2019

In order to ensure enough financial capacity of the firm that submit tender proposal the financial capacity of the bidders that participate in the tendering processes are normally examined. The bidder (or the firms submitting the offers) are requested to submit or prove the financial capacity by means of financial statements. Some tenders ask for credit guarantees so that the tendering organisation can secure the work. In addition to the basic qualification and professional qualification the financial qualification requirements demanded in public procurement process such as financial turnovers; requiring credit guarantees are severely exist for about 61.54% in public procurement processes as shown in Table (4.13).

Table (4.13) Issues in financial qualification requirements

| No. | Any issues in not meeting financial qualification requirement | No. of firms/companies |
|-----|---|------------------------|
| 1. | Yes | 24 |
| 2. | No | 15 |

Source: Survey Data, 2019

Likewise, the above qualification criteria the respondents also expressed their view on technical qualification being discriminated or not meeting technical qualification for about 38.46%. By comparing with the earlier three qualification stages the result analysed in the Table (4.14) shows that most of the respondents have adequate technical capacity in competing in the public procurement processes.

Table (4.14) Issues in technical qualification requirements

| No. | Any issues in not meeting technical qualification requirement | No. of firms/companies |
|-----|---|------------------------|
| 1. | Yes | 15 |
| 2. | No | 24 |

Source: Survey Data, 2019

From the above analysis it is obvious that all the qualification processes in a tendering exercise filter the respondents at every phase of a tendering process and prevent the respondents to pass through. Some of the qualification failure are due to the other indirect factors which contribute to the qualification process. Those indirect factors were considered as common barriers with high impact on the qualification process.

To identify the common barriers and to attract the respondents for feedbacks the questions were prepared in accordance with the procurement stages which are familiar to the respondents.

4.3.5 Barriers Which Limit the Competition at Different Stages of Procurement Process

(a) Pre-bidding stage

Table (4.15) demonstrates on barriers faced by respondents at pre-bidding stage. Restricted communication and publication of contract opportunities are rare for half of the respondents. However occasionally faced by 21% of the respondents. Like communication overly narrow pre-qualification criteria, placing too much emphasis on previous experience or firm size happened for 29% of the respondents. About 39% of the respondents expressed of uncompetitive bidding processes. While 32% of the respondents described about difficulties due to the size of contracts the other 25% of the respondents claimed about frequent occurrence. Issues faced related to the access to relevant information is occasionally for about 36%. The quality and understandability of information provided is limited for about a half of the respondents.

Table (4.15) Barriers at pre-bidding stage

| No. | Common barriers | Very rarely | Rarely | Occasional-ly | Frequently | Very frequently |
|-----|---|-------------|--------|---------------|------------|-----------------|
| 1. | Restricted communication and publication of contract opportunities | 29% | 50% | 21% | 0% | 0% |
| 2. | Overly narrow pre-qualification criteria, placing too much emphasis on past experience or firm size | 7% | 50% | 29% | 3% | 11% |
| 3. | Uncompetitive bidding processes | 7% | 50% | 39% | 4% | 0% |
| 4. | Difficulties due to size of contracts | 7% | 29% | 32% | 25% | 7% |
| 5. | Access to relevant information | 14% | 36% | 36% | 7% | 7% |
| 6. | Quality and understandability of information provided is limited | 14% | 39% | 39% | 8% | 0% |

Source: Survey Data, 2019

(b) Submission stage

According to Table (4.16), twelve respondents claimed that excessive bureaucracy and documentation requirements exist occasionally while the same number of respondents mentioned rarely. Excessive requirements of financial guarantees (i.e. bid security deposit) were experienced for about 57%. Regarding the enough time to prepare quotations the responses were almost equilibrium. Occasionally most of the respondents has some issues related to lack of capability in writing a formal bid proposal. Unclear selection criteria – how best to meet government’s needs unclear were experienced occasionally and frequently. Excessive information requirements are very occasionally and frequently.

Table (4.16) Common barriers at tender submission stage

| No. | Common barriers | Very rarely | Rarely | Occasional-ly | Frequently | Very frequently |
|-----|--|-------------|--------|---------------|------------|-----------------|
| 1. | Excessive bureaucracy and documentation requirements | 0% | 43% | 43% | 14% | 0% |
| 2. | Excessive requirements of financial guarantees (i.e. bid security deposit) | 0% | 29% | 57% | 14% | 0% |
| 3. | Grant enough time to prepare quotations | 14% | 29% | 32% | 25% | 0% |
| 4. | Lack of capability in writing a formal bid proposal | 14% | 25% | 39% | 22% | 0% |
| 5. | Unclear selection criteria – how best to meet government’s needs unclear | 7% | 21% | 47% | 25% | 0% |
| 6. | Excessive information requirements (although this could hurt government not having enough information) | 0% | 14% | 47% | 39% | 0% |

Source: Survey Data, 2019

(c) Selection/evaluation stage

According to the Table (4.17), the 39% of respondent indicated preference for large bidders with long track records is very rare. However, 53% of respondents faced long track record issue frequently and occasionally. The bidders with long track records are more favourable in a tendering process and therefore it restricts unexperienced respondents to win a tender. Institutionalized discrimination was rare. But 78.57% of respondents think that the tendering exercises focus a lot on the price, and not on value for money.

Table (4.17) Common barriers at selection/evaluation stage

| No. | Common barriers | Very rarely | Rarely | Occasional-ly | Frequently | Very frequently |
|-----|---|-------------|--------|---------------|------------|-----------------|
| 1. | Preference for large bidders with long track records | 7% | 40% | 32% | 21% | 0% |
| 2. | Institutionalized discrimination | 0% | 58% | 34% | 8% | 0% |
| 3. | Too much focus on the price, and not on value for money | 7% | 7% | 50% | 29% | 7% |

Source: Survey Data, 2019

(d) Post-selection stage

As shown in Table (4.18), about 42% of respondents expressed the rationale for awards is absence and 8% of the respondents indicated of frequent absence. The payment terms i.e delayed payment also is an issue for the 20 – 24% respondents. In connection, 60% of the respondents have faced unsuitable payment terms offered (example, 30 days credit term). 60% of the respondents described no feedback shared for future learning. Difficulty in business complaints being heard and addressed is very frequently.

Table (4.18) Common barriers at tender post-selection stage

| No. | Common barriers | Very rarely | Rarely | Occasional-ly | Frequently | Very frequently |
|-----|---|-------------|--------|---------------|------------|-----------------|
| 1. | Absence of rationale for awards | 17% | 33% | 42% | 8% | 0% |
| 2. | Payment terms are not complied with i.e. delayed payments | 28% | 28% | 20% | 24% | 0% |
| 3. | Unsuitable payment terms offered (eg. 30 days credit) | 29% | 11% | 46% | 14% | 0% |
| 4. | No feedback shared for future learning | 14% | 18% | 50% | 11% | 7% |
| 5. | Difficulty in business complaints being heard and addressed | 15% | 32% | 32% | 14% | 7% |

Source: Survey Data, 2019

CHAPTER V

CONCLUSION

5.1 Findings

The study demonstrated that the barriers to entry for SMEs to enter the public procurement market in Myanmar absolutely exist. Conducted survey indicated serious barriers which SMEs are being challenged at most. From the communication with the suppliers in assessment basic qualification and professional requirements are found out not much of an issue for them. However, an extent of challenges exists in the technical and financial qualification stages. Additionally, the payment terms offered are unsuitable for the SMEs. Language is not an issue for the SMEs, but lack of capability in writing a formal bid proposal is. Excessive information requirements challenged SMEs to complete the requested forms and then to deal with insufficient time to submit offer in a tendering process.

(a) Legal/Regulatory Framework

Mandatory legal requirement demands for a certificate of Incorporation and extract from the Company Register. More and more public procurement processes seek various type of legitimate certificates to verify whether the bidders are legally registered in the country. The bidders are requested to prove that their business is a fully legal entity by demonstrating that the business is properly registered not subject to any legal actions. Not only judging the legitimacy of the bidding firms but also the public procurement processes demands the bidder firms to have bank account in their business name. Any either of such requirements restricts SMEs from participation to tendering processes. In some cases, it is related to international participation in public procurement, challenges in relation to finding cooperation partners abroad were barriers in the competition.

(b) Ethics in Public Procurement

Uncompetitive bidding processes are very rare. But the suppliers are often excluded for not meeting criteria which was due to insufficiency of technical capacity or financial capacity. Many procuring organisations keep the tender selection process as confidential

and the bidding organisations are not adequately informed of the areas to improve or incompetent. Difficulty in business complaints being heard and addressed is very frequently. Learning opportunity for future improvements were missed since feedback sharing is very occasionally.

(c) Financial Requirements

The tenderer expected high financial capacity and turnover due to the value of a public contract and it could be unreasonable for the bidders. The size of the company turnover and excessive requirements of financial guarantees are decision-making factors in a selection process. The minimum requirement sector tendering has been the submission of three years of audited accounts. This has prevented many new start-ups and smaller businesses from bidding for work despite having the necessary skills, knowledge and experience to meet the specification and offering competitive rates for the work.

(d) Information Access

Tender consultancy services and referrals from business partners do also play a role in accessing information, whereas newspapers or professional journals are a regularly used source for information for a small fraction of companies. SMEs experienced difficulties in obtaining information about tender calls and unfamiliarity to the tendering procedures. The technology also is a factor in restricting competition. In general, SMEs do not have enough time to prepare bids and they lack knowledge about tender procedures. Even though access to relevant information is feasible for SMEs but the quality and understandability of information provided is limited. Unclear selection criteria were experienced occasionally and frequently.

5.2 Suggestions

The following suggestions are based on the finding from the case study of health commodity suppliers in Yangon, Myanmar who has experience in participating public procurement processes. According to the survey data, the improvements and learning exercises is observed in both side which is the seller side and the buyer side.

SMEs are not only as a major employment creator but also the one of the primary contributors of GDP of the country, the procuring agencies shall allow maximum access to SMEs in the public procurement market. The case study findings suggest that some of the challenges SME's are facing would be improved by developing public procurement of innovation policies specifically targeting SME promotion. The regulatory requirements for

SMEs shall be favourable. The findings suggest that due to lack of resources an array of related problems occur. This can also be achieved by eliminating discriminatory and unjustified requirements defined by the both intensive procedures and selection criteria set out in the tendering documentations. Improper or lack of feedback on the result of the procurement exercise may lead to consideration of ethical practice and no room for improvements. The decision-making practice of the tendering organisation in terms of financial capacity and complicated procedures shall be eliminated. This will improve possibility of SMEs to participate in the competitions. A minimum percentage of SMEs shall be considered in the public procurement exercises so that the barrier for their possibility to enter the public procurement market regardless of their lack of capacity. The tendering organisations may ensure adequate business information is reached to the SMEs.

Future studies should also expand the scope of analysis to determine the differences in SMEs perceived barriers by size of business and type of product/service. It could also be interesting to learn best practice procurement techniques from other countries which could be adopted to deal with common barriers to SMEs participation in public procurement. Improving existing knowledge about SME-friendly procurement practices and policies in line with the concept of sustainable procurement is considerable.

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APPENDICES

Appendix 1

Thesis questions:

Barriers of SMEs engaging public procurement processes in Myanmar
(Case Study: Health Commodity Supplier)

Greetings!!

My name is Kyaw Zwar Win, a student from Yangon University of Economic. I would like to seek your kind response on the questions related to my thesis on “Barriers of SMEs engaging public procurement process (Case Study: Health Commodity Supplier)”.

The questionnaires are aimed to assess the barriers and difficulties of Myanmar health commodity suppliers in participating public procurement opportunities. The objective is to identify issues faced by medical suppliers in Myanmar who intend to sell/offer medical commodities such as pharmaceuticals, medical devices, medical instruments, medical equipment and medical consumables through procurement processes in Public Procurement Sector in Myanmar. The opportunities from public procurement sector may include tender/quotation processes conducted by organizations such as United Nations, INGOs, NGOs and Myanmar Government Ministries.

Your response will be treated completely anonymous. The findings from this assessment will be only used for the purpose of Academic paper, Thesis, to Executive Master of Development Studies from Yangon University of Economic. The answers and findings will be confidential and will not be shared to any person or entity. May I encourage you to answer the questions which is according to your willingness? Please feel free to skip the questions which is not feasible to answer. Your answers are critical to this assessment thus I hope to participate.

Thank you very much for your participation.

Kyaw Zwar Win
EMDevS-II, 15th batch
Master of Development Studies
Yangon University of Economics

Section 1:

Business profile: a brief information about your firm

1. Number of full-time employees in your company/business:
Mark only one oval.

| | |
|--------------------------|----------|
| <input type="checkbox"/> | 1 to 15 |
| <input type="checkbox"/> | 15 to 30 |
| <input type="checkbox"/> | above 30 |

2. Year of your company in operation: *
Mark only one oval.

| | |
|--------------------------|---------------|
| <input type="checkbox"/> | 0 to 3 years |
| <input type="checkbox"/> | 3 to 5 years |
| <input type="checkbox"/> | above 5 years |

3. Type of medical commodities in your product/supply assortment: *
Check all that apply.

| | |
|--------------------------|---------------------|
| <input type="checkbox"/> | Pharmaceuticals |
| <input type="checkbox"/> | Medical devices |
| <input type="checkbox"/> | Medical instruments |
| <input type="checkbox"/> | Medical equipment |
| <input type="checkbox"/> | Medical consumables |

4. Does your company/business have experience in participating public procurement processes (tenders, request for quotations etc.)?
Mark only one oval.

| | |
|--------------------------|-----|
| <input type="checkbox"/> | Yes |
| <input type="checkbox"/> | No |

5. The above experience is applicable to tender/quotation processes conducted by
Check all that apply.

| | |
|--------------------------|--|
| <input type="checkbox"/> | Ministry of Health and Sport |
| <input type="checkbox"/> | Non- governmental organizations (UN, INGOs, NGOs etc.) |
| <input type="checkbox"/> | both |

Section 2:

Awareness to opportunities

Please let us know how you observe the business opportunities.

6. Sources of business opportunities you regularly monitor:
Check all that apply.

| | |
|--------------------------|----------------------|
| <input type="checkbox"/> | Newspaper & journals |
| <input type="checkbox"/> | TV |
| <input type="checkbox"/> | Websites |
| <input type="checkbox"/> | Business partners |

Section 3:

General experience

This section is added to learn your troubles in general.

7. Do you face language issues in tender/quotation documents?
Mark only one oval.

| | |
|--------------------------|-------|
| <input type="checkbox"/> | Yes |
| <input type="checkbox"/> | No |
| <input type="checkbox"/> | Maybe |

8. Challenge faced due to language -
Mark only one oval per row.

| Challenge level / Organization | UN | INGO | NGO | MOHS |
|---------------------------------------|-----------|-------------|------------|-------------|
| Highest challenge | | | | |
| Second highest | | | | |
| Third highest | | | | |
| Lowest challenge | | | | |

9. Have you ever experienced lack of enough time to submit an offer?
Mark only one.

| | |
|--------------------------|-----|
| <input type="checkbox"/> | Yes |
| <input type="checkbox"/> | No |

10. If you had experience insufficient time to submit an offer, please indicate the typical reason:
Check all that apply.

| | |
|--------------------------|---|
| <input type="checkbox"/> | Short notice (informed by the procuring/tendering department) |
| <input type="checkbox"/> | Tender/quotation period was too short |
| <input type="checkbox"/> | Time given to prepare submission was unrealistic |

Section 4:

Qualification requirements

This section aims to learn if qualification requirements restricts from competition.

11. Any issues in not meeting basic qualification requirement on a tender/quotation process? (eg. eligibility, pre-qualification; legal and administration difficulties related to access to public procurement market)
Mark only one.

| | |
|--------------------------|-----|
| <input type="checkbox"/> | Yes |
| <input type="checkbox"/> | No |

12. Were there any professional qualification requirements restrict your firm to compete in the tendering/quotation process? (eg. previous experience in supplying similar type of goods; possession of professional certificates; business registration/business license; requiring high qualifications and certificates etc.)
Mark only one.

| | |
|--------------------------|-----|
| <input type="checkbox"/> | Yes |
| <input type="checkbox"/> | No |

13. Any experience in not meeting financial qualification requirements?(eg. Financial turnovers; requiring credit guarantees etc.)
Mark only one oval.

| | |
|--------------------------|-----|
| <input type="checkbox"/> | Yes |
| <input type="checkbox"/> | No |

14. Did you faced technical qualification requirements issue in procurement processes?
(eg. discriminating technical specifications)
Mark only one.

| | |
|--------------------------|-----|
| <input type="checkbox"/> | Yes |
| <input type="checkbox"/> | No |

Section 5:

Common barriers which limit your firm in competition at different stages of procurement process:

This section aims to assess your barriers in a procurement process by stages which prevents your firm from winning opportunities.

15. Pre-bidding stage
Mark only one per row.

| | Very rarely | Rarely | Occasionally | Frequently | Very frequently |
|---|-------------|--------|--------------|------------|-----------------|
| Restricted communication and publication of contract opportunities | | | | | |
| Overly narrow pre-qualification criteria, placing too much emphasis on past experience or firm size | | | | | |
| Uncompetitive bidding processes | | | | | |
| Difficulties due to size of contracts | | | | | |
| Access to relevant information | | | | | |
| Quality and understandability of information provided is limited | | | | | |

16. Application submission stage

Mark only one oval per row.

| | Very rarely | Rarely | Occasionally | Frequently | Very frequently |
|--|-------------|--------|--------------|------------|-----------------|
| Excessive bureaucracy and documentation requirements | | | | | |
| Excessive requirements of financial guarantees (i.e. bid security deposit) | | | | | |
| Grant enough time to prepare Quotations | | | | | |
| Lack of capability in writing a formal bid proposal | | | | | |
| Unclear selection criteria – how best to meet government’s needs unclear | | | | | |
| Excessive information requirements (although this could hurt government not having enough information) | | | | | |

17. Selection/evaluation stage

Mark only one oval per row.

| | Very rarely | Rarely | Occasionally | Frequently | Very frequently |
|---|-------------|--------|--------------|------------|-----------------|
| Preference for large bidders with long track records | | | | | |
| Institutionalized discrimination | | | | | |
| Too much focus on the price, and not on value for money | | | | | |

18. Post-selection stage
Mark only one oval per row.

| | Very rarely | Rarely | Occasionally | Frequently | Very frequently |
|---|-------------|--------|--------------|------------|-----------------|
| Absence of rationale for awards | | | | | |
| Payment terms are not complied with i.e. delayed payments | | | | | |
| Unsuitable payment terms offered (eg. 30 days credit) | | | | | |
| No feedback shared for future Learning | | | | | |
| Difficulty in business complaints being heard and addressed | | | | | |

19. Can I contact you for phone interview (again) if further information? Kindly leave your name and phone number.

Thank you very much!!
Your kind participation is highly appreciated.
Have a nice day!