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## INTRODUCTION

Technological progress is creating a global digital economy that is driven by innovation. Such an economy is highly competitive and, perhaps surprisingly, the most dynamic part of it is made up of small businesses. Globally, it is estimated that a tax-paying small business contributes up to 45 per cent to employment rates and up to 33 per cent of gross domestic product (GDP) in developing economies and nearly 64 per cent of GDP and 62 per cent to employment in developed countries.<sup>1</sup> With such a great contribution, small businesses should enjoy a substantial share of the economy and participate in equal measure in business-to-business and business-to-government transactions. But this is not the case. All over the world, public contracts funded with money from taxpayers are principally awarded to large companies. The share of business-to-government transactions involving small businesses is typically well below half of the value of their general market standing.

With this disproportion in mind, several governments across the world have adopted new public procurement policies to ensure proportional participation from local small businesses. In some countries, these procurement policies result in the reappearance of traditional regulatory solutions: domestic preferences, subsidies or procurement quotas for small business suppliers and contractors. In others, governments abandoned populist quotas-and-preferences approaches and have implemented reforms targeting market failures of public



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procurement regulation, complexity of procedures, insufficient access to business opportunities and excessive red tape. This article presents the case of Tandoo, an online shopping system in the Kyrgyz Republic, which is testing the waters for new public procurement policies through the use of disruptive technologies and modern policy thinking that focuses on promoting competitiveness among local small businesses.

“The Kyrgyz Republic made some advances in the area of public procurement by adopting a new Law On Public Procurement in April 2015.”

## SMALL AND MEDIUM-SIZED ENTERPRISES AND THE PUBLIC PROCUREMENT MARKET IN THE KYRGYZ REPUBLIC

The Kyrgyz Republic made some advances in the area of public procurement by adopting a new Law On Public Procurement in April 2015, Number 72, based on the 2011 UNCITRAL Model Law on Public Procurement and by introducing an electronic procurement system in June 2014. Since May 2015, all public tenders have been conducted electronically through the national electronic procurement portal [www.zakupki.gov.kg](http://www.zakupki.gov.kg). The exception is direct contracting, which remains offline.

In terms of market impact, in 2017 public procurement accounted for 26 per cent of state budget spending and has significant purchasing power in the domestic economy. At the same time, local small businesses are heavily under-represented in the area of public procurement. Despite the introduction of mandatory electronic bidding in 2015, the majority of small businesses did not win a public tender. In the survey among small businesses conducted in 2018, in collaboration with the Chamber of Commerce and the National Alliance of Business Associations



(NABA), three issues were emphasised by almost all participants: complex and time consuming procedures, no bidding opportunities and exceedingly high financial capacity requirements in public tenders.

Indeed, small value public contracts that hold the biggest appeal to local small businesses range in the Kyrgyz Republic from KGS 1 million (12,920 euro equivalent) to KGS 3 million (€38,762)<sup>2</sup> but do not have to be conducted online or subject to competition. In fact, in 2017, public procurement in the Kyrgyz Republic consisted of 49 per cent of public contracts being directly awarded offline, 34 per cent of contracts awarded in electronic simplified tendering, 16 per cent awarded in electronic open tenders and 1 per cent awarded in other offline procedures. In addition to a high proportion of direct awards, simplified tendering is not as simple as the name may suggest. It differs from standard open tender for high value procurement only by shorter bidding deadlines. It requires contracting entities and suppliers to prepare a procurement notice and documentation for each tender and to submit technical and financial proposals as well as qualification documents for each tender they wish to participate in. As this process involves time, skills and trained staff that small and medium-sized enterprises (SMEs) that many economies in our regions cannot afford, they simply do not participate in public tenders.

To remedy the situation, new procurement procedures and online eProcurement tools were called for to simplify and speed up the procurement of small value goods, works and services and make direct awarding online, transparent and accessible for local small businesses.

### NEW LEGAL FRAMEWORK

Facilitated by the EBRD, technical cooperation amendments to the Law of the Kyrgyz Republic On Public Procurement introducing new provisions on the electronic catalogue were adopted in January 2019.<sup>3</sup> A new government regulation on the public procurement of goods, services and works through an electronic catalogue was adopted in May 2019 and came into force in June 2019.<sup>4</sup> It envisages the development of an online shopping system, Tandoo, which is based on eCatalogues, initially for four categories of products, aiming for 29 categories on completion of the system pilot.

“Online shopping is not commonly used in public procurement, especially not in the Kyrgyz Republic and other Central Asian countries. Tandoo is a welcome innovation for public bodies and suppliers alike.”

### HOW TANDOO WORKS

Online shopping is not a new phenomenon in the commercial world, as demonstrated by the global reach of companies such as Amazon, but it is not commonly used in public procurement, especially not in the Kyrgyz Republic and other Central Asian countries.

Tandoo is a welcome innovation for public bodies and suppliers alike as it:

- supports the purchase of standardised products from the eCatalogue, according to standard technical specifications
- offers simple qualification for suppliers once a year and there is no paperwork needed to submit an offer
- keeps prices up to date by recording purchases in all categories
- reduces the time taken to request a quote from a supplier
- is competitive and transparent, as invitations are published online and received by suppliers through the system for all goods they have an offer for
- offers automated identification of the best price when several suppliers are offering the same product in the eCatalogue
- works through a mobile application.

One of the many benefits of the online system is the fact that suppliers and their products only need to be registered once a year and there is no need to prepare tender documentation for each procurement.

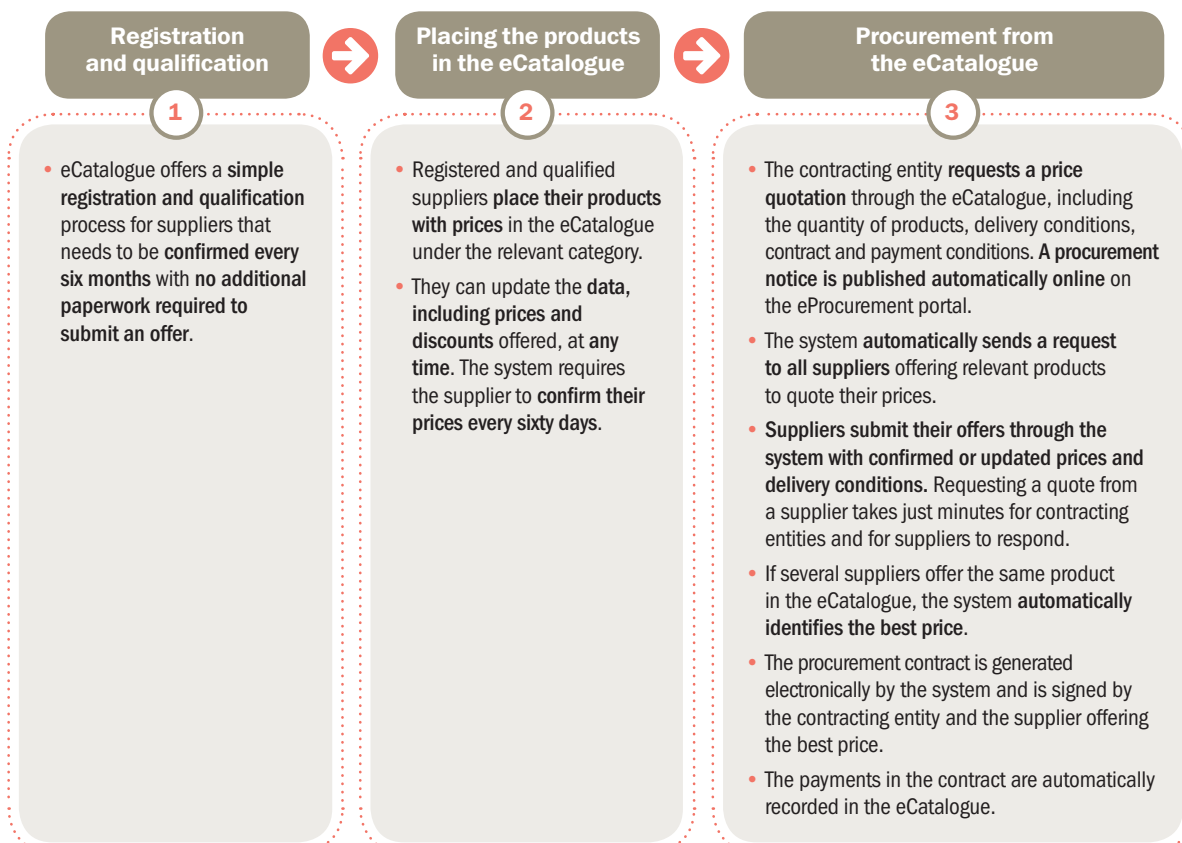
Tandoo is run by the Public Procurement Department of the Ministry of Finance, which is responsible for the administration of the eCatalogue in terms of identifying categories of products and developing standard technical specifications for products in each category of the eCatalogue. The Tandoo administration team also undertakes the registration and qualification of suppliers and the verification of products to ensure they are placed correctly by qualified suppliers in the eCatalogue.

With Tandoo, registration of supplier, placing a product in the eCatalogue and purchasing from eCatalogue can be simplified to three steps, as explained in the chart below.

## TANDOO TRAINING PROGRAMME FOR SMEs AND GOVERNMENT BUYERS

In order to bring Tandoo to the market, a training programme for SMEs, which will be available in every region in the Kyrgyz Republic, will begin in January 2020. It will be delivered in collaboration with the local chamber of commerce and NABA and aims to reach 1,400 active SME suppliers within six months. The total number of trained suppliers and public contracting entities will be over 2,500. Each region will get a Tandoo ambassador – 30 members of the Chamber of Commerce volunteered for the programme to be trained – and, on completion, the ambassador will be available to support and train their local business communities. Online tutorials have been developed for the eCatalogue to assist SMEs and contracting entities in using Tandoo effectively. Online shopping by government bodies is a radical change for business in the Kyrgyz Republic and problems are to be expected. For this reason, dedicated SME help desks at the Ministry of Finance will provide support to purchasing entities and suppliers.

### The Tandoo process



The help desks can assist, online and over the phone, any local business that is interested in eCatalogues or experiencing issues in terms of getting paid in time for public contracts that have been signed through Tandoo.

### REMOVING BARRIERS TO MARKET PARTICIPATION

Tandoo is an example of the way in which the government may correct bias towards or remove barriers to SMEs being able to participate in the public procurement market. As SMEs have fewer resources, anything that makes the procurement process easier and lowers the cost of involvement will have a greater relative result for them. With user-friendly technology, public procurement reform can go a long way towards creating a business environment where local small businesses can operate and compete openly.

Tandoo eCatalogue is a new modern electronic tool that simplifies, speeds up and adds transparency to the process of purchasing small value goods, services and works. It significantly improves the process of purchasing small value goods by reducing the time and costs for such procurement for both the contracting entities and the suppliers. It is expected to encourage the participation of local SMEs in bidding for public contracts and the transparency of the Tandoo online procedures should reduce corruption risks as well. It offers new rules and new tools to give local SMEs access to procurement opportunities that were previously unavailable online and not open to competition. It also helps to ensure that payments for public contracts delivered by SMEs will be more timely due to regular monitoring by the Tandoo administrators.

If piloting is successful, by December 2020 Tandoo may become the main online platform for government buyers and SMEs in the Kyrgyz Republic creating reliable revenue for local small businesses across the country and reducing the cost and time of procurement for government buyers.

“The visual presentation of a list of goods, services and works in the eCatalogue will greatly facilitate the public procurement process. Knowing the approximate prices for certain standardised goods and services, we can better estimate the cost of public contracts. An electronic catalogue is a great help for both suppliers and procuring organisations. Here you can see the difference in price and quality – a good incentive for developing competition.”

Mukhammedkalyi Abylgaziev,  
Prime Minister of the Kyrgyz Republic  
October 2019



- 1 International Finance Corporation (2010), *Scaling-Up SME Access to Financial Services in the Developing World*.
- 2 Regulation of the Government of the Kyrgyz Republic (January 2016), ‘On approval of threshold amounts for the procurement of goods, works and services’, Number 10 (as amended by Government Regulation in April 2017, No. 225).
- 3 See <http://cbd.minjust.gov.kg/act/view/ru-ru/111831> (last accessed 9 January 2020).
- 4 See <http://cbd.minjust.gov.kg/act/view/ru-ru/14125> (last accessed 9 January 2020).

