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## Article

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## OPERATIONS, INFORMATION & TECHNOLOGY | RESEARCH ARTICLE

# Small business value chains in local government authorities (LGAs) procurement contracts in Tanzania

Geraldine Arbogast Rasheli<sup>1\*</sup>

**Abstract:** *Objective:* To assess attitudes toward including small furniture value chains in local government authorities (LGAs) procurement contracts in Tanzania. *Methodology:* A transaction cost economics theory was used with multiple case study design. Four district executive directors and four small furniture owners were selected purposively. *Findings:* High transaction costs are experienced by direct actors i.e. both manufactures of furniture and LGAs due to problems associated with furniture manufacturers' characteristics, business capacity, difficulty procedures in public procurement for both pre- and post-contracting stages. Information search costs are high among small furniture value chains participants. Monitoring costs are mainly on waiting time to be paid after delivering furniture among small manufacturers and those associated with small capacity of manufacturers for the case of clients, i.e. LGAs. Upgrading by joining imported furniture and old-fashioned furniture value chains is among the strategies used to reduce both transaction and production costs. *Originality:* Looks at attitudes toward including local furniture value chains in public procurement contractual process using a transaction costs approach from both potential suppliers and clients. *Limitation:* Quantitative

### ABOUT THE AUTHOR

Geraldine Arbogast Rasheli is a senior lecturer in Procurement and Supply Chain Management at the Department of Procurement and Logistics Management, Mzumbe University. She holds MSc in Supply Chain and Logistics-Supply Chain Management (University of Salford, UK) and PhD in agricultural economics (Sokoine University of Agriculture, Morogoro, Tanzania). She has widely been involved in consultancy assignments in public sector procurement audits, benchmarking, traditional and action research and training. She has also worked with civil societies in preparing public procurement monitoring guides. She has published in areas of agro-value chains, food channels, governance structures, contractual arrangements, coordination mechanisms, action research and procurement contracts management for the local government authorities. This paper is part of the ongoing research of the local government procurement and contract management. The research covered both the clients, i.e. the local government authorities and contractors (service providers, suppliers, and contractors in construction industry).

### PUBLIC INTEREST STATEMENT

Small and Medium Enterprises (SME) policy states that the government would facilitate growth by simplifying public procurement procedures. However, the research found out that not many of furniture value chains participating in public procurement contracts processes have managed to go through post-contracting stage. Information costs for tendering stage and monitoring costs related to payment when it is delayed hinder participation at post-contractual stage. Buyers are faced with problems related to monitoring costs such as small capacity of small enterprises, e.g. quantity and delivery problems. Innovations to help in reducing transaction costs are inclusion of businesses in imported value chains and the use of old furniture in producing new ones. However, it is not possible to use old furniture for a large contract. Small furniture value chains could invest on soft wood technology rather than using hard wood. A trade-off between quality in terms of hard wood durability and environmentally friendly practices could as well reduce transaction and production costs.

approaches could not be adopted because there is only a small number of local small-furniture manufacturers participating in public procurement process.

**Subjects: Social Sciences; Development Studies; Economics, Finance, Business & Industry; Geography**

**Keywords: transaction cost economics; transaction costs; procurement contract; small business; value chains; furniture**

## **1. Introduction**

Public procurement system is a function of government that involves using government financial resources to obtain goods, works and services to meet the needs of the government when it carries out its responsibilities for the citizens. The process includes purchasing, hiring, leasing or any other means involving suppliers, service providers and contractors to provide goods, services and works to the public sector.

Not many local small enterprises in furniture value chains participate in public procurement contract at post-contract stage despite several attempts by the Tanzania government to include them in the chain. Attempts have been made after a cry of many actors that the imported furniture, mainly from Far East, is not durable and hence value or money for such contracts is not achieved. Moreover, it is known that Tanzania has a total of 33.5 million hectares of forests including woodlands (FAO, 1992). The forest sector provides employment to about 730,000 people in a year. The employment is provided through forest industries and self-employment-related activities, mainly furniture manufacturing (URT, 1998). Therefore, one would also expect furniture value chains to be included in public procurement due to availability of almost all raw materials in the local environment; hence, a reduced price of locally made furniture, resulting in lower evaluated bid prices in public procurement contracting process. Furthermore, it is believed that it is easier to be included in the furniture value chain immediately after graduating from a vocational institution due to low furniture production costs and hence, generate income out of it through public contracts. However, these seemingly viable ideas have not been translated into actions to the fullest for best results.

Although there are quite a good number of local, small enterprises in furniture value chains, an influx of furniture from the Asian Tigers have been evidenced in Tanzania for quite a number of years now. Its market has been expanding to the extent of securing large public procurement contracts because of the lower price charged than those made from Tanzania. Local Small and Medium Enterprises (SMEs) are also participating in tender processes but few get into post-awarding stages of public contracting. In some cases, those who qualify to enter into contracts are faced with a number of problems such as those associated with delivery clauses, quantity and quality. Attempts by public and private organizations such as National Economic Empowerment Commission (NEEC) to facilitate group actions and business formalization issues such as business registration and licensing have not borne much fruit. Such attempts are mainly for those local manufacturers working in Dar es Salaam, a business city in Tanzania. The government has directed through its circulars that all public entities should procure furniture from small-scale furniture manufacturers. The move is trying to complement insufficient attention given to voices of SMEs participating in public contracts through goods procurement with the aim of getting good quality and durable furniture, promoting the small-scale furniture enterprises (URT, 2002) through a transparent, fair and accountable procurement system.

### **1.1. The theory**

Inclusion and exclusion of small-scale furniture enterprises in public procurement contracts are well explained by theories of the firm, specifically transaction costs approach. A contract is an agreement between parties. It is an agreement between procuring entity, i.e. the client and a contractor/bidder as a result of a procurement proceeding (URT, 2013). Contracts revolve around New Institutional Economics (NIE), a branch of economics, which was developed by Coase (1937) and later expanded by Williamson (1975). Unlike standard neoclassical economics, Coase acknowledges that there are

costs of using the price mechanism. These costs include discovering what relevant prices are. They can be minimized but cannot be eliminated by specialists who sell this information. Also Coase (1937) discussed about the costs of negotiating and concluding contracts. They led to emergence of a NIE and its theories, including the transaction costs approach.

NIE differs from mainstream neoclassical economics. Neoclassical economic analysis concentrates on an equilibrium market outcome. There is no consideration of how business relationships arise. Hence, transactions are treated as though they occur in frictionless economic environment, which results in costless transactions (Hobbs, 1996). NIE criticizes Neo classical for neglecting the social institutions that form the framework in which the neoclassical economy functions. There are two main strands of NIE. These are institutional environment and institutional arrangement. Institutional environment involves background constraints or rules of the game that guide individual behavior. It involves formal, explicit rules like constitutional laws, property rights and informal often implicit (social norms). On the other hand, institutional arrangements are specific guidelines. According to Williamson (1975), these are governance structures designed by trading partners to mediate particular economic relationship, business firms, long-term contracts, public bureaucracies, non-profit organizations and other contractual agreements. This research is based on both institutional environment and institutional arrangement.

Although there are quite a number of NIE approaches for analyzing procurement contracts in public sector, the most appropriate theory for value chains in public contracts analysis is transaction cost (Williamson, 1975), which is about exchange and transactions. Transaction costs are those costs incurred by the firm for searching a buyer or a seller, negotiating terms, monitoring and enforcing contracts. The origin of transaction costs is uncertainty. According to North (1990), it is attributed to the behavior of opportunism (moral hazards). According to Williamson (1981) governance structures that have better transaction costs (lower transaction costs) will eventually displace those that have worse, *ceteris paribus*. Factors that increase problems of transaction costs include bound rationality, that is, cognitive and perceptual limitations on the part of human beings, opportunism which is self-interest-seeking behavior and with guile, asymmetrical information, that is, unequal distribution of information among the exchanging parties and a small number of bargains creating oligopoly conditions. Transactions, which are specific to the requirements of a particular customer, uncertainty (both internal and external uncertainty) and high frequencies of transactions especially when combined with asset specificity increase both transaction inertia and transaction costs (Williamson, 1975). Transaction costs involve information, negotiation, and monitoring costs. Analyses revolve around governance structures. Part of the theory proposes that information search, negotiation, monitoring, asset specificity, and social capital aspects influence the decision on contractual arrangements. Therefore, forms of transaction cost influence coordination arrangement. Those entering into procurement contracts, for our case furniture enterprises, will coordinate vertically or choose a different channel if they find that production costs are being affected by transaction costs (Rasheli, 2016).

## 1.2. Empirical literature

### 1.2.1. Participation of SMEs in public procurement contracts: Processes and strategies

McKevitt and Davis (2013) assessed how micro enterprises interact with the public procurement process and the impact of their interactions. A principal component approach was used. They found out that small firms are not homogeneous groups and that they use divergent strategies when competing for procurement contracts. In a study to understand the process and conditions that support different supply arrangements, which maximizes SME participation, it was found out that national policy exerted mixed efforts upon cases. Procurement processes were broadly similar and included cross-functional teams, trade-offs considerations, and market research (Mark McKevitt, Flynn, & Davis, 2014).

### *1.2.2. Small firm characteristics and ability to secure public contracts*

Temponi and Cui (2008) examined the relationship among three main constructs of financial status, e-commerce component, and Hispanic small business. A survey was used and the results showed that Hispanic Small Businesses financial status has no impact on HSBs pursuing contracts with the USDA; instead it impacts HSBs' ability to secure contracts. Also Loader and Norton (2015) studied the heritage sector to find out experiences of SMEs supplying the public-funded UK heritage sector. They found out that heritage sector has distinct characteristics which affect the public procurement of traditional building skills, specifically the uncertain nature of the work. They concluded that it is not true that SMEs suppliers are homogeneous in dealing with public sector procurers.

### *1.2.3. Support mechanisms for participating in public contracts*

Fee, Erridge, and Hennigan (2002) examined the support mechanisms, which exist for SMEs in Northern Ireland and how access to government contract can be improved for SMEs. It concluded that even though there are support mechanisms for SMEs at both UK and the European Union levels, government tendering needs to be simplified to ensure easier access. Loader (2013) found out that supports to improve chances to succeed in public procurement contracts among SMEs exist in the UK. However, it lacks objectives, priorities, and regular and comprehensive supply data. Although there are number of studies on the role of SMEs in public procurement contracts, there are limited studies specifically on inclusion of sector-specific value chains in public procurement contracts using transaction costs approach.

Therefore, this paper aims at examining attitudes toward inclusion of small furniture value chains in public procurement contracts from the transaction costs approach viewpoint. It deals with both phases of contracting i.e. pre- and post-contracting. The paper addresses a question as to why government attempts to include furniture SMEs in public procurement contracting value chains are failing despite its efforts of including them in the public procurement value chains.

In that regard, the paper addresses SMEs Development policy, which seeks to review government procurement procedures to facilitate SMEs participation. SMEs development policy revitalizing the sector to enable it to contribute to the objectives of Tanzania development vision 2025 (URT, 2014b), specifically, on mobilizing and using effectively domestic resources, specifically, natural resources, in particular the forests. These resources should be utilized to build adaptive capacity for promoting economic activities that enjoy comparative and competitive advantages with a view to minimize external economic shifts and shocks. It also addresses good governance objective, specifically effectively fighting corruption and strongly adhering to and respecting rule of the law.

## **2. Methodology**

### **2.1. Research design and area of study**

This study adopted a case study research strategy. The study used a multiple case study design (Yin, 2014). Regarding the study area, it comprised four regions, namely Kigoma, Pwani, Tanga, and Dodoma. As such, the Local Government authorities in the regions were the focus of the study since they were potential public institutions for furniture contracts. This was because of the growing need for furniture in public schools, dispensaries, and health centres in the LGAs. The regions represent four zones of Tanzania.

### **2.2. Research cases**

#### *2.2.1. District executive directors*

Four district executive directors (DEDs) who represented local government authorities of Lushoto, Kigoma, Bagamoyo, and Kondoa were purposively selected. The clients' cases were similar in nature that they all managed public procurement contracts for their district councils. Their experiences in managing furniture contracts are almost similar because public procurement is regulated through the public procurement act, (URT, 2011), public procurement regulations (URT, 2013), and the local government tender board proceedings (URT, 2014a).

### **2.2.2. Furniture enterprises owners**

Four local furniture manufacturers' owners, two from Morogoro and two from Dar es Salaam were purposively selected between June and December 2015. On the other hand, potential contractors/micro and small furniture manufacturers were different in some aspects. Case 1 had participated in the public procurement contract although it never won, had participated in pre-awarding stage of public procurement process. The case is also an active member of local furniture manufacturers.

The remaining three cases had participated and won contracts once or so. They were also in small manufacturers' category with five to 49 employees. Moreover, they were inactive members of local furniture manufacturers associations.

The four furniture manufacturers had the same level of education, they had attended training workshops on how to prepare for public bidding documents and other requirements of the public procurement contracts.

### **2.3. Research questions**

An interview guide with open-ended questions was used to collect data. Both DEDs and micro and small furniture enterprises owners answered the questions on attitudes toward inclusion, specifically on public procurement legal and policy frameworks, pre- and post-contract processes, actors in furniture value chains, opportunities and challenges for participation, firm characteristics and their relationships on public contracts and support mechanisms for inclusion in public contracts value chains. The role of transaction costs for each question asked was examined.

### **2.4. Analysis**

Four main themes of qualitative data collected from the DEDs and local furniture manufacturers emerged. They include public procurement legal framework and guidelines including business registration, tax incentives, training, support from the government, SMEs capacity in terms of delivery times, quality and quantity and local furniture business owners characteristics.

Participants for interviews were asked to tell whether or not different transaction cost aspects of including local furniture manufacturers in public procurement contracts were a problem. Descriptors of low (not a problem), high (problem), and very high (major problem) were used. This method was adopted from Hobbs (1996).

## **3. Findings and discussions**

### **3.1. Participation of small furniture manufacturers in public procurement contracts**

It was found out that there are a number of actors in furniture value chains. These are direct actors including wood processors in the upstream and small furniture manufacturers and customers including the public sector in the downstream. Indirect actors include government agencies such as the local government, Tanzania forest agency, and ministry of natural resources. Small furniture manufacturers have been participating in public procurement contracts for many years. However, after trade liberalization, businesses importing furniture mainly from Asian tigers countries is increasing. Case 2 for example said, "Participation in public procurement contracts can be traced back many years. However, we have many-imported furniture from Asia made of soft wood, which are of low price when compared to locally made furniture. The government has circulated circulars stressing that actors in public entities procure furniture from local manufacturer to enhance SMEs, however, it has not been possible because our prices are quite higher when compared to imported ones. Moreover, procedures for participating in public contracts have become difficult than they were before public procurement reforms in the mid 2000. Currently potential bidders have to register for shortlists with government procurement agency before we are supplied with tendering documents of the procuring entity."

**Table 1. DEDs attitudes toward inclusion of local furniture manufacturers in public procurement contract**

Theme	Lushoto DC	Bagamoyo DC	Kondoa DC	Kigoma DC
Participation in furniture value chains	Local furniture participate in wood working, good such as tables, cupboards, and desk	Mainly desks/laboratory furniture	Desks and laboratory furniture	Mainly desks and laboratory furniture
Public procurement process	Difficult process for local furniture manufacturers; mainly use quotation/ shopping methods	Difficult process/ a different window for local manufacturer needed; bidding fee USD 35	Difficult to be followed by local manufacturers; Bidding fee	Difficult although preferences are stipulated in the procurement act; Bidding fee
	Transaction costs high	Transaction costs high	Transaction costs high	Transaction costs high
Business characteristics	Mostly informal	Informal hence high transaction costs in all procurement cycle	Informal, lack capacity high transaction costs	Informal, high transaction costs; information, negotiation and monitoring
Capacity to contract in public procurement environment	Their capacity is small, some cannot meet delivery schedules, difficult to understand public procurement	Their capacity is small, some cannot meet delivery schedules, difficult to understand public procurement guidelines and bidding process	Their capacity is small, some cannot meet delivery schedules, difficult to understand public procurement guidelines and bidding process	Their capacity is small, most cannot meet delivery schedules, difficult to understand public procurement guidelines and bidding process
	High prices of furniture, however their quality is good when supervised	Quality is good when supervised	Quality is good when supervised	Quality is good but very high price
	High transaction costs for monitoring	High transaction costs for monitoring	High transaction costs for monitoring	High transaction costs for monitoring
Local furniture owners characteristics	Low level of education, lack both business and innovation skills	Low education, high transaction costs	Mostly primary school level	Very low education
Support services	Support services from NGOs on business skills	Not specific to public procurement contracts	Support services from private sector	Support services from private sector
			Not on public procurement contract	Not on public procurement contracts
			Mainly on formalization of business	Mainly business skills and formalization

All participants said that small furniture manufacturers are participating in public procurement contracts and mainly in manufacturing school furniture, particularly the desks (Tables 1 and 2). However, there are still a lot of challenges specifically on price, quality, and agency problems. A furniture manufacturer in Dar es Salaam said, “We are mainly participating in making school desks. However, the quality is not good. That is why government is procuring desks each year. Some procuring entities are not ready to buy desks made from hard wood. We sometimes use low quality wood. Almost all small furniture manufacturers are lacking wood technology to improve quality of wood. Also there is a problem of transparency and corruption among public officials therefore the price quoted is sometimes inflated.”

### **3.2. Furniture value chains in public procurement process: pre-contracting and post-contracting processes**

It involves collection and preparation of bidding documents, participating in bid opening and awarding process. Both heads of the sector and the local furniture manufacturers that value of goods from local manufacturer mainly requires buying using shopping methods revealed it. Local purchase order is the main bidding document on which local furniture manufactures quote prices. All respondents showed their concern on bidding document fee of USD 35. Heads of the sector said it was mainly for supporting printing and stationery. Case 2 said, “Some of us have very little capital. If the government want to support us it could at least make it free to participate in public contracts.” Public procurement principles such as equal opportunity for all prospective bidders, transparency for example in advertising in most circulating newspapers, encouraging participation among local bidders and the need for efficiency and economy in the whole process of procurement is required (URT,

**Table 2. Micro and small furniture manufacturers' attitudes toward inclusion in public procurement contract**

Theme	Case 1: Dar es Salaam (micro)	Case 2: Morogoro (small)	Case 3: Dar es Salaam (small)	Case 4: Morogoro (small)
Participation of local furniture in public contracts	Mainly involved in pre contracting	Mainly desks/laboratory furniture	Desks and laboratory furniture	Mainly desks and laboratory furniture
Public procurement process	Very difficult process	Difficult process for small business	Difficult procedures	Difficult although preferences are stipulated in the procurement act
	Not transparent, fairness manufacturers	High transaction costs, preparing documents, and monitoring	Agents problems of transparency attitudes toward fairness etc.	
Business characteristics	Mostly informal, no formal business premises, yet to process business licence	Formal	Formal	Formal
	High transaction costs to formalize business	High transaction costs, business registration, taxes etc.	High transaction costs	High transaction costs, information, negotiation and monitoring
Business capacity to contract in public procurement environment	Capacity is very small, cannot meet delivery schedules, difficult to understand public procurement	Capacity is small, some cannot meet delivery schedules, difficult to understand public procurement guidelines and bidding process	Capacity is small, some cannot meet delivery schedules, difficult to understand public procurement guidelines and bidding process	Capacity is small, most cannot meet delivery schedules, difficult to understand public procurement guidelines and bidding process
	Quality is good depending on clients need	Quality is good when supervised	Quality is good when supervised	Quality is good but very high price
	High prices of furniture due to upstream material costs	High transaction costs for monitoring	High transaction costs for monitoring	High transaction costs for monitoring
Local furniture owners characteristics	Primary school education, lack wood technology innovation skills	Primary school, visited china, also trading imported furniture	Primary school level, lack wood technology and innovative ideas to add value in soft wood	Primary education
Support services	Support services from NGOs on business skills	Attended specific to public procurement contracts training, business skills	Support services from private and public sector through a dormant association	Support services from both public and private sector
	PPRA on public procurement contracting;	Financing business through banks, getting loans from banks	Not on public procurement contract	Not on public procurement contracts
	High transaction costs for business formalization	Low transaction costs	Low transaction costs for business formalization	Low transaction costs

2011). It was also revealed that bidding documents are mostly in English language, a language, which is not known by most local furniture manufacturers. One of the DEDs complained, “Some bidders submit different documents of the same person/bidder with different business name. Therefore it is difficult to be fair during evaluation of bids”. Transaction costs associated with inclusion in the process of bidding to contracting also was ranked high (Tables 1 and 2). The findings on participation to procurement contract process is not different from those which were found by Mark McKeivitt et al., 2014 that procurement processes were broadly similar and included cross-functional teams, trade-offs considerations, and market research.

### 3.3. Business owners characteristics

All four local furniture manufacturers and DEDs revealed that most of the local furniture manufacturers had low level of education, i.e. primary school education. A few had international business experiences; for example, Case 2 had visited China several times. He was also included in both local and imported furniture value chains. The study to understand the process and conditions that support different supply arrangements which maximizes SME participation (Mark McKeivitt et al., 2014) support this study. Case 2 was used a mix of supply arrangements by participating in both local and imported furniture value chains.



With exception of Case 2 furniture manufacturer, others perceived information searching costs, negotiation and monitoring costs to be a problem. For example, Case 1 said, “I know Public Procurement Regulatory Authority advertise bid opportunities, but they use an English newspaper which for my case is not easy to understand. Bidding documents and contracts are all in English language.” Wood technology was also a problem for all local manufacturers. Case 3 also had this to say, “There a lot of different kinds of wood which needs an advanced technology to improve its quality; however, most of us have not managed to get such knowledge and therefore we are dealing with hard wood which is quite expensive for us to negotiate.” The DEDs also supported ideas of local manufacturers that they lack business skills, experience in public sector procurement, wood technology and generally they have very low education (Table 1). Inclusion of small furniture manufactures in public procurement could be difficult because of the reasons given by both DEDs and small furniture manufacturers. Transaction cost for both buyers and prospective bidders are a problem, i.e. high.

### **3.4. Business characteristics**

#### **3.4.1. Business formality and business associations**

Some furniture businesses operated in an informal environment, but they tried to get through public contracts through business associations. Therefore, they use formal association documents when they participated in public procurement contracts. For example, Case 1 resided in Dar es Salaam. He used an informal business premises, i.e. by the roadside; therefore, he operated in an informal environment (Table 1) and he was also a member of furniture association. He managed to participate in public contracts through his association. He said, “I have not registered my business and have yet to secure business license. However, I managed to get training on how to participate in public procurement through our furniture association. We submitted a bid but it was not successful.” This means being informal does not exclude one from participating in public contracts. However, ability to secure contracts is lowered. According to DEDs the level of business formality and associations influence transaction costs. According to North (1990), institutions are formed to reduce uncertainty in human exchange. Institutions matter when it is costly to transact. However, some business associations are yet to be stable in terms of business managerial capabilities and thus pausing problems related to monitoring the contracts.

#### **3.4.2. Labor and machinery**

It was revealed that most of small businesses had unskilled labor in terms of using up-to-date technology. They were mainly trained on hard wood technology. All respondents indicated the need of state-of-art machinery that can process soft wood. Soft wood is a cheap source of raw material, thus reducing both production and transaction costs in furniture value chains. Also, most labor was hired on temporary basis. For example, Case 2 said, “I normally employ more temporary workers when I have managed to secure large tender. It can take more than six months before I secure one.”

#### **3.4.3. Business location**

Almost all small businesses participating in public contracts are those in town centers. Transaction costs for participating in public contracts are lower in town centers than in rural areas. Case 4 said, “It is difficult for those in rural areas to participate in public contracts. Most of those in rural areas are micro ones and business associations mainly have prevailed in towns.” Most district local governments operate in rural environment, thus excluding furniture enterprises operating in rural environment because of their micro nature.

### **3.5. Capacity to participate in public procurement contracts**

One of the DEDs said, “Most of the small furniture manufacturers have very small capital. Yet they bid for the supply of furniture in our local government authorities. Although the government is emphasizing to include local furniture value chains in public procurement, an informal business cannot be considered. Monitoring costs could be too high to be managed by buyers.” The results here are not different from those which showed that Hispanic Small Businesses financial status had no impact on HSBs pursuing contracts with the USDA, instead it impacts HSBs ability to secure contracts (Temponi &

Cui, 2008). All participants complained of high transaction costs for business formalization, time to wait to gain experience for contracting with public sector and costs associated with securing capital and associated performance warranties in case of high-value contracts (Tables 1 and 2).

It was also revealed that most the small furniture manufacturers lacked capacity to participate in public sector contracts. Both respondents, i.e. small furniture firms and the DEDs, revealed that local furniture firms could mainly participate in small contracts such as supply of school desks. It was also revealed that though they are able to get quality raw materials for furniture manufacturing within the country, the finishing part of manufacturing is not good when compared to imported ones. Delivery schedules were also mentioned by both groups of participants to be a problem for most local furniture manufacturers. Close supervision, hence high monitoring cost, is needed during post-contract management for the case of buyers, thus resulting in high monitoring costs.

On the other hand, waiting time during payments was mentioned as a major problem when participating in public contracts. Both groups of respondents agreed that waiting transaction costs associated with payment waiting time in procurement projects which were fully financed by the government were higher than those associated with donor-funded programs. Ultimately, capital tied up for local manufacturers was obvious when participating in public sector procurement contracts. As a result, contracting capacity for local manufacturers are lowered and hence inclusion to public procurement contracts difficulties.

### **3.6. Training and business support services**

Some procurement actors have facilitated training for small businesses. Training aimed at facilitating participation in public contracts. However, the structure of the training seems to be uncoordinated because it focused on all types of SMEs (Table 2). For example, SMEs dealing with consultancy and construction were among those who participated in the PPRA training on public procurement focusing on SMEs. Furniture SMEs supply goods whose public procurement regulations were different from other sectors such as consultancy, works, and non-consultancy categories. For example, Case 4 said, “The training was more concentrating on how SMEs could participate in construction contracts. Nothing focused on the furniture sector; therefore, I only gained on general procedures for participating in public contracts”. The fact that all SMEs participated in the same training course might have not made a good impact because SMEs were not homogeneous when interacting with government on public procurement contract issues (Loader & Norton, 2015). Moreover, it was revealed that most support focused on business skills and formalization of businesses. This was a critical issue for one to be included in public contract. There were issues, which made the bids to be responsive at the first place before evaluation. However, there were no follow-up mechanisms to find out whether local furniture firms, which got such support, were then included in public contracts after all those initiatives. With exception of one small furniture manufacturer, other respondents accepted that information costs, i.e. business formalization costs, were generally high for micro manufacturers (Table 2).

### **4. Conclusion**

Contract price and transaction costs in the upstream alone are not a reason for excluding small enterprises in public procurement contracts. Public procurement procedures are a difficulty for small enterprises to comply. Both pre- and post-contracting procedures include documentations mostly in English language, which most of the small enterprises are not conversant with. Shortlists of suppliers are prepared by government procurement agency while the buyer pursues the contracting process. Simplification of procurement process is important for small enterprises participation in public contracts.

Business associations are expected to reduce transaction costs. Indirect actors such as Public Procurement Regulatory Authority and National Economic Empowerment Council associations have facilitated furniture business associations. However, they are partially included in public procurement contracts. Business associations participate in bidding process but contracting rate has not

been encouraging. Public procurement transaction costs, i.e. information, negotiation, and monitoring costs, are all hindering the groups to be included in local government procurement contract. Monitoring costs for both small and micro manufacturers and the LGAs are still high, specifically on payment waiting time and dealing with low capacity of manufacturers, respectively.

Upgrading is taking place in small furniture value chains for the purpose of adding value and increasing the chances of contracting with public entities dealing with both local and imported furniture chains. Innovations such as reverse logistics is used by some small enterprises in which old furniture is re-processed using existing technology and hence lowering production costs in terms of wood costs. However, reverse logistics does not enhance capacity in terms of quantity, an important factor for participating public sector contracts.

There are efforts to include furniture manufacturers to the public procurement furniture value chain. These include training on how to participate in public tenders, bid preparation and all process included in procurement cycle. More efforts on entrepreneurship skills than in wood processing were noted. Support from actors such as Public Procurement Regulatory Authority, training institutions, and large-scale furniture manufacturers cannot be underestimated.

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