

## Government procurement from micro, small, and mid-sized enterprises - 2017

### 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,<sup>1</sup> 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 first publication under this Law will be by 31 March 2019 for government procurement from micro, small and mid-sized enterprises in 2018. The Government Procurement Authority intends to help ministries meet the requirements of the Law and publish the data for the ministries in a concentrated way.

The Government Procurement Administration at the Accountant General Department, in cooperation with the Chief Economist, is honored to publish this first publication,

<sup>1</sup> 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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with respect to procurement from micro, small and mid-sized enterprises in 2017, including aggregate analysis for all ministries.

**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

**Methodology**

Most of the data in this document were taken from the government ministry-wide comprehensive ERP system, which is the horizontal financial operating system used by all ministries and subordinate, except for the Ministry of Foreign Affairs, State Comptroller 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,

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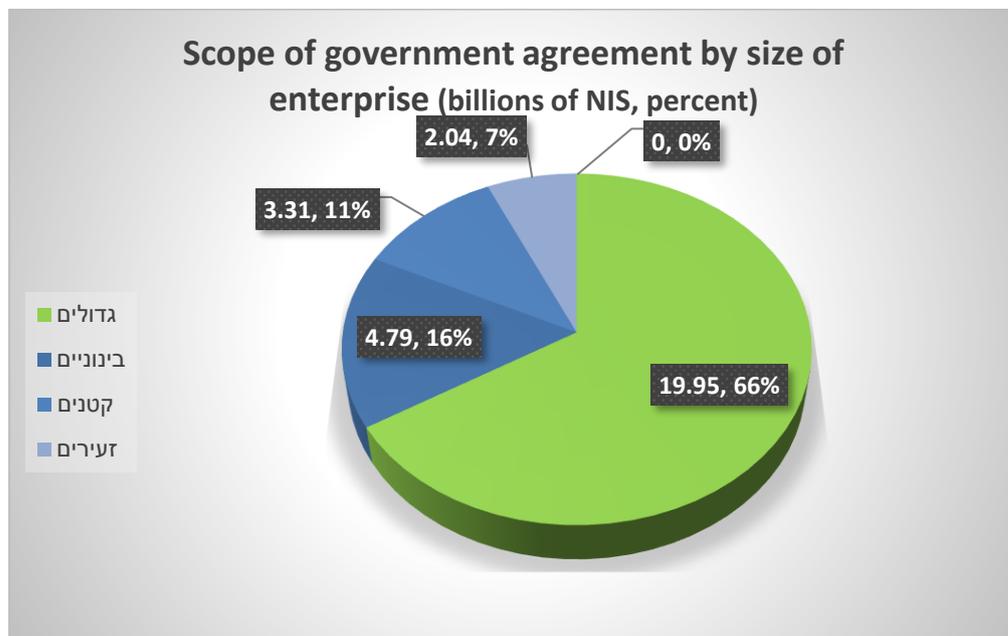
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and its value, which is fed into the system. The data presented are from the system's logistics module; the total value in 2018 was approximately NIS 50 billion. The data only refers to the aforesaid government procurement, which does not constitute 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 totaled approximately 34 billion.

**Presenting the data**

Below is a breakdown of overall government procurement of ministries that work with the system by size of enterprise, 2017:

Chart 1: Government procurement from micro, small, mid-sized, and large enterprises, 2017



[chart key, clockwise: Large, Mid-sized, Small, Micro]

It can be seen from Chart 1 that approximately NIS 20 billion, constituting about two-thirds of the procurement analyzed, were made from large enterprises, and a third from micro, small, and mid-sized enterprise, broken down as follow: NIS 4.8 billion, constituting about 16% of government agreements were with mid-sized enterprises; NIS 3.3 billion, constituting about 11% of government agreements were with small enterprises; and approximately NIS 2 billion, constituting about 7% of government agreements were with micro enterprises.

## 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. 9,020 companies were location, from which procurements totaling approximately NIS 24.9 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. 1,304 additional companies were found, from which procurements totaling approximately NIS 4.6 billion, **about 14% 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. 4,013 additional private company numbers were found, from which procurements totaling approximately NIS 518 million, and an additional 108 private company numbers were found in the 2014 database, from which procurements totaling approximately NIS 5.8 million were made. Total procurement from authorized enterprises found in the databases – 7,121 private company numbers, from which procurements totaling approximately NIS 524 million were made, **about 2% of total procurements identified.**
4. As mentioned, a total of 17,445 private company numbers were found, from which procurements totaling approximately NIS 30 billion were made.

The data in the document are aggregate data for all private companies numbers, as inputted into the government ministry-wide comprehensive system in 2017. In this year, all ministries included in the report entered into agreements totaling NIS 34.2 billion with 27,588 different suppliers. Of all the aforesaid suppliers, 26,085 suppliers had the correct number structure inputted into the system (i.e. a nine-digit number, without non-digit characters, such as Latin letters or spaces); a number with an incorrect structure was inputted 1,503 suppliers. Most of the suppliers with incorrect numbers are foreign suppliers, and the total value of agreements with these suppliers was NIS 1.5 billion. Analysis of the data is for the 26,085 correct private company



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numbers. The Office of the Chief Economist cross-referenced the private company numbers with data about the size of the enterprise. Altogether, 17,445 private company numbers were found, from which procurements totaling approximately NIS 30.1 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. As mentioned, the identified numbers accounted for approximately NIS 30.1 billion, and the data in the document refers to total procurement with respect to this figure.

As mentioned, following the examination of private company numbers in the databases for 2014-2015, some private company numbers were not identified, and it was therefore not possible to classify procurement from these enterprises by their size. We believe that most of the unidentified suppliers in 2014-2015 are micro and small enterprises, because mid-sized and large enterprises tend to be more stable. Therefore, the estimate appearing in the document is apparently an underestimate, and the actual proportion of procurement from micro and mid-sized enterprises may be 1.8% and 7.8% higher than what is shown above.

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.