

**Expanding State Purchases from Micro and Small Enterprises  
– a Promising Approach from Peru**

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## Expanding State Purchases from Micro and Small Enterprises – a Promising Approach from Peru

The availability of services online enhances the value of connectivity. The generally low levels of access to infrastructure typical of developing countries hold back governmental offers of content and services online. Since there is no effective demand, there is little value in supplying these services. Where telecenters are ubiquitous, however, the potential for serving the poor through online services can be realized. Telecenter sustainability is also enhanced, as the value of connectivity increases and low income users become more willing and able to connect to the Internet through telecenters.

Peru has a dense network of about 2,000 *cabinas públicas*, mostly located in Lima and in other urban centers of the country.<sup>1</sup> Competitive forces have enabled increasingly lower service costs. By mid 2002 telecenter users in Lima were paying about US\$ 0.60 for an hour of use of computers and the Internet. In June 2001, 33 percent of Lima's population was using the Internet at least once a month [Apoyo 2001].

Commercial telecenters (*cabinas*) are the most common form through which Peruvian citizens connect to the Internet. Only 5 percent of the lowest income category (E) used the Internet at least once a month; and only 21 percent of the second lowest strata (category D). Within this small group of low income users (D and E), 91 percent connected to the Internet using telecenters. Amongst women Internet users, 90 percent connected from *cabinas*. Use of *cabinas* is not limited to low income groups; as many as 60 percent of high income users (category A) connect to the Net through *cabinas* [Apoyo 2]. In 2001 the average number of users per Internet host was 2.3 in the US and 80.0 in Peru [Gallo 2003].

**Place where Lima residents connect to the Internet**

<i>Location</i>	By income status (A highest; E lowest)				Gender	
	A	B	C	D/E	Male	Female
<b>Cabina pública</b>	59	77	88	91	77	90
Workplace	22	29	14	6	24	11
School	21	17	16	16	15	19
Home	53	17	2	2	14	8
House of friend or relative	10	4	4	9	9	2

Fuente: [Apoyo 2001].

Note: User's may connect to the Internet from more than one location.

Micro and small enterprises generate about three quarters of Peru's GDP and account for over 40% of employment in the country. Peru's extensive telecenter network is making it possible for the Government to support them through online services. Especially noteworthy are ongoing efforts to increase the amount of State purchases that are supplied by micro and small enterprises.

**Relative Significance of Peruvian Enterprises by Size,  
in Terms of Number and Contribution to GDP and Employment**

Classification	Annual sales US\$	Number of enterprises		Percent Contribution to:	
		Number	Percent	GDP	Employment
Micro	< 80,000	467,001	91.7	75.9	42.1
Small	80,000 – 750,000	35,075	6.9		
Medium and Large	> 750,000	7,348	1.4	24.1	57.0

**Note:** These figures exclude rural micro and small (mostly farming) enterprises.

**Source:** Infante [2003]

<sup>1</sup> Perú's *cabinas públicas* are small commercial microenterprises that in other parts of the world are commonly known as cybercafés. Although no one really knows, it is commonly believed there may be 1,200 *cabinas* in Lima and another 800 elsewhere in the country.

A State purchase policy may seek neutrality and focus on transparency by increasing the amounts that are advertised and processed online, without introducing explicit measures that would favor small enterprises. This is for example the approach adopted in Chile. Alternatively, specific measures may be introduced to try to enhance the competitive edge of micro, small and medium enterprises in the bidding process. The latter approach is followed by the US Small Business Administration [Chellew 2002].

Peru has taken a proactive approach, through a set of low cost set of interventions that do not introduce distortions in market signals nor compromise the quality of products purchased. Instead they make effective use of the the Internet, to help overcome the information barriers that have traditionally prevented small enterprises from taking advantage of the enormous purchasing power of the State.

The Ley de Contrataciones y Adquisiciones (Ley 26850) which became effective early in 2001 has significantly increased comercial opportunities for Peruvian micro and small enterprises employing fewer than 40 workers. The law provides that these small enterprises be favored in the event of a tie in a public tender process. More important than this “positive discrimination”, are parallel measures introduced by the law, requiring every State agency to notify PROMPyme of those tender processes involving small amounts. Low value purchases matter the most, because those are the kinds of purchases that small enterprises are in a better position to supply competitively.

The new law requires every State institution to inform PROMPyme of every tender process it launches involving Low Value Purchases (*Adjudicaciones de Menor Cuantía*) as well as of Select Direct Tenders (*Adjudicaciones Directas Selectivas*). These small tenders need to be awarded expeditiously and, accordingly, do not require written public calls for proposals. Select Direct Tenders are awarded after inviting no fewer than three suppliers, in addition to the requirement of a ten day advance notification to PROMPyme. Low Value Purchases involve smaller quantities. They are more numerous and more frequent and are generally filled by awarding the purchase to the best bid from suppliers. Traditionally Low Value Purchases are filled by predetermined suppliers that are invited to submit their bid; now they also need to consider proposals submitted by enterprises that learn of the tender from PROMPyme. In this case, notification to PROMPyme must be concurrent with issuance of invitations to prospective suppliers.

**Peru: Approximate Values (US\$), Notification Requirements to PROMPyme and Consultation Periods of Low Value Purchases and Select Direct Tenders**

		Low Value Purchases		Select Direct Tenders***	
		Mínimum*	Maximum	Mínimum**	Maximum
<b>Civil Works</b>		8,900	26,000	26,000	129,900
<b>Goods</b>		3,580	10,100	10,100	50,500
<b>Services</b>		3,580	4,300	4,300	21,600
<b>Notification requirements</b>	<b>Civil Works</b>	7 days between the call for proposals and the deadline for their presentation		10 working days between calls for proposals have been issued and the deadline for the presentation of proposals.	
	<b>Goods and Services</b>	Deadlines for the presentation of proposals may be set shortly after the call for proposals has been issued (even within the same day). Notification to PROMPyme must be simultaneous with issuance of invitations to tender.			
<b>Period of consultation and formulation of tender documents</b>		Does not apply.		4-5 days of consultation and refinement of tender documents.	

\* After this minimum amount, the law requires that PROMPyme be notified.

\*\* Under this amount, the tender is regarded to be a Low Value Purchase.

\*\*\* Should a Select Direct Tender become vacant, it becomes a Low Value Purchase.

Source: [Caroy 2002a].

Once PROMPyme receives the calls for proposal, it immediately notifies enterprises through various means, including a one minute daily radio announcement, posting in its own premises and PROMPyme's website ([www.prompyme.gob.pe/compras\\_estatales/](http://www.prompyme.gob.pe/compras_estatales/)).

In principle, failure to inform PROMPyme in a timely fashion may lead to the challenge and eventual the cancellation of the tender award. In practice, PROMPyme has been able to persuade agencies to conform with the law and the number of properly informed tenders has increased from 77 percent in September 2002 to 96.1 percent by the end of 2003. The average number of business opportunities notified per month to PROMPyme has increased from 1,273 in 2000, to 2,883 in 2003. The process is also gaining in effectiveness, as government agencies are making increasing use of the Internet to notify PROMPyme. The proportion of calls for tender received via e-mail increased from 40 percent in January-April 2002 to 55 percent a year later; while at the same time calls for tender notified through other means fell in importance (32% to 23% by fax and 29% to 22% by courier).

Initial results are encouraging. PROMPyme's website is by far the principal means through which entrepreneurs learn of existing small scale opportunities to sell to the State, and the number of visitors to this site has been rapidly increasing. A total of 3,285 users have subscribed to the PROMPyme portal and 2,787 have asked to receive notices of State purchases from PROMPyme by e-mail. More suggestive, the proportion of central government purchases that were supplied by small enterprises rose from 23 percent in 2001 to 33 percent in 2002.<sup>2</sup> In 2002, US\$ 400 million of goods and services purchased by State agencies were supplied by 67,635 small enterprises.

**Visitors and visits to PROMPyme's Website**

		<b>Distinct visitors</b>	<b>Visits</b>	<b>Average visits per visitor</b>
2002	June	4,306	6,804	1.6
	July	8,564	15,969	1.9
	August	15,332	35,334	2.3
	September	18,213	43,027	2.4
	October	19,452	46,393	2.4
	November	17,845	39,821	2.2
	December	16,344	36,677	2.2
	January	18,989	46,292	2.4
	February	19,868	49,308	2.5
	March	21,522	55,990	2.6
	April	22,215	56,705	2.6
	May	24,468	62,514	2.6
2003	June	24,548	n.a.	
	July	24,690	n.a.	

**Source:** Caroy [2002b] and Gallo [2003].

We do not know how many of these visitors use telecenters to connect to PROMPyme's web site, but given the frequency of use of *cabinas* amongst Peruvian Internet users it is safe to say that a significant number do so. Most likely, it is not the informal microentrepreneur but the somewhat larger and more technically sophisticated small enterprises that are benefiting from the new policy. The increasing importance of smaller firms as State suppliers may also reflect an ongoing transformation in Perú's industrial structure whereby smaller firms become more competitive than larger vertically integrated

<sup>2</sup> Purchases by central government agencies and regional governments, for which data is available, represent about half of all State purchases.

operations, as has happened elsewhere as a result of increased reliance on information technology.<sup>3</sup> The Internet gives an edge to technically sophisticated small entrepreneurs with otherwise limited physical capital resources. Widespread connectivity opens up a window of opportunity for developing countries. It also brings to the fore the importance of parallel policies that raise a country's digital literacy and the general educational level of its population.

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<sup>3</sup> “In many industries, mass production by large, vertically-integrated, hierarchically-organized firms is giving way to more flexible forms of both internal organization and industrial structure. Work is increasingly accomplished through networks of smaller, more focused enterprises. The resulting structure of loosely coupled suborganizations blurs the boundaries of both firms and industries.” [Brynjolfsson 1993, pages 2-3].