

Sello ProPyme

Pro-SME seal



Published On: 06 June 2014

Organisation: Ministry of Economy, Development and Tourism

Country: Chile

Level of government: Central government

Sector: General public services

Type: Financial Resources, Methods

Launched in: 2011

Overall development time:

4 months

Link to the innovation's website

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Description

"Sello ProPyme" (or Pro-SME Seal) is a certification awarded by the Ministry of Economy, Development and Tourism, designed to fight the common practice among large companies of delaying payments for their purchases to small and medium sized suppliers (SMEs).

Sello Propyme increases the information about the terms of payment of large companies and seeks to ensure SMEs that their sales to companies holding Sello Propyme will be paid within 30 days.

The Sello Propyme certification can be obtained voluntarily by all, public and private, non-profit or for profit, entities whose total number of SME suppliers account for at least 5% of their overall number of suppliers.

To apply for SelloPropyme, a company must first contact one of the registered auditing firms to certify its terms of payment to SMEs.

The auditing firm, after verifying that the applicant company has consistently paid SMEs within 30 calendar days in the audited period, issues a "Certificate of Verified Payment Period" (CPPV for its acronym in Spanish). Then, the CPPV must be submitted to the Ministry which will issue an administrative act awarding the Sello ProPyme to the applicant company.

The innovation has had an effect on the business climate. Sello ProPyme is improving relations among participants in the supply chain which are now regarded as strategic partners.

Why the innovation was developed

The Sello ProPyme certification was developed to change the late payment culture among large companies demanding products and services from SMEs. The most obvious effect of the delay of payments to SMEs by large companies is the reduction of working capital available to small businesses. Lower and scarce liquidity might have dire consequences on SMEs as they start to fall behind on their own payments of taxes, loans to banks, wages to employees, products and services to suppliers and it might even lead to bankruptcy as SMEs wait to be paid. Likewise, costs imposed on the society might be high in terms of unemployment and the discouraging effect on the entrepreneurial activity. Sello ProPyme is aimed at both promoting best practices of payment policies among the corporate sector and raising awareness about the social cost of late payments to SMEs in Chile. A large company holding the Sello ProPyme certification can effectively increase SMEs certainty that they will receive payments of their outstanding bills within 30 days. The SMEs benefit as their working capital adds to their operating liquidity.

Objectives

Enhance public trust, Improve effectiveness, Improve efficiency, Improve user satisfaction, Support economic growth

- Making sure that SMEs are paid within 30 days so that their working capital resources are not reduced and used by large companies. As a result of this effort, SMEs will not have worry about falling behind on their own financial obligations to creditors. A more certain financial prospect of their businesses will allow them to focus their efforts on making their businesses grow without being concerned about being paid on time.
 - Highlighting the social commitment and responsibility of large companies that certify their payment policies under requirements of the Sello ProPyme.
 - Providing SMEs with information regarding payment practices of large companies.
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Main beneficiaries

Businesses, Government bodies, Government staff

- Approximately 100 000 SMEs.
- 79 large companies.
- Employees benefit from having certainty that their employers will have liquidity to pay their salaries.
- Other companies supplying to SMES benefit from having certainty that they will be paid.

Results

Efficiency

- According to data from audit firms, large companies have steeply reduced the time they take to pay SMEs by an average of 11 days.
 - The cost of factoring debt for SMEs has gone down thanks in part to payments within 30 days.
 - Large companies have improved their business processes which have led to operational efficiency.
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Effectiveness

- 79 companies have been awarded the Sello Propyme certification.
 - 100 000 SMEs benefit from this commitment.
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Service quality

Reliability:

Through the Sello Propyme certification, SMEs can effectively judge the payment commitment of their business partners.

Other improvements

Gains in operational efficiency and increased competitiveness by both SMEs and larger companies through improvements of internal processes related to the requirements imposed by the certification of Sello Propyme.

Evaluation

A performance evaluation process was developed during May and June 2012. The result was an improvement plan with the following objectives:

1. To encourage more companies to obtain the Sello Propyme certification.
2. Increase the benefits to SMEs.
3. Improve Sello Propyme operations.

The multidisciplinary team completed its work on improvement, including the amendment of the regulation of Sello Propyme, improving the website and the development of a new drive communication.

A first survey of the companies that have been awarded Sello Propyme, as well as their SME suppliers, was conducted in 2012. Furthermore, some relevant information about the number of suppliers that benefitted from the reduction in the period of payment at the time was drawn. Currently, the Ministry is working on a new survey of companies holding the Sello Propyme certificate and of their suppliers.

<http://www.leychile.cl/Navegar?idNorma=1031493>

Development

Design

Both the need and solution of the late payment problem were drawn from concerns raised by various SME organisations and the interest of the Ministry to tackle this problem.

The process included a series of working meetings of multidisciplinary teams. The main challenge was to find a mechanism that would fit the realities of different industries in the country.

Design time: 2 months

Testing

The method used was contacting companies that had previously shown their interest in certifying their terms of payments and outreach meetings with auditing firms, large companies and SMEs, in order to address concerns about the certification and discuss the potential benefits. As soon as support was summoned for this initiative, the full-scale certification program was launched by the Ministry.

Testing time: 1 months

Implementation

Tools used:

- Development of a website and media campaign to:
 - Provide information on the Sello and sensitise large companies to this issue, as well as provide potential applicant companies with information about the process and requirements to obtain the Sello ProPyme.
 - Advise consumers to prefer the products and services of companies showing social responsibility for their SME suppliers and whose payment policies were certified under the Sello Propyme.
 - Inform SMEs about the obligations of companies holding the Sello ProPyme certification to pay bills on time; and how that change would benefit them.
- Internal human resources were used to organise a multidisciplinary team in charge of the task (economics, lawyers and engineers).

Resources used:

- Reallocation of three internal staff members from the Ministry to the activities of the Sello ProPyme.

Implementation time: 1 month

Challenges and solutions

- Participation of the retail industry among the companies that have been awarded the Sello Propyme is still very low. Multiple meetings have been held to overcome this problem but so far only one retailing company obtained the Sello Propyme certification.
- In the very beginning, the price of the Certificate of Verified Payment Period (CPPV) issued by the auditing firms was very high. The price - which depends on the size of the operations of the applicant company - was at the time of the launching in October 2011, ranging from CLP 2 700 million to CLP 4 520 million. Currently, thanks to the competition amongst auditing firms, the price of the CPPV has been steeply driven down. By October 2013, the lowest price that an auditing firm could charge an applicant company started at CLP 462 633 and could reach CLP 1 156 million for companies with more complex operations.
- It is also worth noting that some companies that have successfully been awarded the Sello Propyme certification have incurred costs stemming from internal adjustments in their administrative and financial processes in order to meet the requirements of the Sello ProPyme.

Lessons Learned

Lessons Learned

The process has taught us two lessons:

1. High importance of including a greater level of flexibility in the requirements considering the diversity in nature of the wide-array of companies interested in certifying their payment policies.
 2. High importance of allowing a gradual accession process, in order to allow companies with complex business processes to develop specific plans to fully comply with the requirements of the Sello ProPyme certification.
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Conditions for success

- Deepen the awareness among consumers and the public of the problems arising from late payment, in order to put pressure on large companies.
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Other information

Based on the learnings from the first stage, the requirements and regulations of the “Sello Propyme” certification have been improved. In addition, there have been changes to the internal processes and to the website so as to give a greater impetus to the entry of new companies to the initiative, and particularly to those in the retailing industry.

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