

אגף הכלכלן הראשי

חטיבת מקרו ותחזיות

אגף החשב הכללי

חטיבת נכסים, רכש ולוגיסטיקה

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Government procurement from micro, small, and mid-sized enterprises - 2018

Background

The Accountant General attaches great importance to the integration and encouragement of micro, small, and mid-sized enterprises in government procurement. This important objective is expressed, *inter alia*, in administrative directions published by the Government Procurement Administration over years and in Section 2C of the Mandatory Tenders Law, 5752-1992 (hereinafter: "the Law" or the "Mandatory Tenders Law"), and in OECD recommendations,¹ which state that the government should actively seek to enable the participation of micro, small, and mid-sized enterprises in its agreements. It is important to note that there is great variability in the definition of micro, small, and mid-sized enterprises between different states, and that the definition used in Israeli law is conservative compared with the world. For example, the European Union definition of a mid-sized enterprise in an enterprise that employs up to 250 employees or has a turnover of up to €50 million. In contrast, the Israeli definition for a mid-sized enterprise in an enterprise that employs up to 100 employees or has a turnover of up to NIS 100 million. Only half of OECD states measure the participation of micro, small, and mid-sized enterprises in government procurement.

Therefore, under the Mandatory Tenders Law, ministries shall examine how it is possible to integrate micro, small, and mid-sized enterprises in every agreement. Ministries shall also annually publish figures on the agreements with micro, small, and mid-sized enterprises. The publication includes data of all ministries and subordinate units that work through the government ministry-wide comprehensive ERP system (hereinafter: "the system"), as well as for the Israel Police and government hospitals. The document includes details about each ministry and

¹ OECD (2018), SMEs in Public Procurement: Practices and Strategies for Shared Benefits, OECD Public Governance Reviews, OECD Publishing, Paris, <https://doi.org/10.1787/9789264307476-en>

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subordinate unit separately and in-depth aggregate analysis for all the aforesaid bodies.

The Government Procurement Administration at the Accountant General Department, in cooperation with the Chief Economist, is honored to publish this publication, pursuant to the Law, following the previous publication with respect to 2017 data.²

Definition of enterprise size

The definition of "enterprise" in the Mandatory Tenders Law: "micro, small, and mid-sized business" – a micro business, small business, and mid-sized business that is an exempt enterprise, authorized enterprise, or financial institution as defined in the Value Added Tax Law, 5735-1975, except for a corporation in which a local authority holds at least half of the capital or half of the voting power therein, and a company and a company as defined in the Water and Sewerage Corporations Law, 5761-2001.

The size of an enterprise in the Mandatory Tenders Law is defined by two conditions: the number of employees and the annual turnover. For an enterprise to be considered as micro/small/mid-sized, it must meet at one of the following two criteria:

Enterprise size	No. of employees	Annual turnover
Micro enterprise	Up to 5	Up to NIS 2 million
Small enterprise	6 to 20	More than NIS 2 million and up to NIS 20 million
Mid-sized enterprise	21-100	More than NIS 20 million and up to NIS 100 million
Large enterprise*	More than 100	More than 100 million

* The definition is arbitrary and does appear in the law

² The breakdown of government procurement for 2017 by size of enterprise, is at the Government Procurement Authority website: <https://www.mr.gov.il/Information/NewsAndUpdates/Pages/gov-seg-procurement.aspx>

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Methodology

Most of the data in this document were taken from the government ministry-wide comprehensive ERP system (hereinafter: "the system"), which is the horizontal financial operating system used by all ministries, except for defense bodies (police, the Ministry of Defense, and others), and government hospitals. Ministries' employees feed the procurement and its data into this system, and the analysis presented below is carried out on the basis of the data present in the system. There is a company number of the supplier for each agreement, and its value, which is fed into the system. The data presented are from the system's logistics module; the total value in 2018 was approximately NIS 58 billion. The data only refers to the aforesaid government procurement, which does not constitute procurement, such as budget transfers and mandatory payments, for example electricity and *arnona* (local property tax), which are also included in the logistics module. Therefore, government procurement in 2018 totaled approximately 34 billion. In addition to data from the government ministry-wide comprehensive system, the Government Procurement Administration obtained data from the police and government hospitals. The data obtained from these bodies included a summary of the procurement scope against any supplier in 2018 as a whole. Total procurement, including data from bodies that are not in the government ministry-wide comprehensive system, was approximately NIS 40 billion.

Presenting the data

Aggregate data for all the ministries including in this report is presented below, which will help obtain a broad picture for the government as a whole.

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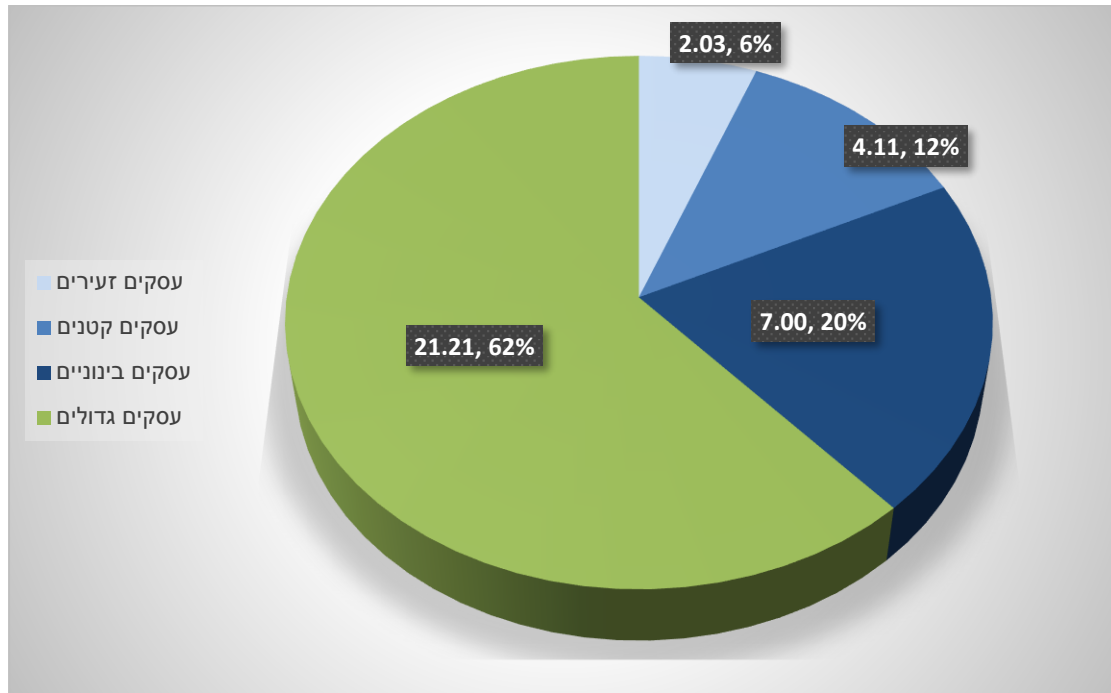
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Chart 1: Scope of government procurement, broken down by enterprise size, in billions NIS, and percent of total procurement, 2018



[chart key: Micro enterprises; Small enterprises; mid-sized enterprises; large enterprises]

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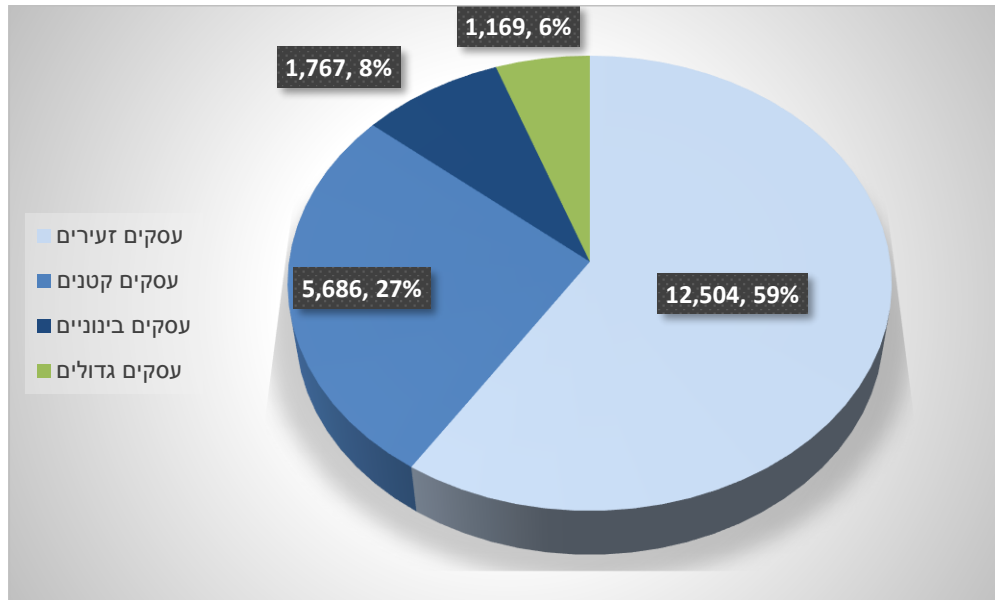
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Chart 2: Government suppliers, broken down by enterprise size, no. of suppliers, and percent of total procurement, 2018



[chart key: Micro enterprises; Small enterprises; mid-sized enterprises; large enterprises]

The table below lists the proportion of procurement, in shekels, of each kind of enterprise defined below, broken down by ministry.

Table 1: Proportion of ministry procurement from enterprises of different sizes, broken down by scope of procurement, 2018

Ministry	Micro enterprises	Small enterprises	Mid-sized enterprises	Large enterprises
Abarbanel Hospital	10.94%	17.90%	17.38%	53.77%
Ichilov Hospital	1.39%	2.99%	4.08%	91.54%
Eitanim Hospital	8.61%	8.78%	14.74%	67.86%
Assaf Harofeh Hospital	4.55%	8.98%	11.51%	74.96%
Beer Yaakov Hospital	12.84%	17.70%	9.50%	59.96%
Beer Sheva Hospital	8.52%	16.79%	12.34%	62.35%
Bnei Zion Hospital	3.46%	6.99%	11.55%	78.01%
Barzilai Hospital	3.19%	10.22%	9.88%	76.71%
Netanya Geriatric Hospital	13.26%	17.82%	9.14%	59.77%
Pardess Hanna Geriatric Hospital	6.33%	13.94%	21.31%	58.42%
Rishon LeZion Geriatric Hospital	4.01%	3.97%	3.08%	88.95%
Hillel Yaffe Hospital	7.88%	8.16%	11.61%	72.36%

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Wolfson Hospital	3.57%	4.67%	6.28%	85.48%
Ziv Hospital	6.42%	10.25%	10.25%	73.09%
Tirat Hacarmel Hospital	18.43%	19.28%	10.08%	52.20%
Lev Hasharon Hospital	15.66%	16.18%	10.44%	57.72%
Mizra Hospital	16.40%	21.81%	11.41%	50.38%
Nahariya Hospital	1.63%	4.19%	4.11%	90.07%
Poria Hospital	3.28%	4.68%	5.37%	86.67%
Fliman Hospital	11.36%	8.73%	18.73%	61.18%
Rambam Hospital	3.11%	10.95%	24.72%	61.23%
Sheba Hospital	6.24%	16.33%	28.98%	48.44%
Shmuel Harofeh Hospital	8.64%	21.09%	9.28%	60.99%
Shaar Menashe Hospital	12.41%	11.71%	10.92%	64.95%
Central Bureau of Statistics	4.94%	14.51%	10.72%	69.82%
Government Printer	5.22%	31.02%	45.43%	18.33%
Geological Survey of Israel	5.37%	60.36%	18.45%	15.82%
Ministry of Public Security	5.28%	11.45%	30.56%	52.71%
Ministry of Environmental Protection	15.08%	19.78%	20.51%	44.63%
Ministry of Religious Services	4.78%	45.49%	15.57%	34.17%
Rabbinical Courts Administration	7.56%	23.69%	17.22%	51.53%
Courts Administration	9.90%	13.27%	8.89%	67.94%
Urban Renewal Authority	26.03%	45.26%	14.22%	14.49%
Technology Innovation Authority	27.40%	19.32%	31.48%	21.80%
Authority for Bedouin Development and Settlement in the Negev	2.45%	11.12%	84.07%	2.36%
National Civil Service Authority	8.59%	0.73%	8.44%	82.24%
Educational Television	15.19%	46.74%	15.97%	22.09%
Government Printing Office	3.21%	22.80%	10.23%	63.75%
Agricultural Research Administration	5.51%	13.03%	15.40%	66.06%
Survey of Israel	18.44%	14.14%	27.15%	40.27%
Israel Police	1.49%	4.04%	8.58%	85.89%
Ministry of Finance	11.63%	18.92%	9.72%	59.74%
Ministry of Energy	1.21%	40.74%	10.91%	47.14%
Ministry of Construction and Housing	2.80%	5.41%	57.60%	34.19%
Ministry of Health	7.56%	18.72%	18.85%	54.88%
Ministry of Foreign Affairs	9.30%	11.44%	32.53%	46.72%
Ministry of Education	1.35%	7.05%	5.84%	85.76%

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Ministry of Agriculture and Rural Development	15.32%	15.03%	16.40%	53.26%
Ministry of the Economy and Industry	2.71%	28.12%	60.94%	8.22%
Ministry of Science and Technology	4.13%	23.13%	8.37%	64.37%
Ministry of Justice	12.34%	13.80%	6.48%	67.37%
Ministry of Immigration and Absorption	3.86%	4.55%	1.70%	89.89%
Ministry of the Interior	28.00%	19.97%	8.55%	43.48%
Ministry of Welfare	8.38%	22.16%	14.47%	54.99%
Ministry of Transport	11.98%	21.82%	21.94%	44.26%
Ministry of Tourism	20.77%	2.38%	64.24%	12.62%
Ministry of Communications	7.36%	37.94%	10.09%	44.61%
Ministry of Culture and Sport	6.90%	20.31%	3.07%	69.72%
Ministry of Negev and Galilee Development and Regional Cooperation	17.04%	16.23%	31.38%	35.35%
Prime Minister's Office	3.65%	6.86%	48.50%	40.99%
Population and Immigration Authority	0.66%	0.93%	1.30%	97.11%
Enforcement and Collection Authority	10.19%	20.12%	7.26%	62.43%
Water Authority	12.00%	35.54%	26.38%	26.08%
Israel Tax Authority	8.37%	13.97%	12.15%	65.50%
National Road Safety Authority	37.28%	25.77%	13.52%	23.43%
Public Utilities Authority – Electricity	13.92%	7.20%	62.77%	16.11%
Israel Land Authority	10.39%	9.93%	12.72%	66.96%
Capital Market, Insurance and Savings Authority	15.91%	28.60%	31.65%	23.83%
Israel Prison Service	4.19%	8.83%	36.81%	50.17%
Israel National Employment Service	5.31%	18.01%	11.57%	65.11%
Coordinator of Government Activities in the Territories	12.48%	22.83%	35.62%	29.07%

The table below lists the proportion of enterprises with which each ministry has agreements, broken down by enterprise size.

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Table 2: Proportion of government procurement from enterprises of different sizes, broken down by number of transactions 2018

Ministry	Micro enterprises	Small enterprises	Mid-sized enterprises	Large enterprises
Abarbanel Hospital	32.31%	34.72%	15.72%	17.25%
Ichilov Hospital	29.80%	37.20%	18.65%	14.35%
Eitanim Hospital	28.71%	28.47%	18.82%	24.00%
Assaf Harofeh Hospital	30.10%	36.14%	19.05%	14.71%
Beer Yaakov Hospital	36.52%	27.45%	15.99%	20.05%
Beer Sheva Hospital	24.36%	37.68%	17.28%	20.68%
Bnei Zion Hospital	30.59%	33.12%	19.97%	16.32%
Barzilai Hospital	27.82%	33.97%	21.34%	16.87%
Netanya Geriatric Hospital	27.78%	32.75%	19.88%	19.59%
Pardess Hanna Geriatric Hospital	31.36%	31.07%	19.77%	17.80%
Rishon LeZion Geriatric Hospital	24.70%	34.34%	15.06%	25.90%
Hillel Yaffe Hospital	33.37%	30.93%	20.62%	15.08%
Wolfson Hospital	33.01%	32.74%	17.40%	16.85%
Ziv Hospital	28.11%	33.97%	21.67%	16.25%
Tirat Hacarmel Hospital	34.59%	37.57%	15.41%	12.43%
Lev Hasharon Hospital	32.77%	27.91%	18.93%	20.39%
Mizra Hospital	36.58%	30.79%	16.58%	16.05%
Nahariya Hospital	23.87%	37.65%	21.85%	16.64%
Poria Hospital	28.57%	33.52%	20.19%	17.71%
Fliman Hospital	25.09%	34.83%	21.35%	18.73%
Rambam Hospital	27.76%	35.13%	21.25%	15.86%
Sheba Hospital	34.28%	35.28%	17.97%	12.47%
Shmuel Harofeh Hospital	26.67%	33.12%	20.65%	19.57%
Shaar Menashe Hospital	31.80%	33.64%	17.28%	17.28%
Central Bureau of Statistics	22.61%	36.68%	11.56%	29.15%
Government Printer	21.99%	35.46%	19.15%	23.40%
Geological Survey of Israel	21.05%	37.28%	25.44%	16.23%

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Ministry of Public Security	37.00%	32.21%	13.61%	17.18%
Ministry of Environmental Protection	24.95%	31.92%	14.80%	28.33%
Ministry of Religious Services	35.78%	30.79%	13.78%	19.65%
Rabbinical Courts Administration	37.36%	25.86%	13.79%	22.99%
Courts Administration	57.79%	23.01%	7.70%	11.51%
Urban Renewal Authority	37.93%	31.90%	7.76%	22.41%
Technology Innovation Authority	54.63%	23.77%	10.80%	10.80%
Authority for Bedouin Development and Settlement in the Negev	14.55%	30.91%	23.64%	30.91%
National Civil Service Authority	17.81%	23.29%	23.29%	35.62%
Educational Television	39.71%	29.78%	12.50%	18.01%
Government Printing Office	20.61%	37.40%	14.50%	27.48%
Agricultural Research Administration	34.54%	34.69%	17.52%	13.25%
Survey of Israel	28.57%	38.10%	13.10%	20.24%
Israel Police	21.72%	29.44%	18.85%	29.98%
Ministry of Finance	29.14%	36.80%	15.84%	18.22%
Ministry of Energy	25.27%	32.85%	12.27%	29.60%
Ministry of Construction and Housing	38.12%	28.38%	12.82%	20.68%
Ministry of Health	40.80%	28.57%	13.81%	16.82%
Ministry of Foreign Affairs	40.95%	29.04%	12.68%	17.33%
Ministry of Education	43.46%	26.11%	13.26%	17.17%
Ministry of Agriculture and Rural Development	38.79%	31.85%	16.19%	13.17%
Ministry of the Economy and Industry	35.75%	26.90%	14.34%	23.01%
Ministry of Science and Technology	26.06%	29.64%	13.68%	30.62%
Ministry of Justice	65.19%	19.98%	6.19%	8.64%
Ministry of Immigration and Absorption	36.34%	26.53%	13.53%	23.61%
Ministry of the Interior	37.61%	30.86%	12.16%	19.37%
Ministry of Welfare	43.39%	29.76%	12.91%	13.95%
Ministry of Transport	33.18%	33.33%	14.18%	19.31%

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Ministry of Tourism	46.32%	27.07%	10.38%	16.24%
Ministry of Communications	30.09%	29.17%	13.89%	26.85%
Ministry of Culture and Sport	60.51%	16.20%	7.34%	15.95%
Ministry of Negev and Galilee Development and Regional Cooperation	37.91%	28.57%	12.09%	21.43%
Prime Minister's Office	33.13%	28.48%	14.83%	23.56%
Population and Immigration Authority	33.63%	31.23%	12.61%	22.52%
Enforcement and Collection Authority	26.45%	35.01%	13.85%	24.69%
Water Authority	24.29%	31.17%	18.22%	26.32%
Israel Tax Authority	33.21%	33.79%	12.69%	20.30%
National Road Safety Authority	35.26%	30.77%	10.90%	23.08%
Public Utilities Authority – Electricity	27.27%	26.45%	14.88%	31.40%
Israel Land Authority	40.02%	25.85%	12.76%	21.37%
Capital Market, Insurance and Savings Authority	25.00%	35.87%	13.04%	26.09%
Israel Prison Service	37.97%	33.47%	14.84%	13.71%
Israel National Employment Service	35.25%	28.78%	12.95%	23.02%
Coordinator of Government Activities in the Territories	29.43%	35.41%	16.51%	18.66%

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Appendix A – Elaboration on the methodology

Enterprises were identified as follows:

1. First, the private company numbers were cross-referenced with the list of companies numbers on the companies database for 2015, according to Israel Tax Authority data. 11,037 companies were location, from which procurements totaling approximately NIS 30.1 billion were made, about 76% of total procurements identified.
2. The private company numbers, which were not found in the first stage, were cross-referenced with the companies database for 2014. 1,466 additional companies were found, from which procurements totaling approximately NIS 3.8 billion, about 10% of total procurements identified.
3. The remaining private company numbers, which refer to authorized enterprises, were compared with the Tax Authority's authorized enterprise data for 2015. 8,507 additional private company numbers were found, from which procurements totaling approximately NIS 445 million, and an additional 116 private company numbers were found in the 2014 database, from which procurements totaling approximately NIS 4.6 million were made. Total procurement from authorized enterprises found in the databases – 8,623 private company numbers, from which procurements totaling approximately NIS 450 million were made, about 1% of total procurements identified.
4. As mentioned, a total of 21,126 private company numbers were found, from which procurements totaling approximately NIS 34.4 billion were made.

The data in the document are aggregate data for all private company numbers (first broken down by ministry, followed by aggregate analysis for the government as a whole), as inputted into the government ministry-wide comprehensive system in 2018, or sent to Government Procurement Authority by the ministries that do not work with the government ministry-wide comprehensive system. In this year, all ministries included in the report entered into agreements totaling NIS 39.8 billion with 34,831 different suppliers. Of all the aforesaid suppliers, 31,415 suppliers had the correct number structure inputted into the system (i.e. a nine-digit number,

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without non-digit characters, such as Latin letters or spaces); a number with an incorrect structure was inputted 3,416 suppliers. The Office of the Chief Economist cross-referenced the private company numbers with data about the size of the enterprise. Altogether, 21,126 private company numbers were found, from which procurements totaling approximately NIS 34.4 billion were made; i.e. about 67% of the correct private company numbers that were inputted into the operating systems as numbers from which procurements were made.

In other words, following a check of the private company numbers in the databases in 2014-2015, some of the private company numbers were not identified, which made it impossible to classify the procurement from these enterprises based on their size. We believe that most of the unidentified suppliers in 2014-2015 are micro and small enterprises, on the assumption that new enterprises tend to be micro or small enterprises. Therefore, the estimate appearing in the document with respect to agreements with micro enterprises is apparently an underestimate, and the actual proportion of procurement from micro and mid-sized enterprises may be higher than what is shown above (between 2% and 13.7%).

Residual definition for a large supplier

In order to avoid distortion in the large enterprise data because of an out-of-date figure on the number of employees, an enterprise with more than 300 employees or an enterprise with an annual turnover greater than NIS 300 million is defined as a large enterprise, even though it may be considered a micro, small, or mid-sized enterprise under the definition in the law.