



HOUSE OF COMMONS
CANADA

**IN PURSUIT OF BALANCE:
ASSISTING SMALL AND MEDIUM ENTERPRISES
IN ACCESSING FEDERAL PROCUREMENT**

**Report of the Standing Committee on
Government Operations and Estimates**

**Derek Lee, MP
Chair**

JUNE 2009

40th PARLIAMENT, 2nd SESSION



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has the honour to present its

SEVENTH REPORT

Pursuant to its mandate under Standing Order 108(2) and the motions adopted by the Committee on Thursday, February 5 and Tuesday February 10, 2009, the Committee has undertaken a study on the access to federal procurements by small and medium enterprises and has agreed to report the following:

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IN PURSUIT OF BALANCE

Introduction

Federal government procurement is big business in Canada. The government buys approximately \$14 billion worth of goods and services each year from thousands of suppliers. Small and medium enterprises (SMEs) are big players in the Canadian economy. SMEs account for 45% of gross domestic product (GDP), much of the economy's growth, 60% of all jobs in the economy, and 75% of net employment growth.¹ SMEs are an integral part of the country's economic fabric and are important to federal procurement, accounting for 65% of the number of procurement transactions in 2007-2008.

The Standing Committee on Government Operations and Estimates held five hearings on the subject of the ability of SMEs to access federal contracts. What began as a study on the bundling of information technology (IT) contracts became a study on the conditions surrounding SMEs as they try to access federal contracts. The Committee was impressed by the strong desire of SMEs to do business with the federal government and therefore it would like to address the concerns raised by SMEs with respect to procurement process.

After introductory sections describing a snapshot of SMEs today and the procurement process administered by Public Works and Government Services Canada (PWGSC), this report will outline goals it believes the federal government should incorporate in the procurement process when establishing procurement policies that involve SMEs. These goals are:

- Improving the procurement process for small and medium enterprises to facilitate their awareness of and access to federal contracts.
- Coordinating federal programs for small and medium enterprises.
- Ensuring access by small and medium enterprises when smaller contracts are bundled into larger contracts.
- Offering fairness instead of reserving a certain percentage of contracts, or "setting-aside" contracts, for small and medium enterprises.
- Allowing innovation and quality to be key selection criteria.

¹ Public Works and Government Services Canada, "Importance of SMEs." Accessed online on 21 May 2009 at <http://www.tpsgc-pwgsc.gc.ca/app-acq/pme-sme/importance-eng.html>.

Small and Medium Enterprises Today

About 98% of all businesses in Canada fall into the SME category. According to Industry Canada, a small business is one that has fewer than 100 employees, and a medium business is one that has fewer than 500 employees.² Statistics provided by Industry Canada show that 74% of SMEs have fewer than 10 employees and 57% have only one to four employees.

SMEs employ 5.1 million people, almost half of the private sector work force. They accounted for 80% of the net job creation between 1993-2003. Large businesses actually shed jobs during that period. According to John McConnell from Industry Canada: “the long-term trends that we’re seeing are a lot more heavy lifting, a lot more job creation by small business.”³

According to data submitted to the Committee by PWGSC, SMEs have been accessing a greater value of federal contracts since 2004-2005. Table 1 details the trends in SME federal procurement since 2004-2005.

Table 1: Volume of federal contracts awarded to small and medium enterprises

		2004-2005	2005-2006	2006-2007	2007-2008
Number of Transactions	Total	60,901	61,333	61,908	59,339
	Small Enterprises	34,239	33,742	32,913	31,141
	Medium Enterprises	7,251	7,071	6,740	7,146
	% SME	68%	67%	64%	65%
Total Contract Value	Total	\$18.5B	\$13.7B	\$10.8B	\$12.6B
	Small Enterprises	\$2.8B	\$3.2B	\$2.8B	\$3.0B
	Medium Enterprises	\$1.5B	\$2.1B	\$1.4B	\$1.8B
	% SME	23%	39%	39%	38%
Total Contract Value less Foreign Suppliers	Foreign Suppliers	\$6.1B	\$1.1B	\$1.7B	\$2.7B
	Canadian Suppliers	\$12.4B	\$12.6B	\$9.1B	\$9.9B

²The statistics in this section are from a presentation made by John McConnell from Industry Canada on 30 April 2009. Standing Committee on Government Operations and Estimates. 40th Parliament, 2nd Session. Meeting 18.

³ Mr. McConnell, Meeting 18:1110.

		2004-2005	2005-2006	2006-2007	2007-2008
	Small Canadian Enterprises	\$2.8B	\$3.2B	\$2.8B	\$3.0B
	Medium Canadian Enterprises	\$1.4B	\$2.1B	\$1.4B	\$1.8B
	% Canadian SMEs	34%	43%	46%	49%

Source: Public Works and Government Services Canada. "PWGSC-AB Trends – Small and Medium Sized Business vs Overall AB Business Volume." Submitted to the Standing Committee on Government Operations and Estimates, 4 June 2009.

As Table 1 shows, though the number of transactions with SMEs has been decreasing over the past four years, when foreign suppliers are removed from the equation the percentage of total contract value awarded to Canadian SMEs has increased from 34% in 2004-2005 to 49% in 2007-2008.

Federal Government Procurement Policy and Process

Federal government policy requires that federal contracting be conducted in a manner that will:

- Stand the test of public scrutiny, increase access, encourage competition and reflect fairness; and
- Comply with Canada's trade obligations under the North American Free Trade Agreement (NAFTA), the World Trade Organization Agreement on Government Procurement (WTOAGP), and the Agreement on Internal Trade (AIT).

Federal procurement is currently carried out within a framework of more than 15 Acts of Parliament and more than 35 policies. The Treasury Board sets government-wide procurement policies and limits on the project and contract approval authorities of ministers; it also approves projects and contracts above those limits. The Treasury Board Secretariat ensures government-wide overview of policy implementation.

Individual federal departments and agencies, which deliver programs and services for Canadians, must develop operational requirements for goods and services. Within prescribed limits, they can directly contract for goods and services. In other cases of procurement, the departments will utilize the services of PWGSC.

Other departments also play a role in fashioning procurement policy. The Departments of Foreign Affairs and International Trade and Industry Canada negotiate federal government procurement provisions as part of Canada's trade agreements. Departments are expected to identify socioeconomic programs or objectives that could

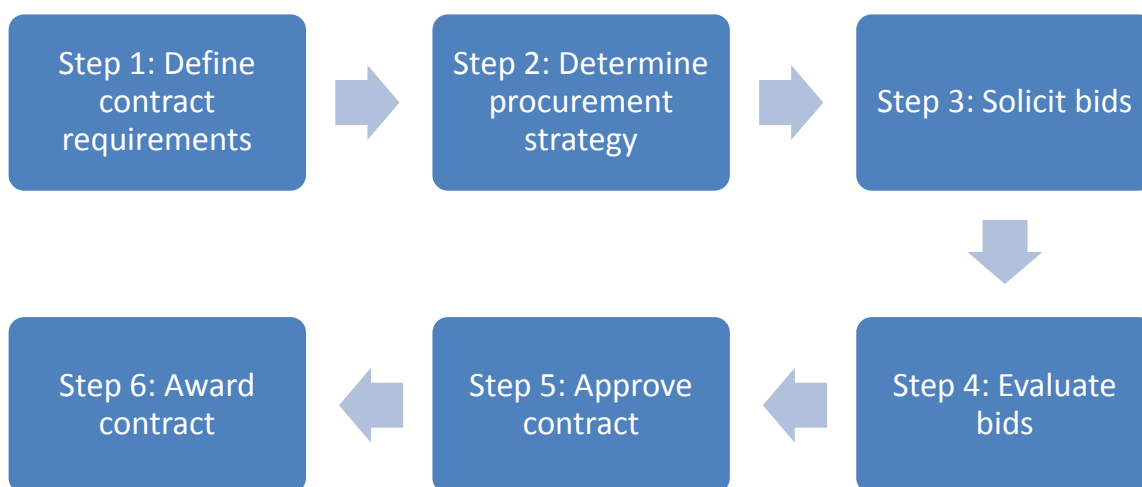
be supported by government procurement activities. The Department of Justice provides legal advice on procurement transactions and issues.

Some federal departments and agencies exist to ensure that rules and regulations are followed. The Canadian International Trade Tribunal reviews complaints about individual government procurements for compliance with trade agreements. It also issues findings, recommends remedial actions, and may award costs and other compensation. The Office of the Auditor General reviews government operations to ensure compliance with policy and value for money. It also recommends remedial action to the government. In addition, the Office of the Procurement Ombudsman ensures the fairness, openness and transparency of government procurement. It reviews the procurement practices of federal departments and agencies, reviews any complaint respecting the award of a contract under certain limits, reviews any complains respecting the administration of contracts and ensures that an alternative dispute resolution is provided.

PWGSC has the greatest role to play in procurement. It is the government's largest public purchasing organization: it manages procurement for over 100 federal departments and agencies. It administers approximately 60,000 contracts totalling \$10 billion annually. PWGSC can also delegate the authority to procure goods to individual federal departments. It develops government-wide methods of supply. Generally, PWGSC is responsible for determining how services will be provided, while the individual departments are responsible for determining what they need, as well as where and when they need it. Any procurement, which includes market research, product planning and the soliciting, evaluating, selecting, negotiating, issuing and administering of contracts, is the responsibility of PWGSC, which must ensure that contracts are successfully executed in accordance with the agreed terms of time, cost and performance.

Figure 1 below depicts the standard process PWGSC uses to procure goods on behalf of federal departments and agencies.

Figure 1: Standard PWGSC Procurement Process for Federal Contracts



- Step 1 – Requirement Definition: The contracting department defines its contract requirements, obtains project approval, internally certifies the availability of funds and sends the contract requisition to PWGSC.
- Step 2 – Procurement Strategy: PWGSC, in collaboration with the contracting department, develops the way it is going to approach the procurement. It examines international trade obligations, the evaluation criteria and methodology, and the selection methodology.
- Step 3 – Bid Solicitation: PWGSC determines whether the contract will be competitive or sole-sourced. For one-stage solicitations, it issues Request for Proposals (RFPs), Requests for Standing Offers (RFSOs), or Invitations to Tender (ITTs). For multi-stage solicitations, PWGSC first issues Solicitations of Interest and Qualifications or Letters of Interest, and then proceeds with issuing RFPs, RFSOs or ITTs. The details of the contract are listed on MERX, the internet-based tendering system used by the government to advertise contracting opportunities.
- Step 4 – Evaluation of bids: The contracting department conducts a technical evaluation of received bids and PWGSC conducts a financial evaluation. PWGSC then applies the selection criteria and methodology.
- Step 5 – Contract Approval: PWGSC conducts third-party reviews as appropriate to ensure that the contract is compliant with all trade agreements and that due diligence has been carried out.
- Step 6 – Contract Award: PWGSC posts the results of the contract solicitation on MERX. Unsuccessful bidders are notified and offered a debrief as to why they were not awarded the contract.

Goal 1: Improving the procurement process for small and medium enterprises to facilitate their awareness of and access to federal contracts

The Committee heard overwhelming testimony that SMEs are frustrated with the federal procurement process. From cumbersome and expensive-to-complete RFP processes to the government not paying interest on overdue accounts, many SMEs “have just given up” trying to bid on federal government contracts.⁴

The Canadian Federation of Independent Business (CFIB) is a not-for-profit, non-partisan organization that represent the interests of Canada’s independent businesses and develops its policy positions through survey research. The CFIB conducted a survey in May 2008 of more than 8,000 SMEs to assess how many SMEs conduct business with the federal government. The study found about 20% of its respondents have sold goods or services to the federal government during the past three years. The study also found that SMEs with more than 100 employees were more likely to have conducted business with the federal government during the past three years.

The CFIB study highlighted some troubling opinions of the federal procurement process. According to the testimony given during the hearings, almost half of those SMEs who conducted business with the federal government heard about those contracts through business associates: only 14% of the SMEs surveyed used MERX to find federal contracts. In addition, the survey found that among those SMEs that sell to the federal government, many were concerned with “issues such as the amount of paperwork, difficulty in contacting purchasers, and not being able to determine why their bid was unsuccessful.”⁵

The survey concluded that many SMEs seem to have little trust in the federal procurement process because they

- Cannot access the purchaser to clarify RFPs: SMEs found that the officials assigned to the contract do not often have a full understanding of the technical aspects of the bid and therefore cannot answer questions;
- Believe that they cannot talk to purchasers about alternative approaches that may be effective: if SMEs try to incorporate an alternative approach into their bids, they may be rejected as they do not follow the exact process outlined in the RFP;
- Experience difficulty finding contracts very easily: some SMEs stated that they had to go to 20 to 30 different websites to find RFPs; and
- Feel that the federal government does not always pay quickly: SMEs found that this could cause serious cash flow problems.

⁴ Corrine Pohlmann, 26 February. Standing Committee on Government Operations and Estimates. 40th Parliament, 2nd Session. Meeting 6:1110.

⁵ Pohlmann, Meeting 7:1110.

For these reasons, the CFIB survey found that there “seems to be a growing sentiment among SMEs that it is not worth the effort and investment to bid on federal government procurements.”⁶

Charles Duffett, the Senior Vice-President and Chief Information Office from the Canadian Advanced Technology Alliance, provided the Committee with an example of a SME that found the federal procurement process overly slow and complicated. Liquid Computing, an Ottawa area technology business, developed a powerful computer that reduces the space and the electricity used by current data centres. According to Mr. Duffett, the board of directors at Liquid Computing gave instructions to Liquid’s Chief Executive Officer not to sell to the federal government: “in their view, it’s a waste of time. It takes up too much energy, and nothing goes anywhere.” In the two to three years it tried to sell its computers to the Canadian government, Liquid sold four units to the United States government.⁷ Pat DiPietro, managing partner at VG Partners’ Technology Fund, the major investor in Liquid, stated:

I encourage all my companies not to talk to the federal government. I never hold out any hope. It’s so impossible to deal with, it just sucks so much effort out of the company.⁸

According to Mr. Duffett, the current federal procurement process limits the ability of Canadian SMEs to showcase their talents to the federal government.

The Committee also heard testimony detailing other barriers in the procurement process that SMEs face when trying to bid for federal contracts. The Business and Institutional Furniture Manufacturer’s Association (BIFMA) is an organisation that leads, advocates, informs and develops standards for the North American office and institutional furniture industry. In testimony before the Committee, Greg Rapier from BIFMA stated that his industry has perceived that PWGSC has “moved from a historically inclusive procurement process to a more exclusive process.”⁹ Mr. Rapier told the Committee that following a recent Request for Standing Offer (RFSO), the government process led to was a reduction in standing offer suppliers from 36 manufacturers to only five manufacturers.¹⁰ Though the number of manufacturers was reduced to five, there were 10 standing offers issued, five of which were offers as part of the Procurement Strategy for Aboriginal Business.¹¹

⁶ Pohlmann, Meeting 7:1110.

⁷ Charles Duffett, 28 April 2009. Standing Committee on Government Operations and Estimates. 40th Parliament, 2nd Session. Meeting 17:110.

⁸ Kathryn May, “Government bid practices turn off Canadian tech talent; Process too slow for makers of super-fast computer system.” *Ottawa Citizen*, 2 May 2009.

⁹ Greg Rapier, 3 March 2009. Standing Committee on Government Operations and Estimates. 40th Parliament, 2nd Session. Meeting 7:1135.

¹⁰ A standing offer is an agreement by a supplier to provide goods and services at pre-arranged prices, under set terms and conditions, when and if required. Standing offers are used to meet recurring needs where departments are repeatedly ordering the same goods or services. Standing offers are not contracts: only when the government issues a call for a company’s goods or services does the company have a contract for the amount ordered.

¹¹ Liliane saint pierre, 30 April 2009. Standing Committee on Government Operations and Estimates. 40th Parliament, 2nd Session. Meeting 18:1210.

Mr. Rapier explained how the bidding process for that RFSO differed from past bidding processes:

Historically in the RFSO process, Public Works provided opportunities for bidders to clarify bids and submit additional information as required, but during this RFSO process, very few bidders received communication of any kind from Public Works and, again, received little, if any, opportunity to provide clarifications for their bid submissions. The end result was that some bidders were disqualified for simple typographical errors in their bid submissions and others for issues that easily could have been clarified had the opportunity been provided by Public Works.¹²

According to Mr. Rapier, the majority of the unsuccessful companies in this RFSO process were SMEs.

The Committee heard similar testimony from the shipbuilding industry. Ron van Wachem represented the Nanaimo Shipyard Group, a small shipbuilding and ship repair business. The company is mainly engaged in refits, conversions and repairs to all kinds of vessels. It employs approximately 150 people in four locations across the country: Halifax in Nova Scotia and Nanaimo, Port Alberni and Victoria in British Columbia. In a submission to the Committee, the Nanaimo Shipyard Group expressed concern about current government procurement policies. In addition to expressing concern about the perceived move to the consolidation of contracts by PWGSC, Mr. van Wachem described for the Committee changes PWGSC had made to shipbuilding contracts. PWGSC had, according to Mr. van Wachem, shifted the responsibility for the design of ships from ship designers to shipbuilders.¹³ This negatively affected the SMEs involved in shipbuilding by increasing the costs of bidding on shipbuilding contracts. Mr. van Wachem noted that large multinational companies can afford the overhead costs of incorporating design into their shipbuilding bids because of their greater volume of work.

In 1995, the Standing Committee on Government Operations heard a similar list of concerns from SMEs:

The government takes far too long to pay its bills. The contracting system is incomprehensible; it's bureaucratic, confusing, and complex. The paperwork for bids and contracts is excessive. It's impossible to get information on business opportunities. Bid specifications are written very narrowly and are often very complex. Identifying the user and/or the purchaser of the goods and services is often difficult, so it's very difficult to understand what the real need is. It is difficult to get on the bid list for local contracts. The government selection process seems to favour insiders. The automated systems are not user-friendly and are seen as very costly. It is difficult to compete with larger firms for contracts. Finally, decision-making seems to be arbitrary, and it is difficult and often impossible to find out the reasons why a bid was unsuccessful.¹⁴

¹² Mr. Rapier. Meeting 7: 1135.

¹³ Ron van Wachem. 26 April 2009. Standing Committee on Government Estimates and Operations. 40th Parliament, 2nd Session. Meeting 16:1250.

¹⁴ Mr. Brien Gray, 5 December 1995. Standing Committee on Government Operations. 35th Parliament, 2nd Session. Meeting 73:915.

Indeed, the CFIB noted that in 1995 it found that around 40% of SMEs were selling to the government compared to the 21% that were selling to the government in 2008.¹⁵ That the same concerns by SMEs are being raised 14 years later signifies systemic problems in the procurement process. More must be done to facilitate the process SMEs must follow to access federal contracts.

GOAL 1: The procurement process must be improved for small and medium enterprises to facilitate their awareness of and access to federal contracts.

The three industries the Committee heard from about the problems affecting the bidding process on federal contracts expressed frustration, discouragement and stress concerning the federal procurement process. The Committee believes this highlights the need for procurement processes to assist SMEs in their access to federal procurement contracts. Among the ways PWGSC could improve SMEs' awareness of and ability to access federal contracts are:

- Improve MERX so that SMEs can get the information they need on federal procurement opportunities;
- Reduce the complexity in completing RFPs;
- Assist SMEs by reducing the costs of bidding on an RFP; or
- Assign a technical procurement officer to each RFP to answer questions from potential bidders.

Goal 2: Coordinating federal programs for small and medium enterprises

The Office of Small and Medium Enterprises (OSME) was created in fall 2005 to address the concerns of SMEs regarding the potential reduction of competitive opportunities for government business. The OSME supports SMEs by working to reduce barriers to facilitate their access to federal contracts and by simplifying requirements for SMEs that want to do business with the federal government. It currently receives between \$5 million and \$6 million in funding for its regional offices and its headquarters in Ottawa.

The OSME is housed within PWGSC. It performs five activities in support of SMEs: it has a mandate to:

1. Provide information, counselling and training services to SMEs that want to do business with the government;
2. Help reduce competition barriers and simplify the government contracting process;
3. Identify and pursue opportunities that encourage the introduction of innovative new products and services;

¹⁵ Ms. Pohlmann. Meeting 6:1125.

4. Collaborate to improve procurement policies and best practices; and
5. Work closely with the SME community to ensure their concerns and views are brought forward and heard.

The Office has a network of six regional offices in Halifax, Montreal, Ottawa, Toronto, Edmonton and Vancouver. According to Liliane saint pierre, Assistant Deputy Minister, Acquisitions Branch at PWGSC, the OSME has assisted more than 40,000 businesses and individuals across Canada, an average of 16,000 a year.¹⁶

Under its mandate, the OSME assists SMEs as they navigate the government procurement system and works within the government to ensure the procurement system treats SMEs fairly. One example of this support to SMEs can be seen in the OSME's "10 Tips for Drafting Inclusive Procurement Strategies." This document is a guideline for procurement specialists to assist them in creating procurement strategies that give SMEs fair and equal access to federal procurement opportunities.¹⁷

Despite what was said by PWGSC regarding the work the OSME does to improve the ability of SMEs to access federal contracts, the Committee heard that some SMEs are dissatisfied with the work being done by the Office. The complaints about the OSME ranged from it not having the power needed to fight for SMEs, to not conducting targeted research, from being an unknown entity, to its position located within PWGSC.

Jeff Lynt, the Chair of the Canadian Business Information Technology Network (CABINET), told the Committee that he found that the OSME had no power and could only act in an advisory role. He continued by noting that the Office should have more clout to deal with the recommendations that the information technology industry has made on how to protect SMEs.¹⁸ Mr. van Wachem from the Nanaimo Shipyard Group, suggested that the OSME should consider focusing its research on regional spending by the federal government: "if it spends a large majority of its money in one area, then they should be looking at whether SMEs are well represented."¹⁹ In addition, Ms. Pohlmann from the CFIB noted that though the CFIB supports the idea of the OSME, if it did not exist it would not make a huge difference because the Office is not very well known.²⁰

Shereen Miller, the Director General of the OSME noted that the procurement process is not the OSME's responsibility.²¹ The Committee notes, however, that the OSME's mandate includes simplifying the government contracting process and

¹⁶ Ms. saint pierre, Meeting 18:1105.

¹⁷ Public Works and Government Services Canada, "10 Tips for Drafting Inclusive Procurement Strategies." Accessed online on 19 May 2009 at <http://www.contractscanada.gc.ca/en/10tips-e.htm>.

¹⁸ Jeff Lynt. 26 February 2009. Standing Committee on Government Operations and Estimates. 40th Parliament, 2nd Session. Meeting 6:1230.

¹⁹ Mr. van Wachem, Meeting 16:1300.

²⁰ Ms. Pohlmann. Meeting 6:1135.

²¹ Shereen Miller, 28 February 2009. Standing Committee on Government Operations and Estimates. 40th Parliament, 2nd Session. Meeting 7:1200.

collaborating with SMEs to improve procurement policies. Given this lack of direct involvement in the call for proposals and awarding of contracts, one witness recommended moving the OSME out of PWGSC to reduce the perception that the OSME is primarily focused on representing PWGSC's procurement interests over SMEs' interests.²²

PWGSC is not the only federal department charged with some responsibilities toward SMEs. There are many federal departments and agencies offering services and programs to SMEs in the federal government. Table 2 describes what other federal departments and agencies do for SMEs.

Table 2: Programs for Small and Medium Enterprises offered by Federal Departments and Agencies

Federal Department	Responsibilities
Public Works and Government Services Canada	PWGSC carries out procurement activities for departments and agencies. It also houses the Office of Small and Medium Enterprises which supports SMEs by working to reduce barriers to facilitate their access to federal contracts and by simplifying requirements for SMEs that want to do business with the federal government.
Industry Canada	<p>The Minister of Industry Canada has jurisdiction over policy issues relating to small businesses. The department coordinates several programs to assist SMEs.</p> <ul style="list-style-type: none"> • Publishes a semi-annual report called <i>Key Small Business Statistics</i> which provides baseline data on the small business sector in Canada. • Administers the Canada Small Business Financing (CSBF) Program • Manages a website called SME Direct which is designed specifically for SMEs. The website offers numerous diagnostic and benchmarking tools, links to informative websites, relevant databases and other resources to assist SMEs in their decision-making. • Publishes the <i>SME Quarterly</i> which provides a snapshot of the recent performance of Canada's small business sector.
Business Development Bank of Canada (BDC)	BDC provides SMEs with a series of research and reports offering knowledge of the SME sector. In addition, the BDC plays a leadership role in delivering financial and consulting services to Canadian SMEs, with a particular focus on the technology and export sectors of the economy.
Regional development agencies (Western Economic Diversification)	The federally-funded regional development agencies provide a range of programs to SMEs. Examples of the programs each agency offers are

²² Mr. Jeff Lynt. 26 February 2009. Standing Committee on Government Operations and Estimates. 40th Parliament, 2nd Session. Meeting 6: 1230.

(WD), FedNor, Canada Economic Development for Quebec Regions (CED-Q), Atlantic Canada Opportunities Agency (ACOA))	<ul style="list-style-type: none"> • WD funds the Western Canada Business Service Network, a group of several independent organizations that provide services to help create and build small businesses across the West. • FedNor provides assistance for SMEs making exporting decisions through workshops provided by the Forum for International Trade Training (FITT)'s Going Global series. • CED-Q administers a Business and Regional Growth program reinforces the conditions conducive to the sustainable growth of Quebec's regions and SMEs. • ACOA encourages and assists SMEs to become more innovative in the development of new products, services and technologies through FASTFORWARD - An Innovation Guide for Small and Medium Enterprises.
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Table 2 illustrates the range of services provided by the federal government to SMEs. However, it also shows that there is single department or agency that coordinates the services offered to SMEs.

Industry Canada has a team of about 140 people who conduct research and analyses on SMEs and develop policies for SMEs.²³ Mr. McConnell, the Director General of the Small Business Policy Branch at Industry Canada, stated that the SME file is a complicated horizontal file that is difficult to advance. As he noted:

There are a lot of departments, a lot of agencies, that affect small business outcomes. So small business policy tends to be horizontal, including procurement policy ... Most departments will affect small businesses, so it's a matter of choosing where the highest incremental opportunity is to shape business.²⁴

The fragmented nature of the programs and services offered to SMEs by the federal government was noted by some of the witnesses. As one noted, "not one department is acting in the interests of small business."²⁵ Several witnesses recommended that a centralized system of federal services and programs would best meet the needs of SMEs. One example of such a system can be found in the United States Small Business Administration.

The U.S. Small Business Administration (SBA) was created in 1953 as an independent agency of the federal government to aid, counsel, assist and protect the interests of small business concerns, to preserve free competitive enterprise and to maintain and strengthen the overall economy of the U.S.²⁶ The SBA recognizes that small business is critical to economic recovery and strength and to helping the U.S. compete in today's global marketplace. Although the SBA has grown and evolved in the

²³ Mr. McConnell, Meeting 18:1110.

²⁴ Mr. McConnell, Meeting 18:1235.

²⁵ Ron van Wachem, 23 April 2009. Meeting 16:1255.

²⁶ The term "small business" used by the U.S. Small Business Administration is equivalent to the term "small and medium enterprises" used in Canada.

years since it was established in 1953, the bottom line mission remains the same: it helps Americans start, build and grow businesses. Through a network of field offices and partnerships with public and private organizations, the SBA delivers its services to people throughout the United States, Puerto Rico, the U. S. Virgin Islands and Guam.

The SBA has an Office of Government Contracting that works to create an environment for maximum participation by small, disadvantaged, and woman-owned businesses in federal government contract awards and large sub-contract awards. Joseph Jordan, the Associate Administrator of Government Contracting and Business Development in the SBA, explained to the Committee the five ways the SBA works to achieve its goals:

First, working with other federal agencies to ensure that their policies and procedures take small business concerns into account; second, working directly with small businesses on education and training to increase their marketability as government contractors; third, educating small business and government agencies on how best to work together; fourth, utilizing technology to foster and streamline these relationships; and fifth, promoting transparency within our programs and our data.²⁷

In addition, the SBA guarantees small business loans and participates in the processing and approval process for the loans. It also has the following offices:

- Office of Communications and Public Liaison: conveys the stories of successful small businesses to inform the public that small businesses are innovative companies that provide a high quality of goods and services;
- Office of Entrepreneurial Development: helps new companies get the education, training, support and outreach they need; and
- Independent Office of Advocacy: voices the concerns and studies the needs of small businesses.²⁸

Moreover, the SBA has the standing to talk directly to other federal agencies about their procurement practices and has the ability to involve the White House if there are any disagreements.²⁹

Ms. Miller from the OSME commented on the differences between her Office and the SBA. She noted that the SBA is governed by the *Small Business Act*, while the OSME only has a mandate under the action plan of the *Federal Accountability Act*; and the SBA has 1,000 field staff, while the OSME has 25 field staff.³⁰ In addition, there is no centralized system of procurement in the United States: each agency has its own procurement functions. In Canada, PWGSC provides a centralized procurement function for the federal government

²⁷ Joseph Jordan, 28 April 2009. Standing Committee on Government Operations and Estimates. 40th Parliament, 2nd Session. Meeting 17:1205.

²⁸ Mr. Jordan, Meeting 17:1250.

²⁹ Mr. Jordan, Meeting 17:1205.

³⁰ Ms. Miller, Meeting 18, 1135.

However, the central difference between the SBA and the OSME is that the SBA is a stand-alone government agency wholly responsible for programs and policies for SMEs, while the OSME is just one of several federal programs for SMEs, and is a sector within a department. As Ms. Miller noted, the services and programs that the SBA provides to SMEs are indeed all covered by various federal departments and agencies in Canada, but their decentralized nature may lessen their effectiveness to SMEs. Mr. van Wachem suggested that the SME programs and services provided by the OSME, regional development agencies and Industry Canada should be absorbed into one area that would have powers to create policies and processes related to SMEs.³¹

GOAL 2: The federal government's services and programs for SMEs must be coordinated in such a way as to actually assist SMEs in their ability to access federal contracts.

The Committee recognizes that the current system of federal programs and services to SMEs is unsatisfactory. Small business owners should not have to navigate through several departments' websites to find information on applying for government contracts. As the Committee learned over the course of this study, the procurement process does not happen in isolation: before a SME can bid on a federal contract, it must be a well-run business. Therefore, all of the services the federal government provides to assist SMEs in becoming well-run businesses should be considered together when assessing how to improve the ability of SMEs to access federal contracts. Among the ways that PWGSC could ensure effective and efficient delivery of federal programs and services to SMEs are

- Give the OSME a stronger mandate that includes advocacy on behalf of SMEs with respect to procurement;
- Ensure the OSME has the appropriate funding for the tasks that are necessary to improve the level of service it provides SMEs; or
- Establish the OSME as a single-window entity that can coordinate all the federal government's services and programs for SMEs.

Goal 3: Ensuring access by small and medium enterprises when smaller contracts are bundled into larger contracts

The Committee's study of the ability of SMEs to access federal contracts was motivated by testimony it heard in June 2008. The Canadian Business Information Technology Network (CABINET) appeared before the Committee to express its serious concerns about the moves it saw PWGSC taking to bundle information technology (IT) service contracts with professional service contracts.³² According to testimony provided by CABINET, the government was proposing to bundle IT products and IT professional

³¹ Mr. van Wachem, Meeting 16:1255.

³² Mike O'Neil and Jeff Lynt, 17 June 2008. Standing Committee on Government Operations and Estimates. 39th Parliament, 2nd Session. Meeting 36.

services together in a contract that could exceed \$1 billion annually for a period of up to 20 years through the Government Enterprise Network Services (GENS) initiative.³³ After discussing this issue during the June 2008 meeting, the Committee unanimously adopted a motion that stated

The Standing Committee on Government Operations and Estimates recommend that the government bring forward its plan prior to the implementation of its policy aimed at bundling the procurement of IT products and services.

PWGSC released its business rationale on the GENS initiative on 7 May 2009. (The Committee, not seeing a full business case for the GENS initiative, believes that PWGSC understands the Committee's concerns highlighted by the testimony heard regarding the initiative. The Committee hopes that PWGSC will take these concerns into account when dealing with any future bundling of contracts.) The business rationale for the GENS initiative confirmed that contracts for IT products under GENS will not be bundled with IT professional services. However, the IT industry was not the only industry the Committee heard from on the issue of bundling. The GENS initiative will be discussed further after a general discussion on the perceptions surrounding bundling and an examination of the testimony heard from the furniture and ship-building industries.

Many of the witnesses that appeared before the Committee on this issue believe that the federal government is consolidating contracts into larger sizes with the effect of creating barriers to SMEs who wish to bid on those contracts. They also believe that bundling contracts can lead to the loss of jobs. Ms. Pohlmann, from the CFIB, stated that "recent attempts by Public Works to amalgamate federal contracts into fewer very large contracts" have made it very difficult for SMEs to access federal contracts.³⁴ Mr. van Wachem stated that

In the past, and at the present time, the government has implemented procurement policies that favour large multinational companies in the shipyard and marine repair industry to the detriment of SMEs.³⁵

In addition, Mr. Rapier from furniture industry noted that the government's move from 36 to five standing offers for office furniture suggests that PWGSC is moving toward a consolidation policy on standing offers.³⁶

Mr. van Wachem explained that the expectations of the SME shipyards were raised when the government announced federal shipbuilding and vessel life-extension projects.³⁷ Small and medium shipyards are capable of building many types of small vessels. However, the contracts were consolidated into large projects, which meant

³³ Mr. O'Neil, Meeting 36: 0905.

³⁴ Ms. Pohlmann, Meeting 6:1110.

³⁵ Mr. van Wachem, Meeting 16:1250.

³⁶ Mr. Rapier, Meeting 17:1135.

³⁷ Mr. van Wachem, Meeting 16:1250.

that small shipyards were shut out of the projects because of the high cost of bidding and bonding.

Mr. Rapier from the Business and Institutional Furniture Manufacturer's Association (BIFMA) described for the Committee the effects on his industry of the process used by PWGSC when the number of manufacturers of office furniture were reduced in number from 36 to five. He noted that the vast majority of the unsuccessful companies in this process were SMEs, and that "each of these companies would have expended tens of thousands of dollars to test their products for compliancy and prepare and submit a bid."³⁸ The Chair of the Committee was particularly concerned with the reduction in standing offers. As he noted:

Somebody in Public Works, a very well-meaning public servant, managed a process that reduced the number of suppliers of furniture from around 30-something to five ... Not even the Japanese Imperial Army in the Second World War could have hoped to destroy a government supply chain to that extent.³⁹

The end result of the cutback in furniture standing offers was that competition had been reduced in that product category which could lead to increased costs to the government.⁴⁰

However, not all witnesses who testified on this study were against the federal government bundling contracts. The Information Technology Association of Canada (ITAC), represented by Louis Savoie, Hicham Adra and Linda Oliver, stated that using shared services can avoid the duplication of services, save in the hundreds of millions per year, allow Canadians to have easier access to government services and reduce security risks.⁴¹ In addition, in the opinion of Mr. Savoie, the GENS initiative, the goal of which is to increase the amount of shared services in the area of networks, will not reduce jobs in the IT sector:

Depending on who wins the contracts, the jobs might move, but the jobs are required to deliver this ... we have an ecosystem of SMEs that we leverage to deliver our service across Canada, and this won't reduce the volume of SME business.⁴²

Mr. Savoie further reassured the Committee that jobs would not be lost if the GENS initiative went forward, saying that 30% to 40% of the actual contract work that large companies receive goes to SMEs.⁴³

³⁸ Mr. Rapier, Meeting 7:1135.

³⁹ Derek Lee, 3 March 2009. Standing Committee on Government Operations and Estimates. 40th Parliament, 2nd Session. Meeting 7:1215.

⁴⁰ Mr. Rapier, Meeting 7:1135.

⁴¹ Hicham Adra, 23 April 2009. Standing Committee on Government Operations and Estimates. 40th Parliament, 2nd Session. Meeting 16:1135.

⁴² Mr. Savoie, 23 April 2009. Standing Committee on Government Operations and Estimates. 40th Parliament, 2nd Session. Meeting 16:1120.

⁴³ Mr. Savoie, Meeting 16: 1210.

The Canadian Advanced Technology Alliance (CATA), represented by John Reid and Charles Duffett, stated that there are really only three or four major companies that can do the work of creating a shared government network. SMEs cannot be involved in this sort of work because they do not have the capital infrastructure in place to establish large government networks.⁴⁴ CATA supported the bundling of contracts, and especially encouraged the government's IT shared services project and the GENS initiative. However, as Mr. Duffett noted, professional services should not be included in the GENS initiative because SMEs are very effective in their work in this area.⁴⁵

John Rath-Wilson, from the Information Technology Services Branch at PWGSC, confirmed that only a handful of companies that can provide the kind of infrastructure the government needs across the country can deliver the networks, telephony services, Internet protocol, and video conferencing at a reasonable cost.⁴⁶ In part for this reason, PWGSC went ahead and drafted a business rationale for the GENS initiative. Citing input received through consultations with SMEs, PWGSC has changed how the GENS initiative will be tendered. Professional services contracts will not be bundled with the larger network contracts.

The attention that was placed on the issue of bundling contracts before the Committee in June 2008 undoubtedly forced PWGSC to consider the implications of bundling for SMEs with respect to the GENS initiative. The struggle faced by small IT professional services businesses, along with small shipyard and furniture businesses described in the Committee's hearings, should show PWGSC that SMEs are indeed profoundly affected by its procurement policy decisions. Though the Committee heard that not all SMEs take issue with the idea of bundling, it does believe that there should be a system in place for SMEs' concerns to be heard on the bundling of contracts and standing offers.

The U.S. Small Business Administration, for example, has Procurement Centre Representatives who are placed within federal procurement centres and are responsible for reviewing contracts to ensure that unjustified contract bundling is not happening and that small businesses have opportunities to bid on contracts.⁴⁷ The SBA defines contract bundling as the consolidation of two or more requirements which were individually performed, or could be individually performed, by a small business. A bundled contract is one in which the demand for supplies, services, or construction is of a quantity, estimated dollar value, or magnitude that makes it unlikely that a small business could successfully compete for the prime contract.

If a Procurement Centre Representative sees a contract that is over a specific size, and it looks as if the contract is a bundling of a number of small buying activities

⁴⁴ Mr. Duffett, 28 April 2009. Standing Committee on Government Operations and Estimates. 40th Parliament, 2nd Session. Meeting 17:1125.

⁴⁵ Mr. Duffett, Meeting 17:1105.

⁴⁶ John Rath Wilson, 3 March 2009. Standing Committee on Government Operations and Estimates. 40th Parliament, 2nd Session. Meeting 7:1250.

⁴⁷ Mr. Jordan, Meeting 17:1210.

that small businesses either did in the past or could do, the SBA will protest. The SBA will have discussions with the procuring agency about how it will either break the contract apart or create appropriate subcontracting plans so that the small businesses get a fair share of that procurement. However, sometimes bundling is allowed if the agency can demonstrate a measurably substantial benefit or if there is another unique but valid reason. But in the vast majority of cases, the SBA will review and put a hold on that contract until it has worked out a satisfactory solution between the agency and the small business needs and concerns.⁴⁸

GOAL 3: The federal government must ensure that due consideration is given to small and medium enterprises when considering the bundling of contracts and standing offers.

Given the testimony the Committee heard both for and against the notion of bundling contracts, the Committee believes some process must be put in place within PWGSC to ensure due consideration is given to SMEs when it considers bundling contracts. It is the view of the Committee that failure to establish such a process could lead to increased barriers to SME participation in procurement, a hollowing out of the number of SMEs, and harm to existing Canadian supply chains for both services and products. Among the ways that PWGSC could ensure due consideration is given to SMEs when considering bundling are

- Provide ample opportunity for SME consultation about contracts that are to be bundled;
- Require any department or agency who wishes to put a bundled contract up for tender to submit a business case justifying the need for bundling that responds to the Treasury Board Secretariat's definition of business case and as requested by the Office of the Auditor General in its November 2006 report; or
- Establish contract size limits wherein a SME subcontracting plan for the life of the contract must be submitted as part of the bid.

Goal 4: Offering fairness instead of set-asides to small and medium enterprises

There was much discussion during the Committee's hearings on the ability of SMEs to access federal contracts about whether there were concrete ways to help SMEs win contracts. One idea that was often raised was a set-aside system in the federal procurement process for SMEs. A SME set-aside system would ensure that a percentage of all federal contracts would be awarded to SMEs.

Set-aside programs are not new in Canada. The federal government already has in place a Procurement Strategy for Aboriginal Business (PSAB) which has a set-aside component. The PSAB is a strategy that was launched by the federal government to increase the number of Aboriginal suppliers bidding for, and winning, federal

⁴⁸ Mr. Jordan, Meeting 17:1230.

contracts.⁴⁹ Under the PSAB the government reserves, or “sets aside”, certain contracts exclusively for competition among Aboriginal businesses. There are two kinds of PSAB set-asides: mandatory and voluntary.

A mandatory set-aside policy applies to all contracts that serve a primarily Aboriginal population and that are worth more than \$5,000. Voluntary set-asides may be applied to other contracts by federal buyers whenever practical. When a contract is reserved for Aboriginal competition, the department indicates in its advertisement or RFP that the requirement is set-aside for Aboriginal suppliers in accordance with the PSAB. Bids are prepared and submitted by Aboriginal businesses, and are evaluated in keeping with the principles of federal government contracting: fairness, openness and best value for the Canadian public.

The existence of a set-aside program for Aboriginal businesses could mean that a set-aside program for SMEs might not be difficult to implement. The U.S. has a goal-based system to encourage government departments and agencies to award contracts to small businesses. As Mr. Jordan explained to the Committee:

In terms of creating goals for small business participation in federal contracting, the federal government has statutory goals for small business participation: achievements measured in the percentage of dollars spent by the government. The government-wide goal for small business dollars is 23%, with several sub-goals for certain socio-economic categories.⁵⁰

The Small Business Administration is responsible for negotiating these individual goals with each agency, keeping the statutory government-wide goals in mind. Results of each agency's small business spending are reported every year in the Small Business Goaling Report, which is released to Congress and then to the public.

Mr. Jordan stressed that the 23% government-wide goal is just that, a goal. It is not a set-aside target in the sense that 23% of government contracts must go to small businesses. However, the SBA does administer set-asides for targeted groups: 5% for women-owned small businesses, 5% for small and disadvantaged businesses, 3% for service-disabled veteran-owned small businesses, and 3% for historically underutilized business zone businesses. The set-asides for the minority groups is a tool the SBA uses to achieve its small business contracting goals. According to Mr. Jordan, “the set-asides are not compulsory in that there is no specific punishment for not achieving them. They are goals we would like to achieve and exceed, but that is not always the case.”⁵¹

Though the Committee did hear that the Nanaimo Shipyard Group would like to see the introduction of set-asides for SMEs, the majority of the witnesses were not supportive of set-asides. One reason for not wanting set-asides is that the industry

⁴⁹ Indian and Northern Affairs Canada, “Procurement Strategy for Aboriginal Business (PSAB).” Accessed online 20 May 2009 at <http://www.ainc-inac.gc.ca/ecd/ab/psa/index-eng.asp>.

⁵⁰ Mr. Jordan, Meeting 17:1205.

⁵¹ Mr. Jordan, Meeting 17:1225.

could see them as limiting. Mr. Duffett from the Canadian Advanced Technology Alliance stated that “it could be that if you set 20%, well, maybe they could do 80%. To me setting a limit seems to be the wrong thing to do.”⁵² In addition, establishing set-aside limits could go against Canada’s international trade obligations. Gilles Gauthier, Director General of the Department of Foreign Affairs and International Trade’s Multilateral Trade Policy Group noted that:

Important trading partners of Canada, such as the European Union, do not retain a set-aside exception for small businesses. In fact, the European Union has been and continues to be a vocal opponent of any such programs.⁵³

In a submission to the Committee, CABINET stated that it was not looking for special treatment for SMEs: it just wants fair and equal access to the opportunities that federal government can provide.

GOAL 4: The federal government must establish a system of fairness to encourage departments and agencies to use small and medium enterprises. However, set-asides, though useful in other policy areas, are not the preferred system of fairness.

The Committee agrees that set-asides for SMEs may not be the best way to improve the ability of SMEs to access federal contracts. However, it believes that there should be some sort of policy to encourage federal departments and agencies to construct RFPs in such a way that SMEs are able to bid on them. Some of the things the federal government could do to ensure a system of fairness in awarding contracts are:

- Establish goals for procurement with SMEs, such as the U.S. SBA system described above;
- When defining contract requirements, include a section to be filled out on whether SMEs would be suitable to fulfill the contract; or
- Offer training sessions to procurement sections of federal departments and agencies to advocate for SMEs.

Goal 5: Allowing innovation and quality to be key selection criteria

The Committee repeatedly heard that SMEs can provide the highest-quality and most innovative goods and services today. Unfortunately, the Committee also heard that the federal government’s procurement policies do not always take advantage of all that SMEs have to offer in terms of innovation and quality.

Some of the issues the Committee heard regarding PWGSC’s perceived lack of interest in encouraging innovation are as follows:

⁵² Mr. Duffett, Meeting 17:1145.

⁵³ Gilles Gauthier, 3 March 2009. Standing Committee on Government Operations and Estimates. 40th Parliament, 2nd Session. Meeting 7:1135.

- If a business tries to incorporate an alternative approach into a bid for a contract, it will be rejected by PWGSC because it does not follow the exact process outlined in the RFP.⁵⁴
- Including the lowest cost as the principal consideration in the evaluation of a bid does not encourage innovation; it drives it out.⁵⁵
- The great number of rules and regulations have bogged down the procurement system and has created a risk-averse culture in the public service.⁵⁶
- High growth businesses are not as successful in securing debt financing as traditional businesses.⁵⁷

That there appears to be little room in federal procurement to foster innovative ideas and businesses is discouraging and could lead to an innovation stagnation in Canada.

The Committee recognizes that there is a chance of increased risk when encouraging innovation and that this may discourage the federal government from awarding contracts to innovative SMEs that offer innovative goods and services. Mr. Jordan from the U.S. Small Business Administration noted that there is a risk aversion that can lead government departments to preferring to contract to large businesses. One of the key functions of the SBA is to help educate departments to assure them that they are not necessarily taking on more risk by contracting to a small business and that they may indeed get a much better product or service from the SME.⁵⁸

With respect to including quality as a selection criterion in federal government contracting, according to Normand Masse from PWGSC, “public procurement is not just buying something at the lowest price possible.”⁵⁹ Value and quality must also be taken into account. However, the Committee heard compelling evidence from the Association of Canadian Engineering Companies (ACEC) that the lowest price often trumps quality as the key determinant when evaluating a bid.

Andrew Steeves from the ACEC introduced the concept of qualifications-based selection (QBS) as a system of procurement. According to Mr. Steeves, the principle behind QBS is simple:

Professional engineers, architects, environmental scientists – those services should be hired based on qualifications, experience, competencies, and backgrounds they bring to a project, not on the lowest price.⁶⁰

⁵⁴ Ms. Pohlmann, Meeting 6:1110.

⁵⁵ Andrew Steeves, 23 April 2009. Standing Committee on Government Operations and Estimates. 40th Parliament, 2nd Session. Meeting 16:1130.

⁵⁶ Mr. Duffett, Meeting 17:1135.

⁵⁷ Mr. McConnell, Meeting 18:1115.

⁵⁸ Mr. Jordan, Meeting 17: 1235.

⁵⁹ Normand Masse, 3 March 2009. Standing Committee on Government Operations and Estimates. 40th Parliament, 2nd Session. Meeting 7:1110.

⁶⁰ Mr. Steeves, Meeting 16:1130.

QBS differs from the usual process used by most federal departments and agencies, where price is often the determining factor in awarding contracts.

Though QBS is relatively unknown in the federal government, it is used in other jurisdictions in Canada and the world. The province of Quebec introduced legislation that requires its provincial agencies to use QBS. The cities of Calgary and London use QBS. In addition, in the U.S. QBS has been a legislated procurement practice since 1972.⁶¹

One of the risks of QBS is that it can raise the costs of a contract. QBS though is not a blank cheque that allows contract winners to charge whatever fee they want. According to Mr. Steeves, negotiating a fair fee is a key step in the QBS process: a fee agreement set within a QBS system can be based on a defined scope of work and yield better value for a client.⁶² However, the value of QBS in terms of creating technologies and providing the best goods and services possible should balance out any increase in the cost of the contract.

GOAL 5: The federal government must ensure that innovation and quality are key determinants in the evaluation of bids and the awarding of contracts.

The Committee believes the government should work to foster innovation in Canadian SMEs. In addition, the Committee holds that quality should be an important determinant in the awarding of a contract. Given the testimony heard regarding these issues, the Committee would like to see that innovation be encouraged in the procurement process and quality be included in the evaluation of a contract bid. Some of the ways the government could incorporate this goal into its policies are to:

- Consider the merits of legislating the use of QBS as the required procurement process; or
- Rework the RFP process to be less prescriptive and to allow for innovative alternatives from SMEs.

Conclusion

What began as a study motivated by the perceived move by PWGSC to bundle IT contracts for goods and services became a study of how SMEs are affected by federal government procurement policies and their ability to access federal contracts. What struck the Committee during its hearings on these issues was the importance of SMEs to today's economy. As one witness pointed out, SMEs are generally the last

⁶¹ John Gamble, 23 April 2009. Standing Committee on Government Operations and Estimates. 40th Parliament, 2nd Session. Meeting 16:1130.

⁶² Mr. Steeves, Meeting 16:1130.

industries to let workers go during an economic downturn.⁶³ And given that SMEs represent almost half of Canada's GDP, they are significant economic drivers.⁶⁴

The Committee heard from witnesses from the IT sector, the office furniture industry and a small shipyard group. In addition, the Committee heard testimony from PWGSC, the Department of Foreign Affairs and International Trade and from Industry Canada. Each of the witnesses had a different perspective on the issues that govern federal procurement from SMEs. Some industries wanted to see the creation of set-asides for SMEs, others thought such set-asides would limit SMEs. Some witnesses wanted to see the creation of an office for SMEs similar to the U.S. Small Business Administration, others thought it would be better if the government focused the work of the Office of Small and Medium Enterprises. Some saw bundling as a opportunity for SMEs, others likened bundling to the sound of a death toll for SMEs.

Throughout the conflicting evidence heard from the Committee, consistent concerns were raised stating that what the federal government is doing today in procurement with SMEs is not sufficient. That some industries are concerned about the fractured nature of federal government services to SMEs, that some complain about the lack of flexibility in the procurement process, and that some believe the federal government is wary of working with SMEs shows that the government needs to take more care in conducting its business with SMEs.

This report has presented five goals it believes the federal government should pursue when creating any policies that could affect the ability of SMEs to access contracts. The Committee believes that only one recommendation to the government is needed to ensure it acts on the concerns raised by the industry witnesses who appeared:

RECOMMENDATION: The Standing Committee on Government Operations and Estimates recommends that Public Works and Government Services Canada review the goals contained in this report and submit a response to the Committee by 31 October 2009 indicating how it will implement the five goals described herein.

⁶³ Ms. Pohlmann, Meeting 6:1105.

⁶⁴ Ms. Pohlmann, Meeting 6:1105.

Goals and Suggested Actions

GOAL 1: The procurement process must be improved for small and medium enterprises to facilitate their awareness of and access to federal contracts.

- Improve MERX so that SMEs can get all the information they need on federal procurement opportunities;
- Reduce the complexity in completing RFPs;
- Assist SMEs by reducing the costs of bidding on an RFP; or
- Assign a technical procurement officer to each RFP to answer questions from potential bidders.

GOAL 2: The federal government's services and programs for SMEs must be coordinated in such a way as to actually assist SMEs in their ability to access federal contracts.

- Give the OSME a stronger mandate that includes advocacy on behalf of SMEs with respect to procurement;
- Ensure the OSME has the appropriate funding for the tasks that are necessary to improve the level of service it provides SMEs; or
- Establish the OSME as a single-window entity that can coordinate all the federal government's services and programs for SMEs.

GOAL 3: The federal government must ensure that due consideration is given to small and medium enterprises when considering the bundling of contracts and standing offers.

- Provide ample opportunity for SME consultation about contracts that are to be bundled;
- Require any department or agency who wishes to put a bundled contract up for tender to submit a business case justifying the need for bundling that responds to the Treasury Board Secretariat's definition of business case and as requested by the Office of the Auditor General in its November 2006 report; or
- Establish contract size limits wherein a SME subcontracting plan for the life of the contract must be submitted as part of the bid.

GOAL 4: The federal government must establish a system of fairness to encourage departments and agencies to use small and medium enterprises. However, set-asides, though useful in other policy areas, are not the preferred system of fairness.

- Establish goals for procurement with SMEs, such as the U.S. SBA system described above;
- When defining contract requirements, include a section to be filled out on whether SMEs would be suitable to fulfill the contract; or
- Offer training sessions to procurement sections of federal departments and agencies to advocate for SMEs.

GOAL 5: The federal government should ensure that innovation and quality are key determinants in the evaluation of bids and the awarding of contracts.

- Consider the merits of legislating the use of QBS as the required procurement process; or
- Rework the RFP process to be less prescriptive and to allow for innovative alternatives from SMEs.

APPENDIX A : LIST OF WITNESSES

Organizations and Individuals	Date	Meeting
<p>Canadian Business Information Technology Network Jeff Lynt, Chair Jean Thivierge, Vice-Chair</p>	2009/02/26	6
<p>Canadian Federation of Independent Business Corinne Pohlmann, Vice-President, National Affairs</p> <p>Department of Public Works and Government Services Mike Hawkes, Special Advisor, Accelerated Infrastructure Program Tim McGrath, Assistant Deputy Minister, Real Property Branch Shereen Miller, Director General, Small and Medium Enterprises Sector, Acquisitions Branch</p>		
<p>Business and Institutional Furniture Manufacturers Association (BIFMA) Greg Rapiere, Co-Chair, Canadian Furniture Task Group</p> <p>Department of Foreign Affairs and International Trade Dany Carriere, Deputy Director, Investment Trade Policy Gilles Gauthier, Director General, Multilateral Trade Policy</p> <p>Department of Public Works and Government Services Normand Masse, Director General, Services and Specialized Acquisitions Management Sector, Acquisition Branch Shereen Miller, Director General, Small and Medium Enterprises Sector, Acquisitions Branch John Rath-Wilson, Chief Operating Officer, Information Technology Services Branch Liliane saint pierre, Assistant Deputy Minister, Acquisitions Branch</p>	2009/03/03	7
<p>Association of Canadian Engineering Companies John Gamble, President, Consulting Engineers of Ontario Andrew Steeves, Vice-President, ADI Limited</p> <p>Information Technology Association of Canada Hicham Adra, Member of the Executive Committee, Public Sector Business Committee Linda Oliver, Vice-President</p>	2009/04/23	16

Organizations and Individuals	Date	Meeting
<p>Information Technology Association of Canada Louis Savoie, Chair, Public Sector Business Committee</p> <p>Nanaimo Shipyard Group Ron van Wachem, President</p>	2009/04/23	16
<p>Canadian Advanced Technology Alliance Charles Duffett, Senior Vice-President and Chief Information Officer John M. Reid, President and Chief Executive Officer</p> <p>US Small Business Administration Joseph G. Jordan, Associate Administrator, Government Contracting and Business Development</p>	2009/04/28	17
<p>Department of Industry John Connell, Director General, Small Business Policy Branch Denis Martel, Director, Research and Analysis, Small Business Policy Branch</p> <p>Department of Public Works and Government Services Shereen Miller, Director General, Small and Medium Enterprises Sector, Acquisitions Branch Liliane saint pierre, Assistant Deputy Minister, Acquisitions Branch</p>	2009/04/30	18

APPENDIX B : LIST OF BRIEFS

Organizations and Individuals

Nanaimo Shipyard Group

REQUEST FOR GOVERNMENT RESPONSE

Pursuant to Standing Order 109, the Committee requests that the government table a comprehensive response to this Report.

A copy of the relevant Minutes of Proceedings of the Standing Committee on Government Operations and Estimates ([Meetings Nos. 6, 7, 16, 17, 18, 25, 27 and 28](#)) is tabled.

Respectfully submitted,

Derek Lee, MP

Chair