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Towards gender smart public procurement



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This policy brief is the result of an extensive **W20** consultation process on Public Procurement. In addition to discussions at various workshops, we have also received detailed written comments from members of international organizations, government representatives, foundations, corporations and think tanks. While these contributions provide the substance of this policy brief (and are most gratefully acknowledged), the coordinating authors are responsible for this summary of a wide-ranging set of views.

Abstract

+ Public procurement represents 10% to 15% of GDP in many countries, according to the World Trade Organization and the Peterson Institute for International Economics, and the percentage is higher in some countries. The annual worldwide public procurement market is estimated to be \$9.5 trillion US dollars, with women entrepreneurs receiving only an estimated 1% of this amount.¹ Increasing spend even by a single percentage point can create market opportunities amounting to billions of dollars. Government procurement policies provide a strong lever to promote inclusive growth and gender equality, and to reduce poverty. We call on G20 leaders to promote transparency, awareness-raising, and training of both government officials as well as women-owned and women-led companies (mostly small and medium enterprises); to increase the percentage of public procurement contracts for women by a **minimum** of 10% by 2025; and to monitor progress, both annually and over time.

Challenges

While women's access to public procurement has become a focus area for economic growth in a handful of countries, few countries have addressed this issue so far. This is reflected in the disparity of contracts awarded, where women-owned and women-led companies only benefit from approximately 1% of the estimated annual \$9.5 trillion USD worldwide public procurement market.

These markets offer a unique opportunity to reshape the economic landscape. With governments acting as both regulators and clients of the private sector, policies can create direct results that generate rapid progress. When combined with strategic vision, this interplay can boost select components of a nation's economy, targeting both demographic segments, such as women, and specific industry sectors. By directly addressing the fundamental challenges impeding women entrepreneurs from accessing public sector contracts, governments can harness an underutilized resource as a catalyst to impact economic growth, competitiveness and innovation capacity.

The challenges are wide-ranging: definitional issues dealing with the percentage of female ownership, the core capabilities of women-run businesses, awareness of the opportunities, enforcement of targets and goals, and ensuring that government procurement officials are engaged in supplier diversity initiatives. Training and capacity-building interventions will be required in some locations, as will training and gender sensitization of government procurement officials.

Challenges in Defining Women-owned and Women-led Businesses

One important issue that affects public procurement policy is the definition of a woman-owned business. Unfortunately, a profusion of definitions are used to describe different percentages of female ownership, management and control – sometimes even in one country – and there is no commonly accepted global definition.

In the United States, for example, the term “women's business enterprise,” or WBE, refers to a company that is at least 51% owned, operated and managed by one or more women. This definition is accepted by more than 1,000 US corporations, as well as many states, cities and other entities. In US federal procurement, the preferred term is “woman-owned small business,” or WOSB, which also requires 51% ownership, management and control.

Certification that a US firm meets these requirements as a WBE or WOSB, is provided by third party organizations. Groups that provide this certification include the Women's Business Enterprise National Council (WBENC) and National Women Business Owners Corporation (NWBOC) in the US, and WEConnect International, which provides certification in a number of countries. WEConnect's corporate members are primarily US multinational corporations that also source from certified WBEs in other countries. WEConnect provides certification of WBEs in more than 25 countries, including these W20 countries: Australia, Brazil, Canada, China, Germany, India, Indonesia, Japan, Mexico, Nigeria, South Africa, Turkey, the United Kingdom and the United States.)

Internationally, "woman-owned" can be defined to mean 51%; 50-50 ownership, or a much lower percentage that is also sometimes described as "woman-led". These definitions often also require a woman to have a title such as CEO, President or Managing Director. Additional terms are used in various countries. Australia, for example, has used the term "woman business operator" to refer to a female owner manager of an incorporated or unincorporated enterprise, without requiring a specific percentage of ownership.²

For purposes of financial investment, the International Finance Corporation considers that an enterprise qualifies as a "woman-owned enterprise" if it meets the following criteria:

(A) \geq 51% owned by woman/women; OR

(B) \geq 20% owned by woman/women; AND (i) has \geq 1 woman as CEO/COO/President/Vice President; AND (ii) has \geq 30% of the board of directors composed of women, where a board exists.

The International Trade Centre (ITC) is a joint agency of the UN and the World Trade Organization in Geneva, whose Women & Trade program has done pioneering research and advocacy since 2013 on getting women's engagement with public procurement onto the global policy agenda.³

ITC recognizes the complexity of defining women-owned and women-led businesses, and understands that various countries and institutions have preferred percentages of ownership — in accordance with national efforts to get women-owned businesses to engage with the global value chain, whether focusing on corporate or public procurement or international trade.

To address these variations in definition, it is recommended that an international group coordinate on trying to identify and agree upon common terminology, with the potential for developing certification standards around one or more definitions. This is an issue that the International Trade Centre has been discussing with its global stakeholders. We support this effort and believe it to be a good process to understand differences and to come up with common terminology.

Public Procurement Markets Have Unique Barriers to Entry

Public markets act differently from the private sector, with distinct considerations that span across the process. Public procurement faces limitations in the flexibility of spending and the methods of funding. For instance, ear-marking money can occur in the public sector, but public sector budgets are more likely to be delegated preemptively, which in turn makes it harder to alter the timing or distribution of funds.

Private procurement also has a centralized focus on driving revenue. This typically results in less sustainable methods of procurement, and less of a focus on social responsibility. Within the public sector however, there are expectations that procurement typically has a larger mandate of adding social value to a supply chain.

Getting women into public procurement markets must address the risks, costs, and often the steep learning curve involved, as securing contracts requires an understanding of complex regulations and protocols. The most significant barriers for women-owned businesses as well as SMEs in general are the lack of awareness of the opportunities, and the difficulty of accessing the procurement processes for national government contracts.

Going after contracts is also expensive. Accounting for both time and money, all active small business contractors in the United States during 2012 invested an average of \$128,628 in pursuing federal procurement contracts.⁴ These public procurement expenses are only recouped with success, an outcome which is by no means guaranteed for new entrants – neither male nor female-led SMEs. Without well-tailored policy prescriptions, many potential contractors will either stall out in the early stages or not get started at all. This is a greater problem for women-owned and women-led firms, given that they are newer entrants to the public procurement marketplace and are often in sectors.

Eligibility for Goods and Services Matters

Establishing broad eligibility for goods and services included within Women-Owned Business (WOB) contracting targets is an important component of success. This is because top-down contract fulfillment targets are unlikely to be effective unless matched by bottom-up decisions within the contracting agencies to ensure that WOB contracting options are reviewed frequently.

In the United States, for example, WOB set-asides initially only covered contracts in four industry sectors. The most dynamic growth for WOB public procurement contracting took place after 2011, when this was expanded to include 113 industry sectors.

The Number of Contracts Awarded Is Not Equal to the Dollars Awarded

While having women-owned businesses fulfill government contracts is a primary goal of public procurement capacity-building initiatives, it is important to realize that various types of government contracts are not all equivalent to one another. Furthermore, national level commitments can end up being counter-productive if local/regional decisions are not supportive of diverse supplier policies.

For example, looking at two different classes of federal contracts in the United States during 2012: “The average purchase order award was worth only 12% of the average delivery order award,” according to the National Women’s Business Council.⁵ This means that it is possible to have a large number of WOBs filling contracts in procurement markets without the total dollar figures being nearly as robust as might be assumed. Thus, both the total number of contracts and the dollar-amount of individual contracts will need to be counted, in order to accurately depict the impact of a public procurement program focused on expanding opportunities for women-owned and women-led micro, small and medium enterprises (MSMEs).

Good Practices

Examples developed over the last decade provide guidelines for structuring a highly effective public procurement program that actively seeks women suppliers. The critical components required to achieve success are political will, targeted policy and administrative commitment, advocacy and coalition building, plus the deep engagement of the women’s business community. Three successful case studies to emulate include Chile, Kenya and the United States. See Annex below.

Proposal

We call on the G20 leaders to extend new growth opportunities to women’s businesses by focusing on a 5-point approach.

First, we call on G20 leaders to recognize the existing gap in access to public procurement between women-owned and women-led companies compared with firms owned by men, and to note the importance of reducing this gap in order to achieve gender parity as well as sustainable and inclusive growth.

Second, we call on G20 leaders to acknowledge that action is needed to reduce this gap, and to set the objective of a minimum 10% increase in both the number and size of government contracts awarded to women-owned and women-led businesses by 2025. Progress should be tracked, beginning in 2018, and reported on annually at the G20 meeting.

Third, in order to achieve this goal, we call on G20 leaders to initiate a broad effort to provide equal opportunities in public procurements through:

- + Increasing transparency in disseminating information about public procurement opportunities, procurement rules and processes in order to increase competition and put all organizations on a level playing field, including MSMEs and women-owned and women-led firms.
- + Increasing contract sizes that are offered to MSMEs and women-owned and women-led firms. At the same time, refrain from “bundling” almost all contracts and making them so large and requiring so many skillsets, that almost no smaller enterprises can (1) get the financial backing or (2) coordinate the diverse skillsets and/or teaming partnerships that are required to successfully execute on the program. Linking women’s businesses to local and state/provincial procurement opportunities may also increase contracting opportunities of an appropriate size.
- + Engaging with women-owned and women-led businesses and their associations for awareness raising, curriculum development and training, and coalition building, potentially in collaboration with trade associations, chambers of commerce, universities or other relevant entities.
- + Facilitating training for government procurement officials to ensure that they understand updated policies - and country-wide prioritization - of fair and transparent engagement of women-owned and women-led businesses.

Fourth, we call on G20 leaders to engage on technical and operational issues, including identification and certification of women-owned and women-led businesses, as well as continued research and monitoring of the process. There are several examples of gender auditing and certification entities that can ensure transparency of company leadership and program execution. The integrity of these public procurement programs is of utmost importance to ensure momentum and to create a sea change. A firm and enforced assurance process of business models is paramount to the underpinning of an effective women’s business public procurement program.

Fifth, we call on G20 leaders to promote and participate in an international effort to identify and agree upon common definitions of women-owned and women-led businesses, with the potential for developing certification standards around certain agreed-upon definitions.

Case studies from across the G20 - in addition to the ones on Chile, Kenya and the United States presented in the Annex - as well as developing markets in Sub-Saharan Africa, Latin America and the Caribbean, and Asia, can provide specific details and successful program elements.

By building the economic capacity and growth of women-owned and women-led businesses, G20 countries will reduce poverty, enable businesses to move up the global value chain, and create jobs for their citizens. In addition, they will promote social equity and development, move toward achieving gender equality, catalyze sustainable and inclusive growth, and reap the diversity dividend.

Annex

Content for the first two mini-case studies below is condensed from a detailed report on public procurement published by Chatham House in December 2017. Quantum Leaps developed the detailed case study for the United States, and the International Trade Centre provided the detailed case study for Chile.⁶ In addition, we have added brief information about Kenya's initiative.

United States of America

The US federal government first established a spending goal in 1994 for federal agencies to award 5% of their SME set-aside designated contracts to women-owned small businesses (WOSBs). It took two decades, and some trial and error, to fully achieve this target. It wasn't until the involvement of Women Impacting Public Policy (WIPP) – a women's entrepreneurial advocacy group – backed by the strength of American women business owners and their networks, that the 5% target was finally achieved in 2015. WIPP's campaign included focused research, policy analysis, awareness-raising, advocacy and coalition building, which created a collective voice for 5 million women from 80 different organizations.

This was used to drive a multi-pronged intervention that addressed the key inhibitors to market entry:

- 1) A capacity-building campaign for 600,000 women business owners via webinars and face-to-face training was rolled out nation-wide.
- 2) A curriculum with 300 training modules was developed for women who wanted to sell to the government.
- 3) Certification programs were implemented for women entrepreneurs with 51% business ownership, as well as management and control of their companies.
- 4) Government officials were given gender-sensitivity training and made aware of the economic value of strengthening the impact of women-owned businesses on the economy.

The end result was that between FY 2009-2015, the government awarded over \$116 billion USD to women-owned small businesses in the United States, which was a \$43 billion increase over the prior seven years, that is, FY 2002-2008.

Chile

The Chile Compra program utilizes an innovative e-market dynamic to foster robust participation rates for small businesses in public procurement, with micro, small and medium enterprises (MSMEs) accounting for 60% of total transactions. One of the main steps was to be open in terms of the information provided, and to have it be as simple and user-friendly as possible so as to reduce the entry barriers, and level the playing field for all bidders. Technical assistance was provided for suppliers: currently, 87% of the complications that arise during the application period are solved. Overall, Chile Compra reports 123,000 MSMEs suppliers – this is the highest total number of MSME suppliers of any country in the world.

However, in 2016 the amount of money spent on MSMEs was only 4% of Chile’s GDP. This indicates that significant spending on public procurement is still going primarily to large firms. Potential actions to increase the amount of money going to MSMEs may require “unbundling” procurement contracts in order to make room for smaller players. To have a solid policy to support MSMEs and women-owned and women-led firms might involve a more balanced mix of larger and smaller public procurement contracts, less “bundling” of contracts, and more capacity building for smaller suppliers.

A supporting program for women entrepreneurs was implemented in 2015 with gender-specific evaluation criteria, specialized training initiatives and a new certification program. The gains from this program will build upon the robust framework already established, with women accounting for 36% of those selling products and services to the government in Chile between 2007 and 2013.

Kenya

The 2005 Public Procurement and Disposal Act set a series of objectives within the procurement space, including preferences for women-owned businesses. This was later expanded in a 2013 addendum, whereby 30% of procurement spend must be allocated to disadvantaged groups, which includes women, youth and disabled people. Aside from the spending targets, small business growth is bolstered by assorted reforms, such as requiring procuring entities to facilitate financing for businesses and streamlining the qualification procedures for businesses that wish to engage.

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