Report to

Senator the Hon Helen Coonan,

Minister for Communications, Information Technology and the Arts

introducing

the PRAGMATIC Program

(**P**rocurement **R**eform of **A**ustralian **G**overnment **M**ajor **A**cquisitions from **T**elecommunications and **I**T **C**ompanies)

developed by the

Industry Members of the

ICT SME Joint Industry Government Working Party:

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Report sponsored by the Australian Computer Society.

The Working Party notes with sadness the passing of Tony Benson who campaigned tirelessly for 40 years on behalf of Australian ICT SMEs. We share his vision of Australia being a world leader in ICT Industry. The Industry members of the Working Party thus have dedicated this report to the memory of Tony Benson.

February 2005

Executive Overview

At its inaugural meeting on 21 June 2002 the ICT SME[1] Joint Industry Government Working Party ratified its terms of reference as:

1. *"The Working Party is a collaboration between industry and government – its main objective is to further the growth of ICT SMEs through improving government procurement.*

2. *The major task of the Working Party is to advise on practical measures to facilitate improved access by SMEs to Commonwealth ICT contracts.*

3. *The Working Party will also:*
   - *identify solutions and measures to address inhibitors to SME participation in Commonwealth ICT contracts;*
   - *act as a communication channel between industry and government on ICT government purchasing issues;*
   - *act as a clearing house for SME facilitation activities; and*
   - *provide advice to SMEs and government agencies."*

In the intervening 2½ years some beneficial initiatives have been recommended and a few of these implemented, principally by DCITA. However it is impossible to measure the effectiveness of the implemented initiatives, in particular whether they have acted "to facilitate improved access by SMEs to Commonwealth ICT contracts". Given that the implemented initiatives do little or nothing to address most of the "inhibitors to SME participation in Commonwealth ICT contracts" it is clear that the "main objective" of the Working Party "to further the growth of ICT SMEs through improving government procurement" is yet to be achieved.

A major issue identified at the outset of the Working Party's activities is one on which no tangible progress has yet been achieved. This is that there are still no reliable published statistics as to what proportion of the overall Federal Public Service's ICT expenditure is with SMEs. This situation cannot be allowed to continue. It is the basis of the first key recommendation:

Recommendation 1: That the Federal Public Service implements accurate reporting of its ICT expenditure to monitor the proportion and nature of business flowing to SMEs.

Empirical and anecdotal evidence presented to the Industry members of the Working Party strongly supports their conviction that ICT SMEs, which make up over 99% of the industry in Australia, continue to receive less than 20% of the overall Federal ICT expenditure. If contract labour is removed from this figure it is less than 10%. This contrasts with the Government's own estimate that SMEs receive 55% of ICT expenditure across the entire Australian economy.

The Working Party identified some 20 distinct inhibitors to ICT SME participation in Federal Government contracts. This work also revealed that, regardless of the inhibitors' origins, they are now widespread throughout many if not most Public Service agencies. These inhibitors have combined to create a substantial barrier to Commonwealth ICT procurement from

[1] Throughout this document reference to ICT SME applies to an SME either Australian or overseas owned.

SMEs. This barrier has seen procurement from SMEs by the Commonwealth drop by over 50%, in the past decade.

The inhibitors cannot be successfully addressed by piecemeal solutions at the level of individual procurements, or even on an agency-by-agency basis. A more concerted approach is required, with changes initiated at the political level. The Industry members have termed this approach the 'PRAGMATIC Program' - **P**rocurement **R**eform of **A**ustralian **G**overnment **M**ajor **A**cquisitions from **T**elecommunications and **I**T **C**ompanies.

The following key recommendations seek to address the major inhibitors which restrict ICT SME participation in Federal Government business to relatively low levels, a situation that is only likely to be exacerbated as a consequence of the changes to Government procurement resulting from the introduction of the FTA:

Recommendation 2: That the targeted minimum percentage by value of Commonwealth Government purchases from ICT SMEs be increased to 50% to be achieved by 2010, with an immediate 25% set aside for Australian owned and controlled ICT SMEs, and an Australian equivalent of the US's SBIR and STTR programs to be introduced before the end of 2005.

Recommendation 3: That Commonwealth ICT requirements be divided into smaller contracts reducing risk and enabling ICT SMEs to bid for these business opportunities.

Recommendation 7: That ICT SMEs be facilitated to undertake Prime Contractor roles with Commonwealth agencies.

The body of this report addresses these matters in greater detail.

First Step Forward

It is clear from the points above that the Industry members seek concerted action to address the situation facing ICT SMEs in their dealings with the Commonwealth.

It is equally clear that the ICT SME Joint Industry Government Working Party has been singularly ineffectual in making any significant changes to improve the plight of ICT SMEs.

Industry members trust that the Minister accepts the proposition that these issues need to be addressed urgently and effectively. This work could then be progressed through the establishment of an appropriate senior-level implementation committee, with suggested membership as follows:

- Australian Government Chief Information Officer, AGIMO (as Chair);
- Deputy Secretary Information Economy, DCITA;
- Executive General Manager, AusIndustry;
- Two Deputy Secretaries of agencies with major ICT expenditures;
- A senior executive from a smaller agency; and
- Six ICT industry representatives (hence a balanced participation by Government and industry).

This approach is summarised in the following recommendation:

Recommendation 8: That a senior-level implementation committee be tasked to lift the level of ICT SME business with the Federal Government.

Urgency

A consequence of the enacting recently of the Free Trade Agreements (FTA) has been that there has been a surge in Commonwealth Government procurement activities as agencies retender contracts that under past practices were simply extended, or let on a sole source basis.

This adds urgency to the implementation of the measures proposed in this report. A significant delay would mean that ICT SMEs continue to be disadvantaged during this period of major turnover of Commonwealth ICT contracts.

This leads to the final key recommendation:

Recommendation 9: That in the light of wholesale review of Commonwealth ICT procurement contracts as a result of the introduction of the FTA – a process that has already commenced – the most urgent priority be given to the implementation of the recommendations of this report.

The Executive Overview has introduced the report's key recommendations. In addition the body of the report presents a further three supporting recommendations:

Recommendation 4: That current Software Engineering practices be adopted by Government for all ICT project procurements.

Recommendation 5: That an inclusive and consultative 3 stage procurement approach (pre-qualification, short-listing, quotation) be adopted.

Recommendation 6: That all procurements unable to short-list SMEs be reviewed with AGIMO before proceeding further and that procurements in which short-listed SMEs were unsuccessful are reported to AGIMO and DCITA, under CEO signature.

Benefits

Implementing these recommendations would undoubtedly achieve the major original goal of the Government's ICT SME Facilitation Package: to help SMEs "access a greater share of the Commonwealth [ICT] market". It would complement the Federal Government's funding of ICT innovation (for example, the $385 million committed to NICTA) by ensuring that innovative Australian products can succeed in the vital Commonwealth marketplace.

It would, moreover, provide further key benefits:

- Assist Government agencies to achieve enhanced value for money from a wider range of competitive and innovative solutions;
- Decrease the incidence and severity of Commonwealth agency ICT project failures by reducing the size of individual procurements and contracts;
- Lower the burgeoning ICT balance of trade deficit through utilising locally developed solutions and improving their export performance; and

- Contribute towards the growth of a world-class Australian ICT industry providing innovative ICT products and services that benefit the entire economy.

The vital significance of the ICT industry to this country was identified in DCITA's Framework for the Future report. The report concluded:

> *"World-class ICT capabilities (eg. in terms of skills and innovation) are fundamental to the ability to apply ICT in other industries and achieve broader national economic and social goals. A significant ICT production capability in the economy creates a symbiotic relationship between users and producers such that the level of sophistication of users is enhanced by the presence of producers of ICT goods and services. Without an industry producing such products and services, it would be more difficult for Australia to keep up internationally in terms of their adoption and use.[2]"*

The Industry members of the Working Party share this conviction.

SUMMARY OF RECOMMENDATIONS

Recommendation 1: *That the Federal Public Service implements accurate reporting of its ICT expenditure to monitor the proportion and nature of business flowing to SMEs.*

Recommendation 2: *That the targeted minimum percentage by value of Commonwealth Government purchases from ICT SMEs be increased to 50% to be achieved by 2010, with an immediate 25% set aside for Australian owned and controlled ICT SMEs, and an Australian equivalent of the US's SBIR and STTR programs to be introduced before the end of 2005.*

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Recommendation 7: *That ICT SMEs be facilitated to undertake Prime Contractor roles with Commonwealth agencies.*

Recommendation 8: *That a senior-level implementation committee be tasked to lift the level of ICT SME business with the Federal Government.*

Recommendation 9: *That in the light of wholesale review of Commonwealth ICT procurement contracts as a result of the introduction of the FTA – a process that has already commenced – the most urgent priority be given to the implementation of the recommendations of this report.*

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[2] Framework for the Future Steering Committee (2003) *Enabling Our Future: A Framework for the information and communication technology industry*, DCITA, April 2003, p19.

Final Report of the
Industry Members of the
ICT SME Joint Industry Government Working Party

1. Introduction

The Humphry Review of the Whole of Government Information Technology Outsourcing Initiative concluded in December 2000. The Review identified a number of shortcomings in major Commonwealth ICT procurements.

In response in part to the Humphry Review, the former Minister of Communications, Information Technology and the Arts, Senator the Hon Richard Alston, established in June 2002 an ICT SME Joint Industry Government Working Party (the Working Party) as part of the ICT SME Facilitation Package.

On its release the package was described as intended to help ICT SMEs:

- *"Access a greater share of the Commonwealth information and communications technology (ICT) market;*
- *Establish alliances with key players in the industry; and*
- *Locate the Government information they require".*

At its inaugural meeting on 21 June 2002 the Working Party agreed the following terms of reference:

- *"The Working Party is a collaboration between industry and government – its main objective is to further the growth of ICT SMEs through improving government procurement.*
- *The major task of the Working Party is to advise on practical measures to facilitate improved access by SMEs to Commonwealth ICT contracts.*
- *The Working Party will also:*
    - o *identify solutions and measures to address inhibitors to SME participation in Commonwealth ICT contracts;*
    - o *act as a communication channel between industry and government on ICT government purchasing issues;*
    - o *act as a clearing house for SME facilitation activities; and*
    - o *provide advice to SMEs and government agencies".*

This document, some 2½ years later, is a report compiled by the Industry members of the Working Party, from their understanding that the Government sincerely wished to address the problems that underlie the Working Party's terms of reference. The report has a particular focus on the main objective – "to further the growth of ICT SMEs through improving government procurement".

This is a report by Industry members only. The means proposed by Industry members to facilitate improved access by SMEs to Commonwealth ICT contracts involve changes in Government policy. While Government members were able to discuss the proposals they could neither endorse them nor take a lead role in their development.

Industry members of the Working Party have observed numerous past attempts by Governments to assist ICT SMEs. These have delivered very little. Along with many other executives of ICT SMEs, Industry members are aware of the lobbying power exerted by Multinational Corporations (MNCs) – and the ensuing policy rewards enjoyed by MNCs such as the Whole of Government Information Technology Outsourcing Initiative.

The Industry members of the Working Party understand that there is genuine interest within the Federal Cabinet to support the growth of SMEs in Australia. This Working Party report is a unique opportunity to communicate to Ministers the major concerns of ICT SMEs. The Industry members have therefore taken this unusual step of reporting independently of the Government members.

This is not to say that the Working Party has achieved nothing over 2½ years. A better understanding was gained of the many inhibitors[3] facing SMEs in their quest for Government ICT business. Some beneficial steps were taken. These are described in the accompanying document – the final report developed by the Government members of the Working Party.

However the Industry members of the Working Party unanimously agree that nothing of significance has been achieved over the 2½ years towards the major objective – furthering the growth of ICT SMEs through improving government procurement. Such is the determination that industry (through the Australian Computer Society) has independently funded the development of this report.

Worthwhile and practical initiatives developed by Industry members are presented below. There are others which would assist in addressing the inhibitors to ICT SMEs' success in winning Commonwealth business and which should be considered by the proposed Implementation Committee. Support at the political level is critically required to change the established Public Service processes and open up Government procurement to ICT SMEs.

2. ICT procurement statistics

Surprising as it may appear there simply are no reliable statistics that can identify the proportion of Federal Government ICT purchases sourced from SMEs. This was identified as an issue early in the life of the Working Party. Whilst the Working Party agreed that it needed to be addressed as a priority, it still remains unresolved. Public servants on the Working Party appear to believe that the issue is not very significant and cannot readily be resolved – consigning it to the 'too hard basket'.

Existing data is primarily based on the Gazette Publishing System (GaPS). Analysis has indicated that any GaPS figures are inherently unreliable. The GaPS system was designed for visibility of contracts, not for accurate reporting.

GaPS does not have a coding scheme to allow ICT purchases or SMEs to be readily distinguished. Several large contracts simply do not appear, and multi-year contracts are shown only in the year signed. Contract escalation, extensions and final cost variations are not included. A high proportion of SME contracts are actually labour hire with the principal trading as a company. Almost invariably totals of ICT procurements by agency in GaPS do not add up

[3] For further details refer to Attachment A, SME Inhibitor List, developed by an Industry member of the Working Party.

to independent estimates of individual agency ICT expenditure. In some cases over 90% of expenditure went unreported.

A DCITA research project is underway to determine the level of ICT SME participation in Federal Government ICT procurement. Regrettably the work was initiated without seeking input on the terms of reference from Industry members of the Working Party. Subsequent discussions with the consultants engaged by DCITA indicate that they will be reliant on GaPS data. It is highly unlikely that more reliable statistics will eventuate from this process.

From their own examinations of purchasing data Industry members are convinced that any figures derived from analysis of the GaPS system will underestimate MNC and total ICT spend and overestimate SME participation.

The only apparent means to get this information reliably is to require agencies to report on their usage of ICT SMEs directly, using their internal systems. Reliable statistics on the proportion of ICT business won by SMEs is essential to determine whether the usage of ICT SMEs by Federal agencies has increased due to the other measures implemented.

This leads to the first recommendation:

Recommendation 1: *That the Federal Public Service implements accurate reporting of its ICT expenditure to monitor the proportion and nature of business flowing to SMEs.*

3. ICT SME market share

The Industry members of the Working Party are concerned that the Federal Government buys only a very small proportion of its ICT requirements from SMEs[4], a far smaller proportion than is the case across the general economy.

All the evidence to date (including broad analysis of purchasing data by Working Party members) indicates that SMEs receive less than 20% of Federal Government ICT purchases. If contract labour is removed from this figure it is most likely to be less than 10%.

Statistics for the market share of SMEs in the general economy (incorporating the private sector, and 3 levels of government) are also difficult to verify. When former Senator Richard Alston – the then Minister for DCITA – launched the MULTIPLIERS initiative at the CEBIT Trade Fair in 2003 he observed:

> *"Multinationals are important players in the Australian ICT industry, accounting for about 45 per cent of market revenues."*

The corollary is that, across the general economy, over half (55%) of ICT purchasing is from non-multinational companies. The vast proportion are SMEs: the Australian Bureau of Statistics reported in 2000-01 that of the 22,000+ ICT specialist businesses in Australia, less than 1% (187) had 100 employees or more.[5]

[4] ICT SMEs are defined for major Commonwealth ICT contracts as "...a body corporate incorporated in Australia or New Zealand which, together with its related bodies corporate and Parent Entities, has an average annual revenue over the last four financial years of less than A$500 million." See http://www.finance.gov.au/ctc/toolkits/indevel/industry_development_definitio.html

[5] ABS 8126.0, Information Technology, Australia, 2000-01, 19 September 2002

There clearly exists an under representation of SMEs in Federal Government ICT purchasing compared with the economy as a whole (less than 20% compared with 55%). By contrast, in other countries Government is a leader in purchasing from SMEs, especially from indigenous firms.

The US Government has a Small Business Set-Aside Program, of prime importance to Congress in its consideration of government procurement performance. The program has a current minimum goal of 23% by value of procurements. Most importantly, participation is limited to American-owned and independently operated small businesses.[6]

The Office of Government Contracting within the US Small Business Administration plays a pivotal role in the Set Aside Program. The Administration and Congress stringently investigate any non-compliance, with reports ultimately brought to the attention of the President.

Industry member of the Working Party had earlier believed, under the new FTA arrangements, that programs such as the US Government's Small Business Set-Aside Program would no longer exclude Australian SMEs. This is not the case. The immediate concern of Australian ICT SMEs, given the current nature of US Government procurement, is that the vast majority of business for which they would have expected to be able to bid will be unavailable to them because of the US Government's Small Business Set-Aside Program.

Whilst the US Government has many programs to assist their SMEs the SBIR and STTR programs[6] in particular give very significant procurement advantages to the US small business ICT sector and similar programs are needed in Australia to ensure that the FTA operates on a level playing field.

It is therefore vital that the Australian Government puts in place similar targets and reciprocates the arrangements. Thus the overall goal for Australian government ICT procurement from independently operated SMEs (of any nationality) by 2010 should be increased to 50% in keeping with the 55% already achieved on a nationwide basis, and 25% of Australian government ICT procurement should be set aside for Australian owned and controlled ICT SMEs.

Given that the FTA is already in operation, the implementation of these recommendations needs to be an immediate priority.

> ***Recommendation 2:*** *That the targeted minimum percentage by value of Commonwealth Government purchases from ICT SMEs be increased to 50% to be achieved by 2010, with an immediate 25% set aside for Australian owned and controlled ICT SMEs, and an Australian equivalent of the US's SBIR and STTR programs to be introduced before the end of 2005.*

This measure is not a form of 'corporate welfare' to ICT SMEs as some might suggest. On the contrary, there are many sound reasons why engaging ICT SMEs will deliver better value for money than does reliance upon large corporations. The problem is that the inhibitors identified

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[6] Further details of this program, together other key programs to benefit indigenous SMEs – such as the Small Business Innovation Research Program (SBIR) and the Small Business Technology Transfer Program (STTR) – can be found at the following US Government websites and the websites to which they link: http://www.sba.gov/ and http://www.gsa.gov/Portal/gsa/ep/home.do?tabId=0.

by the Working Party (see Attachment A) currently create a major barrier to ICT procurement by the Commonwealth from SMEs. These matters are explored later in this report.

4. A recent history of Australian Government ICT Purchasing

Since 1996 the Government has outsourced many of its ICT services. In the belief that further savings would be achieved through economies of scale, individual agencies were aggregated into clusters or groups. The net result was that many of these business opportunities were only available to Multinational Corporations (MNCs). MNCs were the major beneficiaries of the outsourced contracts – and there were unintended adverse consequences for ICT SMEs.

The Humphry Review of December 2000 highlighted the problems associated with the aggregation of agency requirements. It stated:

> "*There was consensus that opportunities for SMEs were limited by the size of the clusters and this also limited the scope for innovation through niche providers and new technology… Agencies believed that significant opportunities for SMEs existed with smaller or niche agencies and that these opportunities were not accessible when these agencies were included as part of larger clusters*."[7]

The Review recommended that agencies, at the conclusions of their existing group contracts, be permitted to structure their future ICT infrastructure sourcing strategies according to what best suited individual agencies. In addition, the Humphry Review gave encouragement to 'selective sourcing' – through which agencies engage a range of suppliers on the basis of their ability to offer highest quality and greatest competitiveness in their area of specialisation.

Subsequent to the publication of the Humphry Review there has been some unwinding of the major outsourcing contracts. This phenomenon is not unique to the Australian Government. Governments and the private sector worldwide are using smaller, selective contracts. In the main the increased reliance on large contracts and therefore a very limited number of large suppliers has remained. The Commonwealth currently spends the majority of its ICT budget with less than 20 of the 22,000 ICT firms in Australia.

5. The results of large scale projects

The lesson learned in complex IT procurements is that economies of scale often prove illusory, that contracting with large MNCs certainly does not guarantee success.

Some recent Australian examples of the cost of failed projects are:

- As reported in Computerworld in September 2000: "According to ANAO reports, the implementation of the Whole-Of-Government Information Technology Infrastructure Consolidation and Outsourcing Initiative (IT initiative) has suffered from poor planning and higher-than-expected costs, presenting a myriad of resource and budgetary problems." Whilst the cost of these problems is not publicly available they are at least in

[7] *Review of the Whole of Government Information Technology Outsourcing Initiative*, conducted by Richard Humphry AO, December 2000, p37.

the hundreds of millions of dollars. Even the acquisition process for the Outsourcing Initiative had a cost escalation of over 200%;

- The major delays and budget blow out of well over $100 million in the Australian Customs Service's Cargo Management Reengineering project;
- The $17 million cost escalation and delays in the NSW Licence system;
- National Australia Bank's write down of $409 million in its IT systems[8];
- Sydney Water's write off of $61 million on its customer records system[8];
- RMIT's need to spend $11 million re-implementing a failed student enrolments system[8];
- The Crane Group's $28.8 million write down of new financial systems[8];
- As reported in Computerworld in August 2004 "Defence has already spent $80 million trying to fix the problems with the supply management system, SDSS (Standard Defence Supply System), and now plans to spend another $150 million to buy a replacement system." "The problems are so severe that they have left Defence unable to account for billions of dollars worth of assets, and unable to fund over $700 million worth of employee leave entitlements"; and
- The failure and budget blow outs of over 500% in the Austrade and DCITA website projects.

The 2004 CHAOS Report from US ICT industry analysts The Standish Group estimated that of US$255 billion spent on IT projects, over 20% was wasted: US$38 billion in lost value and US$17 billion in cost overruns.

The failure of IT projects is clearly an important issue. It is a risk to future Government ICT projects that must be addressed urgently.

6. Project risk reduction strategy

The Industry members propose a dual strategy: 1) smaller project sizes and 2) accelerated adoption of current Software Engineering practices.

Software Engineering offers a more scientific and structured approach to ICT projects. It makes them more manageable and increases their prospects of success. Software Engineering divides large (and small) projects into manageable activities each of which has short delivery cycles and appropriately defined outcomes. These outcomes become the inputs to the next set of manageable activities of the project. These sets of manageable activities lend themselves to continuous quality assurance, thus greatly reducing the risk of significant project failures.

This approach provides a continuous checkpointing process for the success of a project. It allows for the success of the project to be regularly monitored. It enables an assessment of how or whether to continue the project and if so, how to select suppliers for particular roles. As always an incumbent supplier has an undoubted advantage in tendering for future components of a project. However the agency has an enhanced ability to engage an alternative supplier in the event of dissatisfaction, or if a competitor offers superior value.

As noted above, there is a world-wide tendency towards smaller ICT contract sizes. This trend should be expedited in Federal Government ICT procurement through adopting procurement guidelines of suitable ICT contract values.

[8] *Software calamities come at a high price*, by Simon Hayes, The Australian, 30 November 2004.

Recommendation 3: *That Commonwealth ICT requirements be divided into smaller contracts reducing risk and enabling ICT SMEs to bid for these business opportunities.*

Indicative figures as to upper limits to ICT contract sizes are $3 million in value or projects of one year in duration. Note that these limits would not apply to low-risk, commodity purchases (such as a fleet of personal computers) where higher contract values are appropriate.

Breaking up large contracts into smaller ones alone will not resolve issues with ICT project overruns. The appropriate framework has also to be established.

Recommendation 4: *That current Software Engineering practices be adopted by Government for all ICT project procurements.*

7. Leveling the playing field

As identified above Federal Government agencies purchase a small proportion of their requirements from ICT SMEs. A primary cause is the attitude amongst Commonwealth purchasers that risk is minimised by buying from large suppliers. There is also the comfort that builds with established suppliers through social relationships developed, for example, through corporate hospitality – which takes many guises.

This form of purchasing complacency – comfort with the status quo – results in an erosion of value for the Commonwealth. This is exhibited in numerous forms:

- Expanding the scope of large IT infrastructure outsourcing contracts despite the very high prices charged for additional work;
- Restricting tendering invitations to existing suppliers to an agency, foregoing possible innovative approaches on the grounds of 'convenience'; and
- Denying smaller firms the chance to bid – or even to discuss requirements. This is commonly justified on the basis of a firm's purported lack of financial strength, and renders worthless the time and effort invested by such firms in securing Commonwealth Government Endorsed Supplier status (which includes a rigorous financial assessment).

This procurement conservatism is not only denying SMEs access to the Government's ICT market but it also is failing to deliver value for money to Government agencies.

A major shift in the thinking of Government purchasers is required – a shift to the approach of private sector purchasers who constantly chase better value through better solutions, who treat the return on every dollar as a precious asset.

Mere targets (proportion of procurement from ICT SMEs) are not enough to change the mindset of purchasers. Training would assist but not resolve the issue. What is required is strong motivation for Government purchasers to ensure that they consider ICT SMEs in their procurement processes.

8. Procurement approach

The proposed procurement approach builds upon existing practice. It consists of three stages:

- Pre-qualification;
- Short-listing; and
- A quotation/tendering stage.

Pre-qualification is provided through the Endorsed Supplier Arrangements (ESA) scheme. It is reasonable to require SMEs to invest the effort in securing ESA status if they wish to hold major contracts with Federal Government agencies. Pre-qualification also provides a mechanism for agencies to inform industry of the detail of their procurement plans through direct electronic communication.

Short-listing needs to be a swift and efficient process – such as an Expression of Interest. The short-listing step (and quotation step) should use the contractual provisions, financial assessments, etc. provided by ESA. Agencies should not introduce additional or duplicated requirements in their procurement processes. The process should not be overly onerous on suppliers whilst still allowing an agency to establish whether each firm has a suitable approach and credentials to undertake the agency's requirements.

Prior to short-listing there should have been effective early notification of the project. Agencies must allow time and ample opportunity for one on one interaction with potential suppliers. For agencies to deliver best value they must allow time for the industry to understand their requirements and to discuss these requirements with them.

The short-listing process should be completed efficiently – within days, or weeks for more complex procurements – and the short-list published. Firms that fail to make the short-list must be provided with an effective and timely debriefing clearly describing the reasons for their exclusion.

At this point there is a particular focus on the participation of ICT SMEs.

It is reasonable to expect that ICT SMEs will be represented on the short-list. ICT SMEs comprise numerically over 99% of Australian ICT firms. They represent the vast majority of Endorsed Suppliers in the ICT industry.

The absence of ICT SMEs from a short-list may simply reflect unusual circumstances or requirements. It more likely indicates the conscious or unconscious biases of the purchasing officers. An absence of short-listed SMEs should be a relatively infrequent occurrence. However it is unreasonable (and probably a fruitless exercise) to delay significantly a procurement process in the hope of remedying the situation directly.

Therefore for those procurements with no short-listed SMEs, it is proposed that purchasing officers prepare a report on the circumstances. To ensure that this process is accorded due significance, the agency Chief Executive should approve the report and forward it to AGIMO and DCITA. AGIMO should have a brief period, e.g. 14 days, to inform the Agency that it believes there are likely to be suitable SMEs and what action if any should be taken by the agency. (This report is also used by AGIMO to accumulate information about ICT purchasing problems and trends, and by DCITA to analyse emerging ICT industry weaknesses at the SME level).

Quotation/tendering is the final stage. Invitations would be sent only to those firms that were short-listed in the earlier process.

A reporting process should be followed for any procurement that results in a purchase from a non-SME to ensure AGIMO, DCITA and DISR are familiar with the areas where SMEs are unable to supply, so that consideration can be given to targeted industry development programs.

It should be noted that this approach is entirely consistent with the requirements of Australia's Free Trade Agreements.

Recommendation 5: *That an inclusive and consultative 3 stage procurement approach (pre-qualification, short-listing, quotation) be adopted.*

Recommendation 6: *That all procurements unable to short-list SMEs be reviewed with AGIMO before proceeding further and that procurements in which short-listed SMEs were unsuccessful are reported to AGIMO and DCITA, under CEO signature.*

9. Prime contractor roles

If Government implements these recommendations ICT SMEs will fulfil the role of prime contractor more often. A prime contractor is the corporate entity that contracts with a government agency, by contrast with a subcontractor who works under the direction of a prime contractor.

This is an important issue because the relationship with the government agency is 'owned' by the prime contractor. The prime contractor directs how work passes to its subcontractors. It is the primary beneficiary of any flow-on work. The prime contractor benefits from citing the Government as a reference. It is also in the best position to benefit from the development of any intellectual property.

The Federal Government's IT Infrastructure Outsourcing Initiative resulted in SMEs being included in contracts negotiated with agencies by the successful MNCs. MNCs were encouraged to do so by the Outsourcing Initiative's industry development requirements. There are many examples where SMEs were subsequently subjected to unreasonable pressure on rates and margins, and in some cases were simply not awarded promised business.

To an extent this is simply the way that business operates in the 'real world'. Those with power in a relationship will exercise it. It is naïve to expect otherwise.

The only practical remedy is to ensure that SMEs themselves are prime contractors with Government agencies. This will be facilitated through the measures identified above of:

- Dividing contracts into smaller sizes;
- Lifting the targets for ICT SME participation in Government business; and
- Requiring formal reports on procurements that failed to short-list or to contract with any SMEs.

The positive impact of these measures would not be restricted to the Australian marketplace. Time and again it has proven critical to ICT SMEs in their pursuit of export markets that they be able to demonstrate referenceable, direct relationships with Australian Governments agencies. Overseas purchasers value more highly references provided by Government officials by comparison with those provided by the executives of intermediary prime contractors.

Recommendation 7: *That ICT SMEs be facilitated to undertake Prime Contractor roles with Commonwealth agencies.*

10. Initial Step

The recommendations and approaches presented in this report are significant. They represent a substantial refining of Government policy in terms of Federal agency ICT purchasing. They provide not a prescriptive solution but a framework of approaches that will need to be refined. It is therefore necessary to establish a suitably high level committee to oversee the process of implementation of what the Industry members have termed the 'PRAGMATIC Program' - **P**rocurement **R**eform of **A**ustralian **G**overnment **M**ajor **A**cquisitions from **T**elecommunications and **I**T **C**ompanies.

Such a committee would require agencies to be represented at higher levels of authority than was the case with the Working Party. Arguably the level of agency representation dictated the strategic level at which the Working Party was able to operate, and the nature of issues and solutions it was able to consider.

To ensure a balanced approach the implementation committee would need to have representatives of relevant policy Departments, of major ICT purchasers, and also of agencies with lesser ICT requirements. The committee should also have an equal ICT industry representation, composed of ICT SME executives and representatives of ICT industry peak associations.

The suggested membership of the committee is as follows:

- Australian Government Chief Information Officer, AGIMO (as Chair);
- Deputy Secretary Information Economy, DCITA;
- Executive General Manager, AusIndustry;
- Two Deputy Secretaries of agencies with major ICT expenditures;
- A senior executive from a smaller agency; and
- Six ICT industry representatives (from ICT SMEs and peak ICT industry organisations).

The early focus of the implementation committee would be:

- To establish the broad-ranging vision of what is to be achieved;
- To recommend agency incentives to encourage the achievement of the desired outcomes;
- To lift the awareness of agency ICT purchasers (and/or their advisers) of the role, value and importance of SMEs; and
- To institute effective monitoring processes to measure progress.

This is summarised in the final recommendation:

Recommendation 8: *That a senior-level implementation committee be tasked to lift the level of ICT SME business with the Federal Government.*

11. Benefits

The measures described in this report are, as required by the terms of reference, designed to further the growth of ICT SMEs operating in this country. Clearly these measures, if implemented successfully, will deliver benefits to ICT SMEs.

However Industry members of the Working Party are convinced that benefits will also flow to Government agency purchasers as well as to the broader economy.

Government purchasing officers will more actively consider the solutions proposed by ICT SMEs. The break from the relatively complacent approach of purchasing from the large, familiar and generally poor value MNCs will result in solutions offering greater innovation. It also will achieve better outcomes with lower whole of project life costs – providing greater returns from the use of taxpayers' funds.

Better value in part will derive from ICT SMEs directly contracting with agencies. At the moment SMEs commonly can only supply government agencies through MNC prime contractors – such as the outsourcing firms. These firms apply a substantial price uplift for a simple pass-through of products or services. There is little or no added value to the government purchasers that results from this 'middleman surcharge', and benefits are sometimes lost because of the need for communications to flow through a third party.

Reducing Commonwealth agency ICT projects and contracts into more manageable sizes will lower overall agency risk. This will result in fewer ICT projects failures.

Increased consideration of innovative solutions by Commonwealth purchasers directly complements the Government's investment in science and innovation such as NICTA. One of the greatest challenges to Australian innovation has been the commercialisation of new technologies – in particular encouraging market acceptance of a new technology. Conversely many successful overseas ICT companies have benefited from early government adoption of their solutions. Of course Government agencies cannot be forced to pioneer new technologies. However active consideration by government purchasers of innovative approaches can only increase the return on the Government's considerable investment in science and innovation.

In turn, this will assist in addressing Australia's ICT balance of trade deficit. In the year 2002-03 ICT exports were worth $5.3 billion. Total ICT imports cost $19.7 billion. Thus in 2002-03, Australia's ICT trade deficit stood at $14.4 billion, representing a compound annual growth of 7.4% since 1993-94.[9] This is of particular significance granted that Australia's overall trade position is declining.

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[9] Sourced from *Australian ICT Trade Update 2003* by Professor John W. Houghton of the Centre for Strategic Economic Studies, November 2003, pI.

The growth of the ICT trade deficit is an indicator of a decline in the local ICT industry. Some argue that the ICT deficit underpins productivity gains in other sectors. However DCITA's Framework for the Future report concluded:

> *"World-class ICT capabilities (eg. in terms of skills and innovation) are fundamental to the ability to apply ICT in other industries and achieve broader national economic and social goals. A significant ICT production capability in the economy creates a symbiotic relationship between users and producers such that the level of sophistication of users is enhanced by the presence of producers of ICT goods and services. Without an industry producing such products and services, it would be more difficult for Australia to keep up internationally in terms of their adoption and use.[10]"*

The Industry members of the Working Party maintain that the measures proposed would both contribute to reducing the ICT trade deficit as well as build this country's ICT capabilities – in skills and innovation.

12. Conclusion

This report is the culmination of the Industry members' participation in the Working Party over the past 2½ years.

The Working Party's terms of reference stated:

> *"The major task of the Working Party is to advise on practical measures to facilitate improved access by SMEs to Commonwealth ICT contracts."*

As the Working Party's activities wind up, the Government should not conclude that significant progress on this task has yet been achieved. It has not.

Whilst it is clear that urgent action is required, the immediacy of this urgency is made even more vital by the implementation of the FTA and the requirement that all Commonwealth contracts be reviewed, a process that has already commenced. If action is not taken immediately it could be years before SMEs again have access to major areas of Commonwealth ICT procurement.

Recommendation 9: *That in the light of wholesale review of Commonwealth ICT procurement contracts as a result of the introduction of the FTA – a process that has already commenced – the most urgent priority be given to the implementation of the recommendations of this report.*

Industry members strongly urge that the measures outlined in the report be adopted by Government not only in the interests of ICT SMEs but also in pursuit of better Federal agency purchasing outcomes, and for the overall benefit of the Australian economy.

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[10] Framework for the Future Steering Committee (2003) *Enabling Our Future: A Framework for the information and communication technology industry*, DCITA, April 2003, p19.

Attachment A

ICT SME Joint Industry Government Working Party
ICT SME Inhibitor List

A list of inhibitors or barriers faced by SMEs when trying to sell ICT to Government.

1 Background and Introduction

This report arises out of work done by members of a Joint Industry Government Working Party (WP), set up by the Federal Government. The task of the WP is to examine whether there are factors inhibiting the purchase by the Government of Information and Communications Technology (ICT) products and services from Small and Medium-size Businesses (SMEs), and if so to find and recommend ways to remove those inhibitors.

The comments here are specific to the WP's work related to ICT purchasing by the Federal Government from SMEs. We concentrated on departments and agencies subject to the Financial Management and Accountability Act (FMA), since these are primarily the ones spending public money. To date, we have excluded Defence (which is in a category of its own) and agencies subject to the Commonwealth Authorities and Companies Act (CAC), which are largely autonomous. Many of the comments are probably applicable to other kinds of purchasing, other levels of government and other prospective vendors.

2 Inhibitors

During the process of gathering information for the report we identified a number of inhibitors. Sometimes it was not possible to obtain proof that these things are happening, for reasons that will become clear. However, they are common knowledge amongst both Government purchasers and those who sell to Government. The net effect is clear: they disadvantage SMEs.

Many individual factors depend to some extent on other factors. They are shown underlined thus: <u>Outsourcing</u>.

The <u>Gazette</u> is the Commonwealth Purchasing and Disposals Gazette, available online at http://www.contracts.gov.au.

The CPG is the Commonwealth Procurement Guidelines, available online at http://www.finance.gov.au/ctc.

2.1 Outsourcing

Since 1998 the Government has outsourced many of its ICT services. Individual agencies were aggregated into clusters in order to increase the size of the individual contracts, and five contracts totalling $1.2 billion were actually let. The process was halted when it became clear that the mooted cost savings were largely illusory, but by then it was too late. There was a substantial shift of business towards MNCs, which has not been reversed.

The original outsourcing event was an inhibitor to SME participation, because of <u>Contract Size</u>. Each of these outsourcing contracts now acts as an inhibitor in its own right, since the contracts remain large in size, and because of <u>Incumbency Bias</u>. Each contract is also subject to <u>Contract Escalation</u>.

2.2 Incumbency Bias

It is quite natural for Agencies that are satisfied with their current supplier to prefer to continue a contract when it expires rather than risk the disruption of a new supplier. Government policy mandates purchase by open tender in the interests of transparency, probity and best value for money, but many agencies write those tenders in such a way that the incumbent is heavily favoured.

At least 80% by value of existing ongoing contracts are held by MNCs. Incumbency bias thus favours MNCs.

Incumbency bias acts as an inhibitor to SME participation largely because it entrenches the status quo. The more agencies are able to keep the incumbent and avoid a genuine open tender the greater the disadvantage.

This inhibitor is associated with Contract Aggregation, Contract Escalation, Tender Complexity, and other factors.

2.3 Contract Size

It is a simple fact that SMEs do not have the resources or skills to take on very large contracts. If contract sizes are large, SMEs are automatically excluded.

In a few cases, contracts are large because of the nature of the task, and could not readily be subdivided. It is reasonable for these to be let to MNCs, who could then be required to subcontract to SMEs.

In other cases, contracts could be broken down into functional pieces of a size that SMEs could bid for them. This is rarely if ever done. Even in cases where the contract as a whole is large, an SME could be permitted to bid for a part of the contract. This is not done either.

Every large contract acts as an inhibitor to SME participation. The larger the contract, the greater the SME disadvantage.

This inhibitor is associated with Contract Aggregation, Tender Complexity, Risk Aversion, Requirement for Vendor Financial Strength, and other factors.

2.4 Contract Aggregation

Agencies, particularly the larger ones, have a great degree of flexibility as to whether to let a small number of large contracts or a larger number of small ones.

Unfortunately, in many cases agencies aggregate multiple independent projects into single large contracts, which are then inevitably let to a MNC. Smaller individual contracts could be offered to individual SMEs, but this opportunity is lost.

Every large contract created by contract aggregation acts as an inhibitor to SME participation, and the more the aggregation, the greater the SME disadvantage.

This inhibitor is associated with Contract Size, Risk Aversion, Requirement for Vendor Financial Strength, and other factors.

2.5 Contract Escalation

Many contracts are extended without a further round of tendering. In some cases this allows unrelated work to be tacked onto the end of an existing contract. Outsourcing contracts are particularly prone to this. The net effect is that contract size as reported to the Gazette often substantially understates true contract cost.

Contract escalation more commonly benefits the incumbent MNC than it does SMEs, and thus acts as an inhibitor to SME participation.

This inhibitor is associated with Incumbency Bias, Contract Size, Risk Aversion, Requirement for Vendor Financial Strength, and other factors.

2.6 Tender Complexity

The basic concept of open tender is central to Government purchasing, but over time, tender processes have become more complex and more demanding. There is a lack of formal guidelines to ensure that smaller contracts are let using a simplified process, and a lack of a review process to ensure that the process itself delivers value for money.

This process represents a net cost to Government. It has been calculated that in some cases, the total cost to all the companies involved in submitting bids is greater than the amount the winning bidder will receive.

The net effect is that the bidding process, ESA, GITC and other complex procedures place significant hurdles in front of all vendors. Since the impact is greater on small vendors than large, they act as a significant inhibitor to SME participation. The more complex the process the greater is the disadvantage to SMEs.

This inhibitor is associated with Risk Aversion and Lack of Purchasing Skill.

2.7 Tender Bias

The intention of an open tender is ultimately to purchase from the vendor who can supply on terms generally most favourable to the Government, and to satisfy various goals related to transparency and probity. A secondary goal is do so at minimum cost to all parties.

Many agencies already have a good idea which vendor or vendors they favour, and include contract conditions intended to admit those favourites, but otherwise to minimise the number of applicants. Frequently the contract terms specify vendor financial strength, insurance or other factors unrelated to what is to be supplied. In doing so they may preclude a bid from an SME, even where it could be clearly shown that the SME could supply on terms more favourable than the vendor ultimately selected.

Tenders that include such terms are a powerful inhibitor to SMEs, since they preclude SMEs from bidding. The more that tenders include terms preventing SMEs from bidding, even where they could ultimately supply the goods or services required, the greater the SME disadvantage.

This inhibitor is associated with Agency Bias, Risk Aversion and Lack of Purchasing Skill.

2.8 Risk Aversion

Government purchasers have always been risk averse, and there are grounds to believe they are becoming more so. There is often a feeling that the safest course of action is to choose the largest, financially strongest company to do business with, and MNC Lobbying naturally supports this view.

The limited available evidence does not justify this course of action. The most massive project failures with the largest cost overruns have been exclusively managed by MNCs.

Decisions made by risk-averse Government purchasers act as an inhibitor to SME participation. The more that view is reinforced by MNC Lobbying and other factors, the greater the SME disadvantage.

This inhibitor is associated with Requirement for Vendor Financial Strength and Lack of Purchasing Skill.

2.9 Requirement for Vendor Financial Strength

The Government requires its contract bidders to carry a high level of insurance, and also prefers to deal with companies that are of such a size that they can be sued if circumstances warrant. The ESA imposes stringent requirements in terms of vendor financial strength, but some agencies set the bar even higher.

In many cases SMEs are required to satisfy requirements and carry insurance out of all proportion with the size of any contract they might win. This is a significant financial burden, especially to smaller SMEs.

The requirement for vendor financial strength and the requirement to carry insurance both act as inhibitors to SME participation. The more stringent the requirement, and the greater the degree to which it is out of proportion to the size of contract to be won, the greater the SME disadvantage.

This inhibitor is associated with Risk Aversion and Lack of Purchasing Skill.

2.10 De-emphasis of Price

The core principle to guide purchasing decisions is Value for Money. The presumption is that an agency should choose the lowest bid, but may pay a higher price if other factors (such as risk management) require it. There is considerable evidence that agencies frequently pay the higher price, but often do not get Value for Money when they do so.

It is reported that some contracts contain an allowance for MNCs to charge higher prices, to compensate them for their higher overheads. Clearly this works against lower cost SMEs.

A reduced emphasis on lower prices (or explicit tolerance of higher prices), together with a greater emphasis on other factors, act as an inhibitor to SME participation. The greater the degree of price insensitivity and emphasis on other factors, the greater the SME disadvantage.

This inhibitor is associated with Requirement for Vendor Financial Strength and Lack of Purchasing Skill, but see also Over-emphasis on Price.

2.11 Over-emphasis on Price

When purchasing ICT equipment many government departments quite rightly negotiate hard for the best price, but in doing so they may lose sight of Value for Money. SME's acting as resellers or system integrators can add significant value, but are unable to compete on price alone when agencies purchase directly from MNC suppliers. If they do retain the sale it may be on wafer-thin margins, with the MNC making the bulk of the profit.

The inability to achieve reasonable margins or the loss of sales due to a focus on price alone act as an inhibitor to SME participation. The greater the degree to which agencies focus on price and ignore the benefits of other added value, the greater the SME disadvantage (but see also De-emphasis of Price).

2.12 Lack of Purchasing Skill

Purchasing is not a highly regarded occupation in the Public Service. Few individuals stay in the job long enough to get good at it, so many purchasing decisions are made by novice buyers facing expert sellers. Given this situation and the strong risk aversion, it is not surprising that many purchasers take the view that deciding in favour of a MNC is the safe option.

Lack of purchasing skill is typically associated with selection of a MNC, and thus acts as an inhibitor to SME participation. It seems that the greater the lack of purchasing skill, the greater the SME disadvantage.

This inhibitor may be associated with Risk Aversion, Requirement for Vendor Financial Strength and Contract Aggregation.

2.13 Agency Bias

It is clear that some agencies simply do not wish to deal with SMEs. Inspection of their record in letting contracts as revealed by the Gazette clearly shows this bias, even where it cannot show exactly what the cause might be.

Agency bias acts as a powerful inhibitor to SME participation. Clearly the greater the degree of bias, the greater is the SME disadvantage.

This inhibitor may be associated with Risk Aversion, Requirement for Vendor Financial Strength and Contract Aggregation.

2.14 Compliance with Standards

When purchasing ICT equipment many government departments quite rightly insist on compliance with relevant standards, such as in the areas of safety, electromagnetic emission and accessibility. Fully imported equipment supplied by MNC's is routinely accepted on the basis of vendor certification, or the requirement is waived. SMEs who attempt to add value or reduce costs by sourcing alternative components often must carry the full cost of obtaining certification.

The additional cost of certification acts as an inhibitor to SME participation. The greater the degree to which SMEs have to carry the cost of certification while MNC's are accepted on the basis of vendor certification or the requirement is waived, the greater is the SME disadvantage.

2.15 ID Requirements

At various times the Government has obtained substantial trade-offs in the form of offsets or SME subcontracts for its ICT purchases. In letting the 5 major outsourcing contracts, the Government claimed some $280 million of exports or import replacement and that 30% of contract value would go to SMEs through subcontracts. It is far from clear that these objectives were achieved.

MNCs have routinely failed to achieve ID targets, and have lobbied vigorously for many years to have them dismantled. At mid-2002, virtually all mandatory ID requirements were dropped. This source of work for some SMEs is now lost.

ID requirements as a policy act as an inhibitor to SME participation when they replace more valuable direct contracting by less valuable Subcontracting. This inhibition is lessened or absent if they allow an SME to win subcontracting business that it could not win as direct contracts.

ID requirements that are not enforced are a powerful inhibitor to SME participation since they replace valuable direct contracting by nothing.

ID requirements that have been dismantled mean that SMEs that have specialised in subcontracting for MNCs are now disadvantaged.

This inhibitor is associated with Subcontracting.

2.16 Subcontracting

Government contracts let to MNCs that contain ID obligations can be a mixed blessing for SMEs. Many MNCs treat SME subcontractors badly. They give them less work, on a shorter term, at lower rates and with higher risk obligations than would be reasonable or had been previously agreed, and always on terms worse than they obtain directly from the Government.

ID-related subcontracting acts as an inhibitor to SME participation when SMEs are prevented from winning business in their own right, are deprived of profit, are hurt by a project failure outside their control, or do not benefit from testimonials and referrals when a project succeeds.

This inhibitor is associated with ID Requirements.

2.17 Devolution

Government structure is now far less centralised than it was, with individual agencies responsible for delivering outcomes within an allocated budget. A consequence is that agencies can adopt an anti-SME stance with no effective means to monitor or control them. Both Government policy and the CPG contain significant pro-SME language, but without enforcement it is ineffective.

Devolution acts as an inhibitor to SME participation when individual agencies exhibit Agency Bias and other types of behaviour with no effective means of influencing them or controlling them.

This inhibitor is associated with Agency Bias, Contract Aggregation, Contract Escalation, Lack of Purchasing Skill and others.

2.18 MNC Lobbying

The MNCs are well-resourced, highly skilled and highly motivated to win business. They have full time executive and sales staff located in Canberra, they attend all the functions, they contribute to party funds and they engage lobbyists. Little wonder that they are successful over time. It is quite likely that several of the other shifts in emphasis listed here were initiated or at least supported by MNC lobbying.

MNC lobbying acts as a powerful inhibitor to SME participation. The greater the amount of lobbying accepted by Government policy-makers and agencies, and the greater disparity between this and the very limited efforts of SMEs, the greater is the SME disadvantage.

This inhibitor is associated with Agency Bias, Contract Aggregation, Contract Escalation, Risk Aversion, Requirement for Vendor Financial Strength and other factors.

2.19 Lack of Statistics

Many of the inhibitors listed here are hard to substantiate, and there is one good reason for this. The Government simply does not capture the hard data that would enable it to determine the true level of ICT purchasing from SMEs, to ascertain whether each of these inhibiting factors exists or not, and to measure what its relative contribution might be.

The lack of statistics acts as an inhibitor to SME participation, to the extent that policy-makers and agencies believe that the situation is not as bad as it really is. The greater the disparity between the published figures and the real situation, the greater is the SME disadvantage.

2.20 Anti-Whistle Blower

Many instances of bias, unfair practices, waste and even disaster were reported to us, but on condition we named no names. It is clear that in a small town like Canberra, you don’t complain about the referee if you want to keep playing the game. Companies that complain about the process or the way they’ve been treated do not get further Government business (but again, that is hard to prove).

The anti-whistle-blower attitude acts as an inhibitor to SME participation, to the extent that policy-makers and agencies are not fully informed about the gravity of the situation and the extent of problems, and do nothing to correct it. The greater the degree to which SMEs cannot raise their concerns but MNCs can raise theirs (through MNC Lobbying), the greater is the SME disadvantage.

3 Summary

The inescapable conclusion is that SMEs attempting to sell to Government face a veritable wall of inhibitors and barriers, which few will be able to penetrate.

It is equally apparent that removing any single barrier will not solve the problem, and that the problem of low SME participation does not lie with SMEs themselves.

If the Government is serious about encouraging SME participation, it will require a broad-based strategy with elements of policy, education, monitoring and enforcement directed at the public service and the Government itself to make it happen.