

Journal of Procurement & Supply Chain



SME Participation Barriers in European Union Public Procurement Markets

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ISSN: 2717-3581

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How to cite this article: Mutangili S. K. (2024). SME Participation Barriers in European Union Public Procurement Markets. *Journal of Procurement & Supply Chain*. Vol 8(3) pp. 70-78. <https://doi.org/10.53819/81018102t2449>

Abstract

This study examined the barriers faced by Small and Medium-sized Enterprises (SMEs) in accessing public procurement markets within the European Union (EU), despite their significant economic contributions and the EU's attempts to foster an inclusive procurement environment. The analysis explored key challenges, including administrative complexity, financial constraints, limited accessibility, and competition with larger firms. Existing EU policies, such as the Small Business Act and Directive 2014/24/EU, aimed to support SME participation by simplifying procedures and mandating contract segmentation; however, these policies were found to have inconsistent impacts across member states due to varying levels of enforcement and implementation. Through case studies of successful SME integration in countries like France, Italy, Poland, and the United Kingdom, this study highlighted effective practices, including contract segmentation, digital procurement platforms, capacity-building programs, and set spending targets. These case studies provided practical insights into how targeted policies and support mechanisms can increase SME participation in public procurement. Recommendations included enforcing contract segmentation, enhancing digital procurement accessibility, expanding SME training programs, and establishing participation targets to improve consistency across the EU. Findings underscored that, while EU policy initiatives made strides, further coordinated efforts are essential to address remaining barriers and promote a fairer, more accessible procurement landscape for SMEs across member states.

Keywords: *SME participation, EU public procurement, procurement barriers, SME policy*

1. Introduction

Small and Medium-sized Enterprises (SMEs) are vital to the economic fabric of the European Union (EU), driving innovation, employment, and economic resilience across member states. Representing over 99% of all businesses within the EU, SMEs contribute substantially to regional and local economies by generating employment, enhancing market competition, and fostering innovation. As of 2021, SMEs employed nearly two-thirds of the EU workforce and accounted for over half of the total value added by businesses in the region (European Commission, 2021). Despite their economic importance, SMEs encounter significant barriers in accessing public procurement opportunities. These markets, which comprise around 14% of the EU's GDP, are crucial for SMEs aiming to secure long-term revenue, scale their operations, and stabilize financially (Flynn & Davis, 2017). However, research indicates that SMEs are underrepresented in public procurement contracts across the EU, suggesting that market entry barriers may undermine their potential for growth and competitiveness (Loader, 2015).

Recognizing these challenges, the EU has implemented various policies aimed at improving SMEs' access to public procurement. Key initiatives include the Small Business Act for Europe, which emphasizes "think small first" principles to encourage a business environment favorable to SMEs (European Commission, 2018). Moreover, the EU has introduced specific procurement directives—such as Directive 2014/24/EU on public procurement—that mandate transparent, fair, and accessible procurement processes for businesses of all sizes (Kidalov, 2015). These policies aim to simplify complex procurement procedures, reduce administrative burdens, and provide equal opportunities for SMEs to participate. While these frameworks represent a substantial step towards enhancing inclusivity, SMEs still face numerous obstacles, including burdensome compliance requirements, high financial thresholds, and competition with large, well-established firms that dominate procurement markets (Crisan & Borza, 2015).

One of the primary barriers for SMEs in public procurement involves the complexity and cost of administrative procedures, which can be disproportionately taxing on smaller firms with limited resources. Unlike larger corporations, SMEs typically lack dedicated procurement teams and sufficient financial resources to absorb high bidding costs and complex qualification requirements (Flynn et al., 2013). The high costs associated with compliance often deter SMEs from participating, particularly when tendering processes require extensive documentation, certifications, and evidence of financial stability (OECD, 2019). These barriers are further compounded by limited access to information on available tenders, as many SMEs lack the resources to effectively track and respond to procurement opportunities across multiple EU platforms (Flynn & Davis, 2014). This structural disadvantage not only reduces SMEs' competitiveness but also limits the diversity of suppliers in public procurement, hindering the EU's goal of a more inclusive economic ecosystem.

This study sought to examine the specific barriers faced by SMEs in EU public procurement and assess the effectiveness of current EU policies in mitigating these challenges. By identifying both the direct and indirect obstacles, this research aims to highlight policy gaps and propose actionable recommendations to support SME participation. Understanding these barriers is essential for policymakers, as the inclusion of SMEs in public procurement aligns with broader EU goals of economic inclusivity, innovation, and sustainable growth (Loader, 2015). Findings from this study will contribute to ongoing discussions on how to create a fairer and more accessible procurement

market within the EU, benefiting not only SMEs but also the public sector by fostering greater competition, innovation, and value for taxpayers.

2. Methodology

This study employed a desktop review methodology, focusing on secondary data sources and relevant literature to explore the barriers faced by Small and Medium-sized Enterprises (SMEs) in accessing public procurement markets within the European Union (EU). The desktop review approach is particularly suitable for examining existing research, policy frameworks, and documented experiences of SMEs, as it allows for a comprehensive analysis of available information without the need for primary data collection. This method is effective for synthesizing a broad range of sources, including academic articles, policy documents, official EU reports, and statistical data on SME participation in public procurement.

The research process begins with the identification of key themes and barriers related to SME access to EU public procurement, as highlighted in prior studies and policy analyses. Academic databases, such as JSTOR, Scopus, and Google Scholar, are used to locate peer-reviewed literature, while official EU and OECD databases provide access to policy papers, statistical data, and regulatory documents. This allows for an examination of the effectiveness of current EU initiatives, such as the Small Business Act and Directive 2014/24/EU, which aim to facilitate SME participation in public procurement by addressing procedural, financial, and regulatory barriers.

A thematic analysis is applied to categorize findings from various sources into key areas, including administrative and regulatory challenges, financial constraints, and market accessibility issues. This enables a structured examination of how these barriers impact SME participation rates and their ability to compete effectively. Additionally, the review includes case studies and specific examples from EU member states to illustrate the contextual variations in SME experiences within different procurement environments. Comparative analysis across these cases highlights the commonalities and differences in challenges faced by SMEs, providing insights into how national and EU-level policies influence participation.

By synthesizing findings from a wide array of sources, this desktop review identifies gaps in current research and policy approaches, offering a foundation for recommendations aimed at improving SME access to EU public procurement markets. The insights derived from this methodology are intended to provide a well-rounded understanding of the structural and regulatory barriers that SMEs encounter, informing policy discussions on fostering a more inclusive and accessible procurement environment within the EU.

3. Literature Review

The role of Small and Medium-sized Enterprises (SMEs) in the European Union (EU) economy has been extensively studied due to their impact on employment, innovation, and regional economic resilience. According to the European Commission (2021), SMEs account for over 99% of businesses within the EU, providing employment for approximately two-thirds of the workforce and contributing significantly to GDP. Given this economic footprint, enhancing SME access to public procurement markets has become a strategic priority within EU policy frameworks. Public procurement represents an estimated 14% of the EU's GDP, offering substantial growth opportunities for SMEs (Loader, 2015). Despite their importance, SMEs consistently report difficulties in accessing these markets, a concern that has led to policy interventions aimed at reducing entry barriers (Flynn & Davis, 2016). Studies highlight that complex administrative

procedures, high compliance costs, and limited access to information are some of the recurring issues affecting SME participation rates in EU procurement (OECD, 2019).

Policy initiatives at both the EU and national levels have sought to mitigate these barriers. The Small Business Act (SBA) for Europe, introduced in 2008, and the Directive 2014/24/EU on public procurement are two key regulatory frameworks intended to simplify access for SMEs. The SBA emphasizes the "think small first" principle, promoting an SME-friendly regulatory environment (European Commission, 2018). Directive 2014/24/EU aims to reduce administrative burdens and increase transparency in public procurement, thereby lowering entry barriers for SMEs. However, several studies argue that the practical impact of these initiatives remains limited. Kidalov (2015) notes that while these policies are conceptually aligned with SME needs, the actual implementation often falls short due to insufficient support at the local and regional levels. This gap between policy intent and practice has spurred ongoing research into why SMEs continue to face challenges despite favorable regulatory reforms.

Administrative complexity and the high cost of compliance are among the most significant obstacles that SMEs encounter in public procurement. Flynn and Davis (2014) found that SMEs frequently lack the dedicated resources needed to manage the intensive documentation and procedural requirements of tendering processes. Larger companies, in contrast, typically have specialized procurement teams that can navigate these complexities more efficiently. According to Crisan and Borza (2015), the bureaucratic burden of public procurement tends to discourage SME participation, as these businesses often cannot afford the time or expense associated with tendering for public contracts. Moreover, requirements for financial stability and proof of prior experience create additional barriers, particularly for newer or smaller firms (Loader, 2013). These compliance costs disproportionately affect SMEs and deter them from participating, ultimately leading to a public procurement landscape dominated by larger companies.

Another recurring theme in the literature is the issue of information asymmetry and limited accessibility to procurement opportunities. Flynn et al. (2013) argue that while large firms often have the resources to monitor and respond to multiple tenders, SMEs are typically constrained by a lack of information on available contracts, particularly those outside their immediate geographic area. Many SMEs also lack the technological and personnel resources needed to stay informed about procurement opportunities on EU-wide platforms, which creates a disadvantage (OECD, 2019). This knowledge gap not only restricts SME participation but also leads to missed opportunities for diversity and competition in public procurement. The lack of accessible, centralized information channels exacerbates these issues, as SMEs find it challenging to navigate the various procurement portals and platforms managed by different EU member states (Loader, 2015). Consequently, despite policies intended to improve transparency, SMEs often remain excluded from valuable procurement contracts.

4. Key Barriers for SMEs in EU Public Procurement

One of the most significant barriers that SMEs face in accessing public procurement opportunities within the EU is the administrative and regulatory complexity involved in the tendering process. Unlike larger firms, SMEs typically lack specialized legal or procurement teams to navigate the intricate documentation and compliance requirements that public contracts demand. Studies have shown that the sheer volume of paperwork and the complexity of procedural requirements can be prohibitively burdensome for smaller enterprises, which often operate with limited human and financial resources (Flynn & Davis, 2016). For example, in their review of EU procurement

practices, Crisan and Borza (2015) noted that the bureaucratic nature of the procurement process discourages many SMEs from participating due to high compliance costs. The necessity for multiple certifications, security clearances, and a range of administrative documents effectively creates a barrier that larger firms are better equipped to manage, while SMEs often lack the resources to comply with such demands fully (Loader, 2013).

Another critical challenge for SMEs is financial constraints, which include the high costs associated with bidding and the need for substantial upfront investments to fulfill contract requirements. SMEs frequently report difficulty meeting financial criteria for public tenders, such as minimum revenue thresholds or performance guarantees, which are often set high to mitigate risks for public bodies but unintentionally exclude smaller firms from competing (Flynn & Davis, 2014). Additionally, the cost of preparing bids—including expenses related to documentation, consultancy, and sometimes translation for cross-border procurement—can be prohibitively high for SMEs with limited cash flow (Loader, 2015). Many SMEs face difficulties securing the necessary financing to cover these costs and may be unable to wait for the typically delayed payment cycles of public sector contracts, which further restricts their participation in these markets (Kidalov, 2015). Consequently, these financial constraints create a competitive disadvantage for SMEs, as they often lack the financial stability and resources to undertake significant public contracts.

Information asymmetry and limited accessibility to procurement opportunities also hinder SMEs' ability to participate in EU public procurement. Unlike larger corporations with dedicated teams to monitor and respond to tenders, SMEs often lack the personnel and technological resources to stay informed about relevant procurement opportunities, especially those posted on EU-wide platforms (OECD, 2019). Many SMEs report difficulties in accessing information about tenders outside their immediate geographic area or sector, which limits their ability to diversify and grow. According to Flynn et al. (2013), information asymmetry is a recurring issue that restricts SMEs' awareness of available contracts, which, in turn, prevents them from capitalizing on growth opportunities within the EU market. Additionally, the EU's decentralized procurement system—with various platforms and portals across member states—adds to the challenge, making it difficult for SMEs to identify and track opportunities that could otherwise help them expand their business reach (Loader, 2015).

Competitive disadvantages relative to larger firms pose another substantial barrier for SMEs. The economies of scale enjoyed by large enterprises allow them to submit more competitive bids, often with lower prices or more extensive service options, making it challenging for SMEs to compete. Larger firms also benefit from established relationships and networks within the public procurement system, giving them a strategic advantage in winning contracts (Flynn & Davis, 2017). This competitive imbalance is further exacerbated by public procurement practices that favor larger contracts, making it difficult for SMEs to enter markets dominated by conglomerates (Crisan & Borza, 2015). Some studies argue that while EU policies encourage breaking down large contracts into smaller lots to facilitate SME participation, in practice, these measures are not consistently applied across member states, leading to a procurement landscape that is often skewed in favor of large enterprises (Loader, 2013). This imbalance underscores the need for more effective policy interventions to create a level playing field for SMEs within EU public procurement markets.

5. Impact of EU Policies and Regulations on SME Participation

Over the past two decades, the European Union (EU) has implemented several policies and regulations aimed at increasing Small and Medium-sized Enterprises (SMEs) participation in public procurement. One of the foundational frameworks is the *Small Business Act for Europe* (SBA), introduced in 2008, which emphasized a “think small first” approach to reduce administrative burdens and create a more SME-friendly regulatory environment (European Commission, 2018). The SBA aimed to address challenges such as complex procurement processes and financial barriers that hinder SMEs from accessing public tenders. Key elements included promoting transparency, simplifying procedures, and encouraging EU member states to set specific targets for SME participation (Kidalov, 2015). Despite its intentions, research indicates that the SBA’s impact has been mixed, as practical implementation varies significantly across member states, with some demonstrating limited adherence to the SBA principles in their procurement practices (Loader, 2015). As a result, while the SBA has raised awareness and established a policy foundation, its overall effectiveness in fostering SME participation remains under scrutiny.

The adoption of *Directive 2014/24/EU on public procurement* marked a significant regulatory step toward leveling the playing field for SMEs. This directive requires public authorities to split large contracts into smaller lots where feasible, thereby reducing the financial and resource barriers for SMEs (Flynn & Davis, 2016). The directive also mandates more transparent tendering processes and simplifies certain procedural requirements, which are critical steps in reducing the administrative load on SMEs. Loader (2013) notes that Directive 2014/24/EU represents one of the most substantive reforms aimed at making EU procurement markets more accessible to smaller firms. However, challenges remain, as member states have discretion over the application of these requirements. Studies reveal that while some countries have successfully implemented the directive’s measures, others have been slower to adopt them, leading to inconsistent impacts on SME participation across the EU (Flynn et al., 2013).

In addition to these overarching frameworks, several specific initiatives have been launched to support SME access to public procurement. For instance, the European Commission has introduced the *European Single Procurement Document* (ESPD), a self-declaration form that simplifies the qualification phase for tenders by reducing the need for repetitive administrative documentation (European Commission, 2018). This initiative was designed to streamline the procurement process and make it easier for SMEs to bid, particularly in cross-border tenders where documentation requirements may vary significantly. According to Crisan and Borza (2015), the ESPD has facilitated a more inclusive procurement environment by lowering procedural barriers and encouraging broader SME participation. However, some SMEs report that they still find the ESPD complicated to navigate, especially without dedicated procurement resources. Thus, while initiatives like the ESPD have been beneficial, they have not entirely eliminated the barriers for SMEs, particularly in cases where local procurement practices introduce additional complexity.

The cumulative impact of these policies has increased SME visibility in public procurement, but evidence suggests that structural challenges persist. The decentralization of procurement processes across member states means that SMEs still face a variety of standards, procedures, and regulations that complicate their participation in EU-wide tenders (Flynn & Davis, 2017). Moreover, studies indicate that while policies encourage the subdivision of large contracts, not all member states actively practice this approach, limiting the directive's intended benefits (Loader, 2015). The divergence in policy implementation has led to inconsistent impacts on SMEs across different regions, with some benefiting more than others from these regulatory reforms. Therefore, while

EU policies and directives have made some headway in promoting SME participation, further efforts are needed to ensure uniform adoption and to address remaining barriers effectively, particularly those related to local practices and cross-border tendering complexities.

6. Case Studies of Successful SME Participation

Several EU member states provide compelling case studies demonstrating successful integration of Small and Medium-sized Enterprises (SMEs) in public procurement markets. In France, government initiatives have emphasized the importance of subdividing large contracts into smaller lots, a practice that has enabled SMEs to participate in sizable infrastructure projects without facing prohibitive financial or resource requirements. For example, in the Grand Paris Express project, the segmentation of contracts facilitated the involvement of numerous local SMEs, allowing them to contribute meaningfully to the project and supporting regional economic development (Uyarra et al., 2014). This approach not only increased SME participation but also demonstrated how strategic contract subdivision can stimulate local economies by engaging smaller firms. The French case underscores that breaking down large contracts can serve as an effective policy to make public procurement more accessible to SMEs, a point also highlighted by OECD studies on best practices in procurement (OECD, 2018).

In Italy, the centralized digital platform, Consip, has played a transformative role in improving SMEs' access to public procurement. This platform offers a unified, transparent interface for public tenders, streamlining application processes and reducing administrative complexity. Studies have shown that SMEs benefit from Consip's simplified processes, which reduce the time and resources needed to apply for tenders, thereby lowering entry barriers (Erridge & Hennigan, 2012). According to Castelnovo and Simonetta (2013), Consip has significantly increased SME participation, particularly in the areas of IT services and small-scale construction, where smaller firms often lack the resources to navigate complex tendering processes. This digital innovation provides an example of how technology can enhance transparency and accessibility in public procurement, making it a powerful tool for improving SME inclusion across various sectors in Italy.

In Poland, government-sponsored training programs have been instrumental in equipping SMEs with the skills and knowledge needed to succeed in the public procurement market. The Polish Agency for Enterprise Development (PARP) has organized workshops and provided resources specifically tailored to SMEs, covering aspects such as bid preparation, contract compliance, and financial management. These efforts have proven effective in increasing SME participation in public contracts, especially in less urbanized areas where SMEs may have limited access to resources and networks (Skawinska, 2014). The success of these initiatives highlights the impact of targeted support programs that build SME capacity and confidence to compete effectively in public procurement. Such training programs illustrate that beyond policy adjustments, capacity-building efforts are crucial for fostering SME participation, especially in regions with fewer economic resources.

The United Kingdom offers another case study in effective SME engagement in public procurement through the introduction of the Contracts Finder portal and policy mandates. The UK government committed to channeling at least 33% of public procurement spending to SMEs, a target that has driven initiatives to simplify procurement processes and increase accessibility (Bovaird, 2016). The Contracts Finder portal provides a centralized, easy-to-navigate platform that allows SMEs to search for and access available tenders. Furthermore, UK legislation encourages

the breakdown of large contracts into smaller lots, supporting SME competitiveness and entry into the market (Walker & Brammer, 2012). These measures have resulted in increased SME participation, particularly in digital and technology services, where smaller firms have leveraged government contracts to scale their operations. The UK example highlights how centralized information and clear targets can enhance SME engagement and diversify public sector suppliers, benefiting both the government and SMEs.

7. Conclusion and Recommendations

In conclusion, Small and Medium-sized Enterprises (SMEs) are essential to the economic vitality of the European Union (EU), yet they continue to face considerable barriers in accessing public procurement markets. Although EU policies such as the Small Business Act and Directive 2014/24/EU have made strides toward a more inclusive procurement environment, many challenges remain. Administrative complexity, high compliance costs, and competitive disadvantages still limit SME participation, despite regulatory efforts to streamline and simplify processes. Case studies from countries like France, Italy, Poland, and the United Kingdom illustrate that targeted policy interventions can indeed foster SME participation; however, these successes also highlight the need for more consistent implementation and further tailored support across the EU. Addressing these issues is crucial, as increased SME participation in public procurement can lead to more competitive, innovative, and diversified supplier bases, which ultimately benefit both the economy and public sector efficiency.

To improve SME participation in public procurement, several key recommendations are proposed. First, EU member states should further enforce and standardize contract segmentation practices to ensure that large public contracts are accessible to SMEs. Breaking down contracts into smaller lots, as practiced successfully in France, can significantly lower entry barriers for SMEs, allowing them to participate in substantial projects without being outmatched by larger firms. Additionally, EU-level monitoring and guidance on the implementation of this practice could promote more uniformity across member states, ensuring that the policy benefits are distributed more equally.

Second, investing in digital procurement platforms and centralizing information resources can help improve transparency and accessibility. The success of Italy's Consip platform and the UK's Contracts Finder portal demonstrates the effectiveness of centralized digital solutions in making public procurement opportunities more accessible to SMEs. EU member states that have not yet adopted similar platforms should prioritize their development, with features tailored to reduce administrative burdens for smaller businesses. Additionally, a pan-European platform that consolidates tenders from multiple member states could further support SMEs, especially those interested in cross-border procurement opportunities, by providing a single, accessible location for all EU public tenders.

Third, capacity-building programs are essential for empowering SMEs to navigate the complexities of public procurement. Training sessions, workshops, and consultancy services, like those provided by Poland's PARP, equip SMEs with the skills needed to prepare competitive bids, manage contracts, and meet regulatory requirements. Such programs should be expanded and made widely available, particularly in less urbanized or economically underserved regions. EU funding could support these initiatives, ensuring that SMEs across member states benefit from the skills and resources necessary to succeed in public procurement markets.

Finally, setting and enforcing specific SME participation targets can drive a more inclusive approach to public procurement. The UK's commitment to channeling a set percentage of public

<https://doi.org/10.53819/81018102t2449>

procurement spending to SMEs has proven effective in promoting SME engagement. Similar targets across the EU could provide public authorities with a clear directive to prioritize SME inclusion. Establishing a standardized reporting system to track member states' progress on SME participation would also enhance accountability and allow policymakers to monitor the effectiveness of initiatives.

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