

Facilitate payments to economic operators

Summary

Payments in commercial transactions between public authorities and economic operators are often delayed.¹ Such delays impose a significant burden on economic operators, especially Small and Medium-sized Enterprises (SMEs), whose cash flow and operations are compromised. Moreover, late payments prevent them from undertaking initiatives to develop, expand or professionalise their business.²

In addition to adjusting their regulatory framework to speed up payments according to the provisions of the Late Payment Directive,³ MS have put in place targeted measures to accelerate payments from procurement contracts. The primary goal of these measures is to support access to procurement for businesses, in particular SMEs. Measures often aim at changing the payment culture among contracting authorities, e.g. by pledging to settle payments shortly after an invoice was received (e.g. 15 days). Awareness raising campaigns and forums enabling the exchange of best practices via expert groups⁴ are also part of the toolkit of measures implemented to payment assurance.

Importantly, measures to facilitate payments also include mechanisms for providing pre-payments to suppliers through a financial intermediary. Through such a scheme, a supplier has the option of transferring all or part of its invoices to the intermediary and receiving quick payment, often within three working days. The contracting authority settles its liabilities with the financial intermediary at a later stage. This pre-financing mechanism can be supported effectively by electronic invoicing.

Overall, facilitating payments alleviates the negative impact on economic operators' liquidity and financial management, thereby encouraging greater participation in procurement, in particular for SMEs. By improving their payment practices, contracting authorities are able to benefit from collaborative relationships with suppliers and a better reputation as a business partner.

Input

Cost – €€

- Low set-up and operation cost for payment code of conduct
- Medium set-up and low operation cost for pre-payment



Time – Less than 6 months



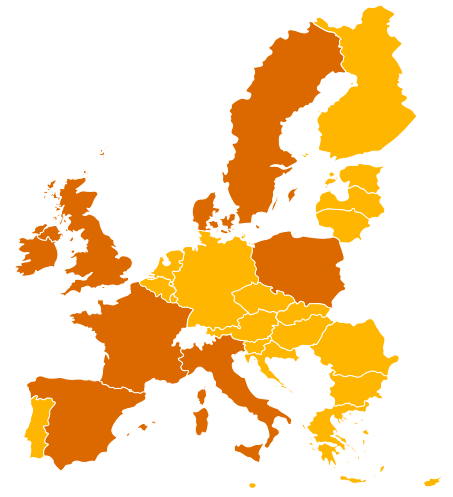
Complexity – Medium

Agreement with financial institution to settle pre-payments



Good Practice Examples

- ✓ Denmark
- ✓ France
- ✓ Ireland
- ✓ Italy
- ✓ Poland
- ✓ Spain
- ✓ Sweden
- ✓ United Kingdom



Impact

Increase competition



Facilitating payments aims primarily at removing one of the key barriers faced by SMEs when dealing with public administration. Assurance of payments provides an incentive for businesses and SMEs to participate in procurement markets.

Reduce administrative burden



Economic operators benefit from the improved payment conditions, which diminishes the burden on their cash flows and operations. This is particularly true for SMEs, which suffer more from delays in payments.

Advance modernisation and digitisation



Solutions for speeding up payments often include e-invoicing, contributing to the overall digitisation of the procurement process.

Key success factors and potential pitfalls

Inform relevant stakeholders on the measure adopted

Proactively informing stakeholders who will be impacted by the measure will smoothen the implementation process and ensure a wider uptake, e.g. if the measure is not binding.

Provide attractive financing conditions for contracting authorities

Contracting authorities have an incentive to participate in pre-financing schemes if the financing conditions are attractive to them.

Related Good Practices

Feedback channels for economic operators

Case Studies

France – Collaborative reverse factoring system*

The Union for Public Purchasing Groupings (UGAP), the French Central Purchasing Body (CPB), offers a system of collaborative invoicing to its suppliers (*Système d'affacturage collaboratif*). The system is an innovative collaborative payment solution for pre-paying suppliers' invoices. The solution was developed by UGAP in collaboration with the Enterprise Credit Postal Bank (LBPCE) in 2012 and was launched in mid-2015. This project falls within the context of policies aimed at simplifying interactions between contracting authorities and economic operators, and, more generally, policies promoting SMEs' access to public procurement.⁵

Collaborative reverse factoring enables UGAP suppliers to transfer their invoices to UGAP's financial partner (LBPCE) – which offers attractive interest rates – and pays suppliers within three days. Choosing this payment method is voluntary and adopters have the choice of transferring all invoices or only some of them, depending on their liquidity and cash-flow needs. Invoices paid by LBPCE to UGAP suppliers are subsequently settled by UGAP to LBPCE within the 30-day limit.⁶ As part of the scheme, UGAP has implemented e-invoicing, which has made the invoicing process faster. E-invoicing is supported by the SiNoE (Simplify Our Exchanges) information exchange platform, through which invoice statuses can be tracked in real time and suppliers can select the invoices they want to settle via collaborative invoicing.⁷

The main benefits brought by this solution include:⁸

- Better price conditions for suppliers thanks to an attractive interest rate offered to UGAP by LBPCE due to the significant number of purchases (more than 2.3 billion in 2015) and its good reputation as a payer;
- The flexibility of the system, which enables invoices to be transferred in full or in part; and
- Higher satisfaction of suppliers, who are considered partners rather than customers and whose performance and loyalty are valued.

As a result of the initiative, UGAP was awarded the Payment Times Prize at the 3rd Meeting on Payment Times.

The process of implementing collaborative reverse factoring in France has also faced challenges. Some of the difficulties encountered were project approval by the Ministry of Finance and Public Accounts, along with awareness raising of collaborative reverse factoring and ensuring its uptake among suppliers. To ensure buy-in from the Ministry of Finance and Public Accounts, UGAP relied on prior market consultations and performed a benchmark of collaborative reverse factoring use cases from national, EU and international stakeholders. With respect to awareness-raising and solution uptake, UGAP contracted a communication agency that helped UGAP defining a sound communication strategy.

Ireland – Prompt payment initiatives

In addition to transposing the EU Late Payment Directive in 2013, Ireland has developed advanced measures to promote a culture of prompt payments, as recommended by the European Commission in the Directive.

In this regard, the Irish Government has adopted a policy aimed at further discouraging public bodies from delaying suppliers' payments. This includes the adoption of a prompt payments code of conduct stating that public bodies must pay their suppliers within 15 days of receipt of a valid invoice and in any case no longer than 30 days, as laid down in the Late Payment Directive.⁹ 'Public bodies' initially included all government departments, but was recently extended to the Health Service Executive, local authorities, state agencies and all other public-sector bodies with the exception of semi-state bodies (e.g. state-owned enterprises).¹⁰ As part of this measure, government departments must also report to the Department of Business, Enterprise and Innovation on their performance as regards the 15-day prompt-payment rule, which contributes to promoting transparency and accountability of government departments.

As part of the implementation of the new policy, the Department of Business, Enterprise and Innovation undertook a national information campaign to raise awareness of the new rules introduced both by the EU Directive and the national policy.¹¹

The 15-day rule does not apply to the private sector; however, businesses are encouraged to go onto the prompt payment portal,¹² sign a code of conduct and pledge to pay suppliers in a timely fashion. This way, the code encourages and promotes best practice in payments from businesses to their suppliers, improves cash flow between businesses, and drives a change in payment culture.

***Feasibility study on facilitating payments to economic operators through collaborative reverse factoring based on the French case study - available on the [e-library of public procurement good practices](#).**

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¹ European Commission, "Evaluation of the Late Payment Directive/REFIT" (2016), see: <http://ec.europa.eu/DocsRoom/documents/18543> ² *Ibid* ³ Directive 2011/7/EU

⁴ Such as late payment expert group of the European Commission, see: <http://ec.europa.eu/transparency/redexpert/index.cfm?do=groupDetail.groupDetail&groupID=2710>

⁵ See: https://www.ugap.fr/solution-collaborative-de-paiement-anticipe_4468228.html ⁶ See: https://www.ugap.fr/ugap-laureat-du-prix-des-delais-de-paiement_3651755.html

⁷ European Commission, "Evaluation of the Late Payment Directive/REFIT" (2016), see: <http://ec.europa.eu/DocsRoom/documents/18543> ⁸ *Ibid* ⁹ *Ibid*

¹⁰ See <https://promptpayment.ie/>

¹¹ Irish Department of Jobs, Enterprises and Innovation, "Consultation Document" (2015), see: <https://www.djei.ie/en/Consultations/Consultations-files/Consultation-document-on-reducing-statutory-payment-terms-for-public-bodies.pdf> ¹² See: <https://promptpayment.ie/>