

Executive Summary

Hong Kong's economy has been facing significant downward pressure amid the softening global economic growth and reeling from months of social unrest since 2019. Many companies, particularly the small and medium-sized enterprises (SMEs) have been severely affected. SMEs are the backbone of Hong Kong's economy, accounting for around 98% of the total business units and about 45% of total employment in the private sector in 2019. Their contributions towards economic development, safeguarding employment and maintaining Hong Kong's long-term competitiveness should not be overlooked. Henceforth, how to assist SMEs to ease their plight and find fresh business opportunities are subjects worthy of examination.

2. Government procurement refers to government departments in Hong Kong, adopting an approach to achieve the best value for money in purchasing products or services required in daily operations or public services. Companies bidding public procurement contracts must meet the requirements of the government procurement departments, and provide corresponding goods or services. Through the proper use of public funds, SMEs may have access to government's procurement platform, secure stabilised source of income and enhance their competitiveness.

3. In view of the situation, the Bauhinia Foundation Research Centre (the Centre), underpinned **Target-oriented** and **Efficiency-first** as the strategic principles, aims to analyse the opportunities and challenges faced by SMEs in government procurement, examine the related experiences in the United Kingdom (UK) and South Korea (SK), and propose policy recommendations that help promote SMEs' participation in public procurement. The Centre believes, the Government could make use of public procurement which is a large

marketplace, generate more business opportunities for SMEs, create a SME-friendly business environment, and facilitate the sustainable growth of local economy as well as maintaining Hong Kong's long-term competitiveness.

Research Findings

The scale of Hong Kong's government procurement constitutes around 25% of the total government expenditure

4. Hong Kong's government procurement policy objectives are to achieve the best value for money and to maintain open and fair competition. The Government encourages different suppliers to submit bids, from which it will select the most advantageous tender proposals which best serve the public interest. In 2017/18, the scale of government procurement of goods and services reached 114.48 billion (HK) dollars, accounting for 24.3% of total government expenditure (470.86 billion (HK) dollars). The percentage of the total government expenditure further lowered to 23.4% in 2018/19.

Making public procurement a strategy to create a win-win situation for government and SMEs

5. According to the Organisation for Economic Co-operation and Development, public procurement refers to the purchase of required goods or services for different government departments; besides, it can be used as a strategic tool for achieving policy goals in order to promote the development of enterprises, society and economy. Globally, many countries try to use public procurement to pursue other policy objectives, among which encouraging SMEs to participate in

public procurement is one of the measures to create business opportunities for these enterprises. For governments, this measure brings greater level of competition, thereby achieving better value for money through a wider choice of goods or services. Moreover, if more enterprises participate in tender exercises, it will enrich the diversity of options and facilitate the government to impose new terms and conditions for successful bidding, such as the inclusion of innovative or social clauses in the service contracts as requirements, with a view to fostering the development of innovation and technology, as well as social benefits.

6. For SMEs, government procurement contracts help provide a more stable income source, and help develop brand and create popularity if SMEs are on the list of government's recognised contractors. Public procurement is subject to laws and regulations, and there is an appeal mechanism in place ensuring that SMEs are fairly treated. With regard to tendering matters, the government may make the tender process to be conducted in an open, fair and transparent manner with a view to fostering a business-friendly environment.

Restrictions arising from procurement system and SMEs' scarcity of resources give rise to difficulties hindering SMEs' participating in government procurement

7. However, SMEs in Hong Kong face various challenges and obstacles throughout the procurement process. Firstly, bearing in mind the need to make proper use of public funds and be accountable to the public, the procurement mindset tends to focus more on cost-effectiveness and is rather conservative and risk-averse. For instance, when considering whether the tenderer is able to fulfil contractual obligations, the Government inclines towards choosing large

companies which are financially robust and have extensive experiences as their suppliers, making SMEs difficult to compete. Take the goods and services of information technology as an example, from 2016/17 to 2018/19, only 6.6% of the procurement items (1,411 cases) were contracted to SMEs, the contract value (323 million dollars) only constituted 10.0% of the total contract value.

8. Secondly, hindered by deficient open tender information, some SMEs may not be aware of the bidding notices and thus miss relevant tender opportunities. Even if the Government has been pushing forward electronic procurement to simplify the procedures and enhance the transparency of information, the use of the electronic platform (e-platform) has not been very satisfactory. Moreover, to submit a high-quality bid, enterprises need to have a certain degree of technical and legal knowledge, in addition to the required manpower and material resources, SMEs in general may not be able to afford the relevant administrative cost.

Research Recommendations

9. The UK and SK governments have adopted an intervention approach of different extents to help remove the hurdles faced by SMEs, and rolled out a number of targeted measures to improve their procurement system, so as to facilitate the SMEs' participation in government procurement on all fronts. The Centre believes these measures are a lesson for us (see the Figure below). With a view to providing more comprehensive support to SMEs to meet procurement challenges and to tide over the difficult times, the Centre recommends adopting the **Target-oriented** and **Efficiency-first** strategic principles, to further enhance the government procurement market situation, and strengthen SMEs' public procurement capabilities.

Figure: Specific measures taken by the United Kingdom and South Korea to support SMEs in government procurement



United Kingdom

1. Set targets for sourcing goods and services from SMEs up to one third (33%) of the total procurement spending
2. One-stop electronic procurement platform
3. Set up an SME panel, facilitating communications and cooperation between the government and SMEs on procurement policies



South Korea

1. Government is obliged to support SMEs by law, and set a target proportion of procuring SMEs' goods at 50% of the total volume
2. Electronic procurement platform
3. Financial assistance, including advance or instant payment
4. Administrative and market support, including training and promoting SMEs' products
5. Procurement list of SMEs' products

The research recommendations are as follows:

Target-oriented

Recommendation 1: Setting a clear target in procurement budget

10. Both UK and SK have established specific procurement targets for SMEs. The UK government aims to spend one third of its total procurement expenditure on SMEs' goods and services by 2022. By means of legislation, the SK government is even required by law to support SMEs in public procurement, and has marked the target

proportion for purchasing products from SMEs at 50% of the total amount of products sourced.

11. Establishing a procurement objective targeted at SMEs can on one hand encourage the government departments to recruit more SMEs as their suppliers, thereby changing their mindset in procurement; on the other, it also helps raise the awareness of SMEs towards public procurement, such that they may keep in view opportunities for trying out public procurement when circumstances are conducive.

12. Hong Kong may follow the practices of UK and SK, and set **a clear target in procurement budget so as to increase spending on procuring goods from SMEs. Government bureaux or departments, especially those needing routine procurements, should take the lead and set the value of contracted goods to be awarded as their targets.** This measure aims not only to steering government departments to properly use public funds, ensuring the best value for money spent on its procurement, and optimising the benefits, but also enabling SMEs to obtain timely and effective support and thus, promoting Government's policy direction for economic development.

Recommendation 2: Drawing up an SME procurement list

13. The Korean Small and Medium Business Administration cooperates with the SK government to draw up a list of SMEs pre-defined products, which is updated annually. The bidding contracts of pre-defined products are restricted to SMEs only. In 2018, the list included 204 products, including camera and audio-visual equipment, hygiene products, food, and household electronic appliances.

14. Drawing up such a list matches appropriately the estimation of government procurement spending and provides different

government departments with more specific procurement directions. As a result, SMEs may receive more dedicated support. The Government Logistics Department (GLD) is the central procurement agent, which purchases goods and services for government departments. The Centre recommends **GLD to set up an SME procurement committee, and invite SME representatives to formulate and timely update the list of 'Procurement of goods and services from SME-only'.** In general, **common items used by different government departments that can be open to only SME tenders may include stationery and furniture, electronic appliances, hygiene and sanitary products and services, and information and technology (IT) consultancy services.** This supportive measure helps achieve certain benefits. It not only ensures SMEs remaining competitive in the tender process but also provides greater incentives for SMEs to participate in bidding, as a result, SMEs' participation in government procurement will be broadened.

Efficiency-first

Recommendation 3: Enhancing the functionalities of e-platform

15. Both UK and SK have launched a convenient and user-friendly centralised electronic procurement system, wherein relevant tender information will be uploaded on the same platform. In UK, all public contracts above a certain threshold amount are legally bound to be listed on the e-platform, while the SK procurement online platform has been linked to the procurement systems of different government departments, which greatly increases the procurement efficiency and reduces the administration cost.

16. Electronic procurement achieves greater efficiency through streamlining the procurement processes, which facilitates SMEs whose

resources are often limited to participate in public tenders more easily. Although there is an e-Procurement Programme in Hong Kong, it has been criticised for being user-unfriendly, and enterprises tend to submit tenders by post instead. Moreover, the e-procurement platform has not been widely used among government departments. For example, only 10 departments have handled procurement activities through the Electronic Tendering System in 2018. The value of procurement processed via the e-Procurement Programme of the Office of the Government Chief Information Officer only accounted for 16.6% of the procurement exercises each not exceeding \$1.4 million. In view of the situation, **the Government should review the operation of the e-Procurement Programme, and examine possible measures to enhance its functionality and utilisation rate in the context of convenience for procurement departments and tenderers.**

Recommendation 4: Developing a communication mechanism between the Government and SMEs

17. As an effective support measure, the government should maintain close communication with SMEs of different trades. Both the UK and SK governments have established a communication mechanism to better understand the challenges faced by SMEs in public procurement participation and to provide timely and targeted support. The UK SME Panel regularly reviews its procurement policies with SMEs representatives, and helps the government to introduce and promote relevant strategies to SMEs. In SK, apart from working with SME representatives to draw up the list of procurement products, the government also

provides training and awards outstanding SME contractors, so as to enhance SMEs' procurement knowledge and their popularity.

18. The Hong Kong Government has so far not conducted extensive consultation with SMEs regarding procurement policies, and discussions with SMEs on this matter are rather limited. Henceforth, **the Government should strengthen communication with enterprises. GLD and relevant departments may organise procurement seminars, disseminate tender information, arrange talks on tendering procedures for government procurement, brief SMEs how to prepare and submit tenders and offer free training courses to SMEs.** Through communications and interactions, the Government helps raise SMEs' awareness towards public procurement, equip them with necessary technical knowledge, and gradually build up good working relationship and channels of communication with SMEs. It is expected that SMEs may attain the skills necessary to prepare the tender, and gain confidence when making a bid in government procurement despite the complex procurement process.

Conclusion

19. As an international financial, trade and transport hub, Hong Kong's economy relies not only on multinational corporations, but also on the contributions from the tens of thousands of SMEs. Indeed, SMEs are the indispensable economic driving force of Hong Kong. Looking ahead, the global economy is beset with uncertainties. As such, the Government should make full use of its huge public procurement demand, expand its list of suppliers, explore new sources of supply, with a view to engaging more SMEs in government procurement, and demonstrating its commitment to 'support enterprises, safeguard jobs'.

20. The Hong Kong Government's procurement policy initiatives have not been proactive in supporting SMEs in the past. While in recent years, the Government has incorporated 'innovation' into the procurement principles, with a view to encouraging more start-ups to participate in public procurement. These policy directions are definitely worthy of support and recognition. However, the Government should provide SMEs with greater support to encourage them to take part in public procurement by raising their capabilities, and make use of government tender as a means of enhancing the quality of public services as well as social benefits. Guided by the principle of value for money, the Government will be able to ensure effective use of public money which will mutually benefit the Government, enterprises and society. These changes need to be supported with a clear procurement objective and a specific implementation plan, together with the improvement of hardware and software support, so that the government procurement system can benefit the development of SMEs, and facilitate a sustainable socio-economic development for the city.

Table: Summary of Research Recommendations

Strategic Principles	Four Recommendations	Expected Outcomes
<p>Target-oriented</p>	<p>Setting a clear target in procurement budget</p>	<ul style="list-style-type: none"> • The Government may effectively use public funds in government procurement, provide timely support to SMEs, and promote the policy direction for economic development • Steering government departments to increase their budget estimates on procuring goods and services from SMEs and opening up business opportunities for SMEs
	<p>Drawing up an SME procurement list</p>	
<p>Efficiency-first</p>	<p>Enhancing the functionalities of e-platform</p>	<ul style="list-style-type: none"> • A user-friendly e-platform will facilitate users including both procurement departments and tenderers • Facilitating SMEs to have convenient access to information relating to public tenders, as well as equipping them with necessary technical knowledge and enhance their capability in public procurement participation
	<p>Developing a communication mechanism between the Government and SMEs</p>	