Small Business Commissioner

Department for Business & Trade

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# Prompt Payment for Small Firms: A Global Partnership

Tuesday 16th June, 2026

# Welcome

Professor Stephen Roper & Emma Jones

Director Enterprise Research Centre & Small Business Commissioner

# Agenda

**12.00** – Welcome: Emma Jones & Professor Stephen Roper

**12.10** – Realising Prompt Payment for UK SMEs: UK Update

**12.30** – A Global Perspective: presentation and discussion

**13.30** – Lunch

**14.30** – International Payment Partnerships: panel discussion

**15.30** – *The role of Payment in the UK's Small Business Plan*: Minister McDougall

**15.45** – Next steps and closing comments

**16.00** – Finish

# Realising Prompt Payment:

# UK Update

Paul Drabwell

Department for Business and Trade

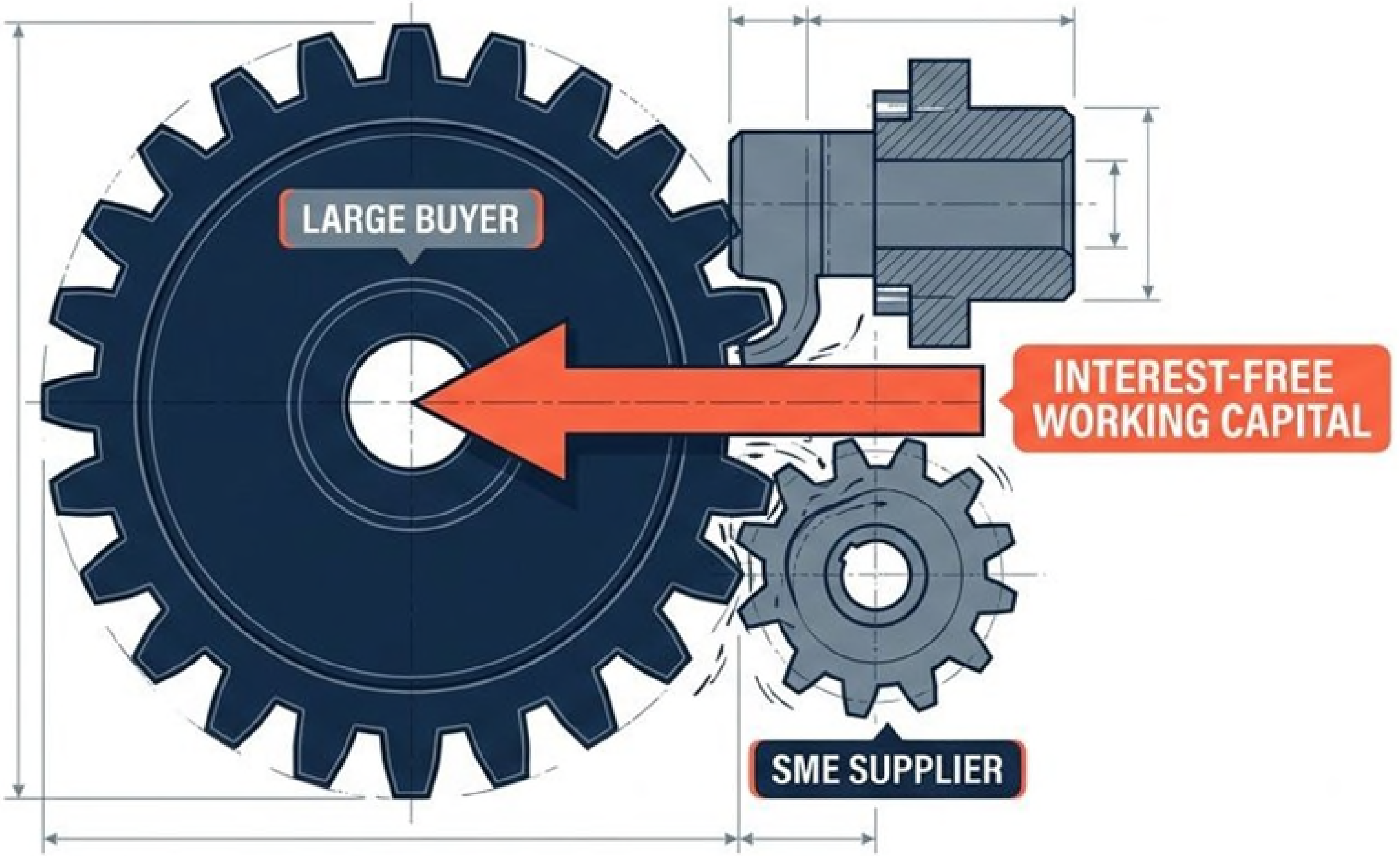
# Global Solutions to the Late Payment Crisis

## An International Comparative Audit of G7, EU, and UK Trading Partner Frameworks

Rita Nana-Cheraa and Mark Hart

Enterprise Research Centre, Warwick Business School

# THE STRUCTURAL POWER GEAR




**£26 BILLION**

in overdue invoices at any given time (The UK Baseline)

**14,000**

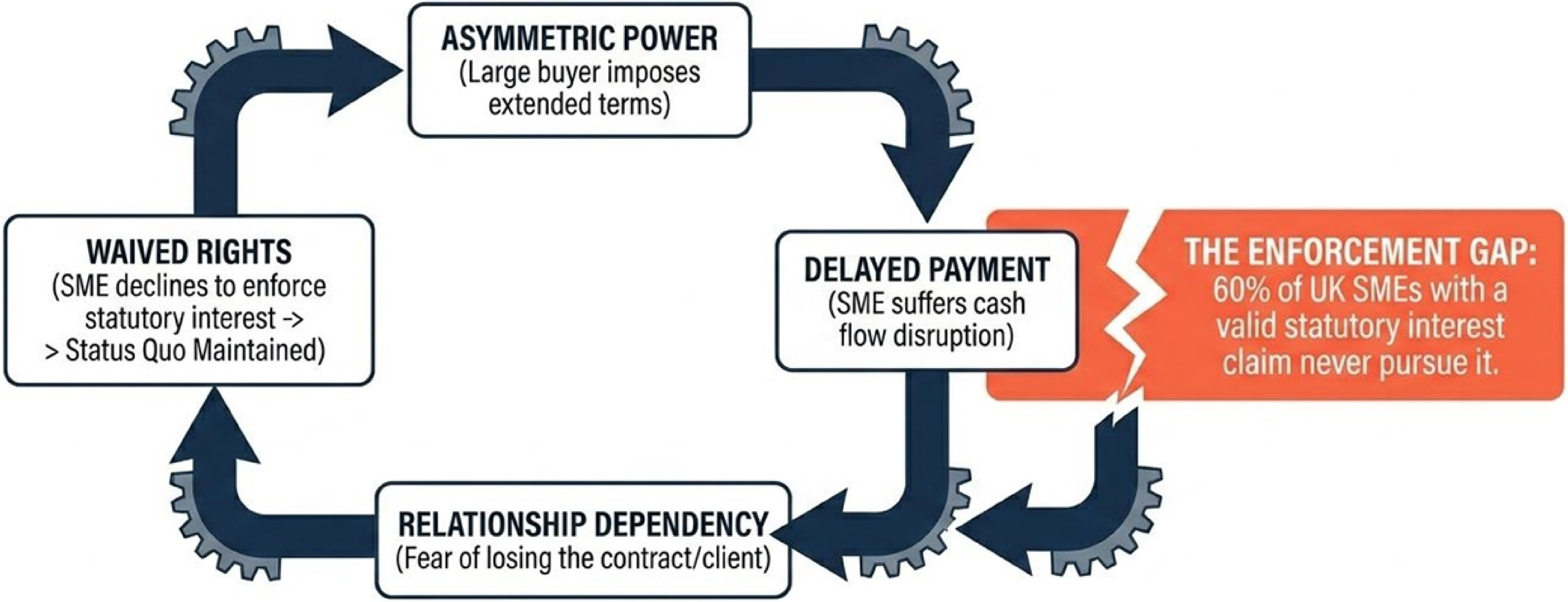
business closures annually attributed directly to late payments (The Human Cost)

**60.3 DAYS**

Average EU B2B payment periods in 2024, far above statutory defaults (The Global Reality)

**Late payment is structurally embedded in commercial relationships through power asymmetry. Weaker suppliers are systematically subjected to longer credit periods as a liquidity buffer for large buyers.**

# THE DEMAND SUPPRESSION CYCLE




**Statutory rights are nullified when the weaker party is required to initiate the fight. The global failure mode is 'complaint-dependent' enforcement.**

# Three documented failure modes in global regulatory design

## Waivable Statutory Rights

**The Flaw:** Allowing large buyers to contractually opt-out of statutory interest.

**Global Evidence:** UK 1998 Act undermined by "alternative remedies." EU Directive 2011/7/EU paralyzed by the "not grossly unfair" loophole.

**Result:** EU average B2B payment periods remain at 60.3 days after 13 years of the Directive.

## Complaint-Dependent Enforcement

**The Flaw:** Relying on the weaker party to trigger investigations.

**Global Evidence:** Germany relies purely on civil litigation; Italy relies on under-utilized antitrust bodies; pre-reform UK SBC requires SME complaints.

**Result:** Severe under-enforcement due to relationship dependency.

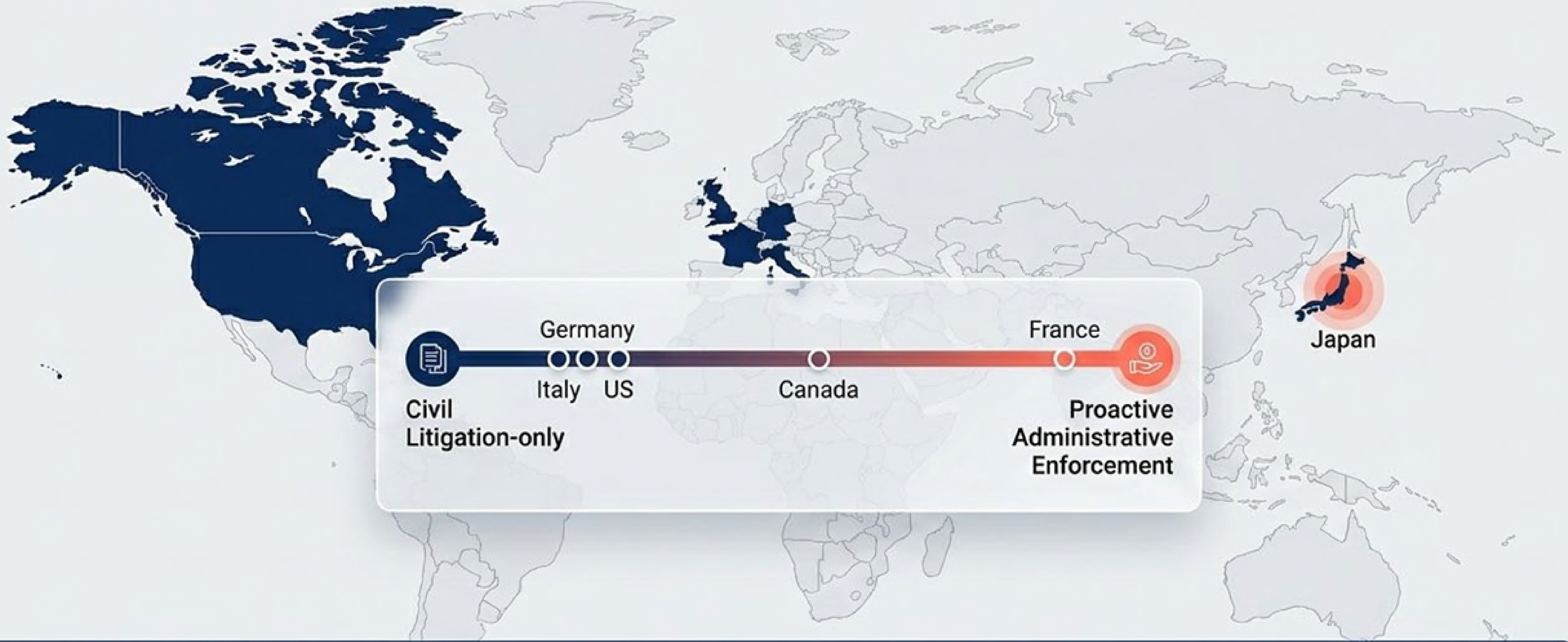
## General Law without Sector Calibration

**The Flaw:** Applying broad commercial law to structurally dominant public purchasers.

**Global Evidence:** Italian regional health services (ASL) historically delayed payments 90–180 days against a 60-day maximum before targeted PNRR intervention.

# Section 1: The G7 Economies

Testing grounds for civil litigation versus administrative enforcement.

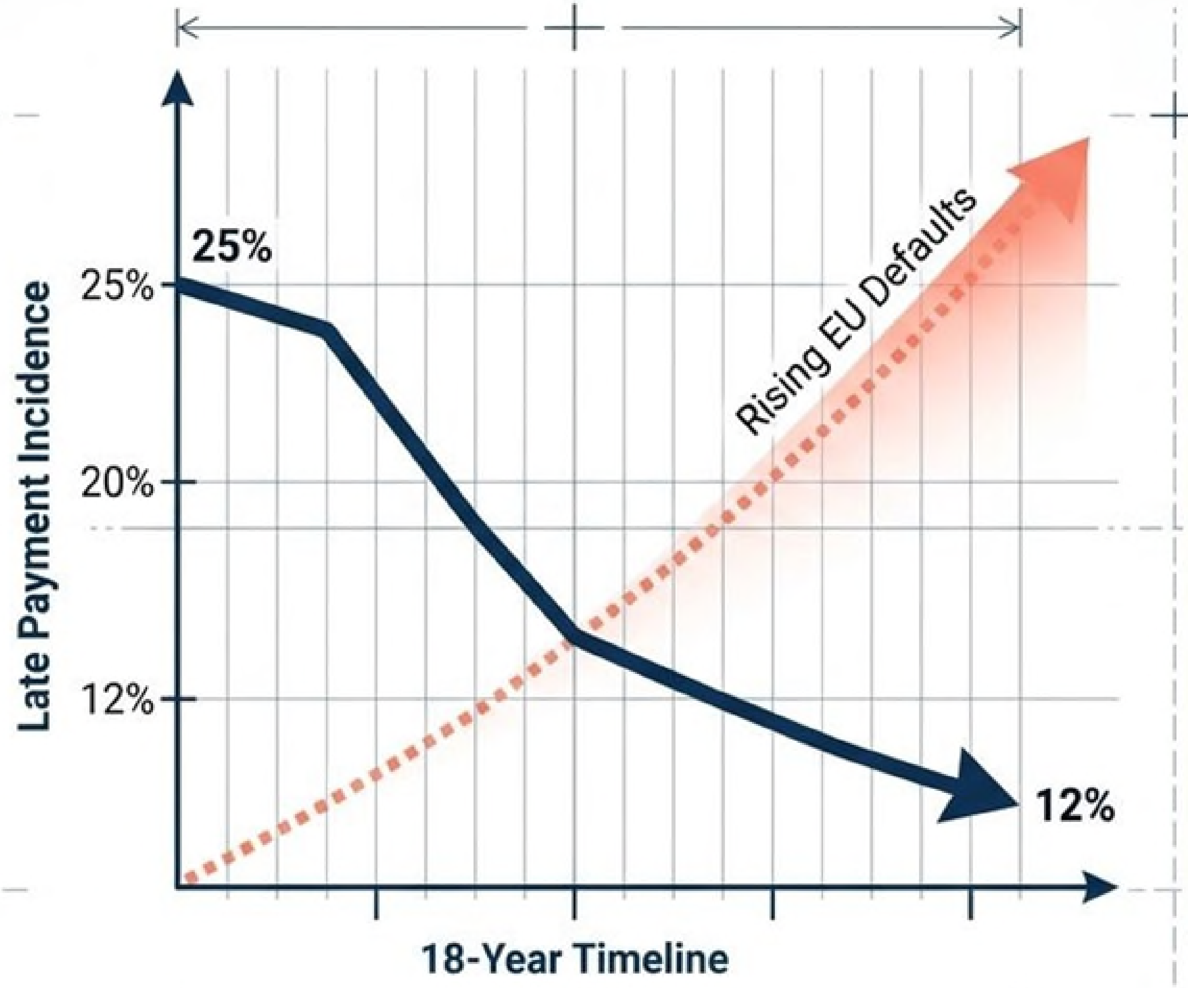



**Summary:** Jurisdictions relying on market mechanisms and private courts consistently fail SME creditors. Those deploying active regulatory inspectorates produce the only durable improvements.

# The Gold Standard: Eliminating the Complaint Burden

### Japan's Act Against Delay in Payment to Subcontractors

- **Non-Waivable Penalty:** A punitive **14.6%** per annum statutory interest rate.
- **Proactive Radar Sweeps:** Joint enforcement by the Fair Trade Commission (JFTC) and SME Agency (SMEA) via unprompted on-site inspections. **No SME complaint required.**




### The 2024 Empirical Outcomes

- **8,230** guidance cases issued in a single calendar year.
- **¥1.35 billion** forcefully restored to **3,026** subcontractors—without a single SME needing to sue their buyer.

**Insight: Japan eliminates demand suppression by having the state proactively audit buyers and apply punitive, inescapable interest.**

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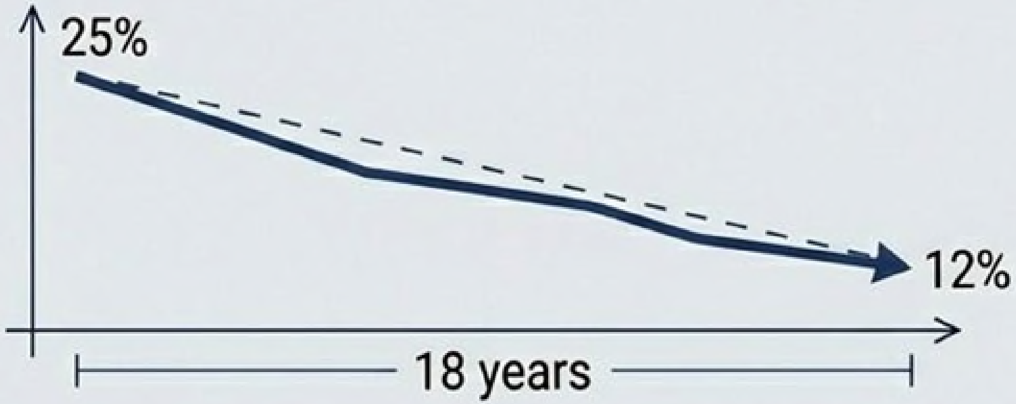
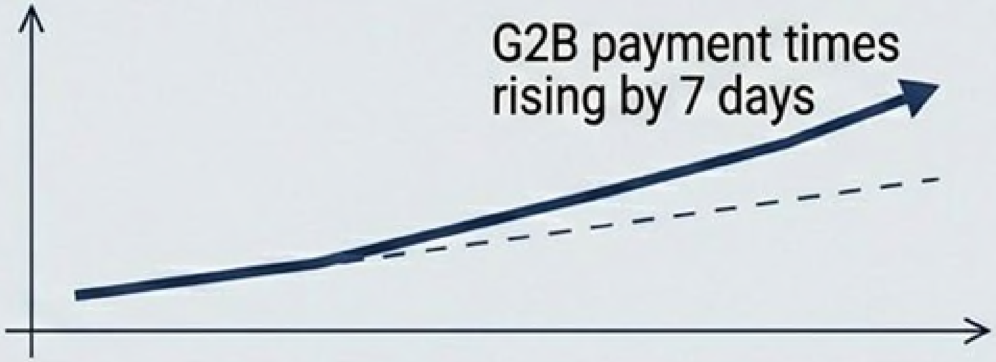
# The Natural Experiment: Proactive enforcement fundamentally outperforms civil litigation.

## Japan (Proactive / Administrative)




- **Mechanism:** JFTC & SMEA conduct annual, proactive supply-chain inspections without waiting for SME complaints.
- **Penalty:** 14.6% non-waivable punitive interest rate.
- **Data Point:** ¥1.35 billion restored to 3,026 subcontractors in 2024 alone.

## Germany (Passive / Civil Litigation)




- **Mechanism:** BGB §286–288 relies entirely on the SME suing the buyer in civil court.
- **Vulnerability:** Heavily reliant on Mittelstand cultural norms.
- **Data Point:** 43% of firms now report late payment issues. Kim et al. (2026) prove market-based discipline is significantly attenuated for high-profitability buyers. Private litigation deters no one.

# Japan & France: The Power of Proactive Enforcement

## Japan (The Gold Standard)


**Model:** JFTC/SMEA proactive on-site inspections. No SME complaint required.

**Mechanism:** 14.6% mandatory, non-waivable punitive interest.

**Result:** ¥1.35B restored to 3,026 subcontractors in 2024 alone. A sustained 13-percentage-point drop over 18 years.

## France (Active Administrative)


**Model:** DGCCRF administrative enforcement actively hunting non-compliance.

**Result:** €47M in sanctions across 228 procedures in H1 2025. Yields substantially better outcomes than civil-only models, though large-buyer non-compliance remains stubborn (15% on-time rate).

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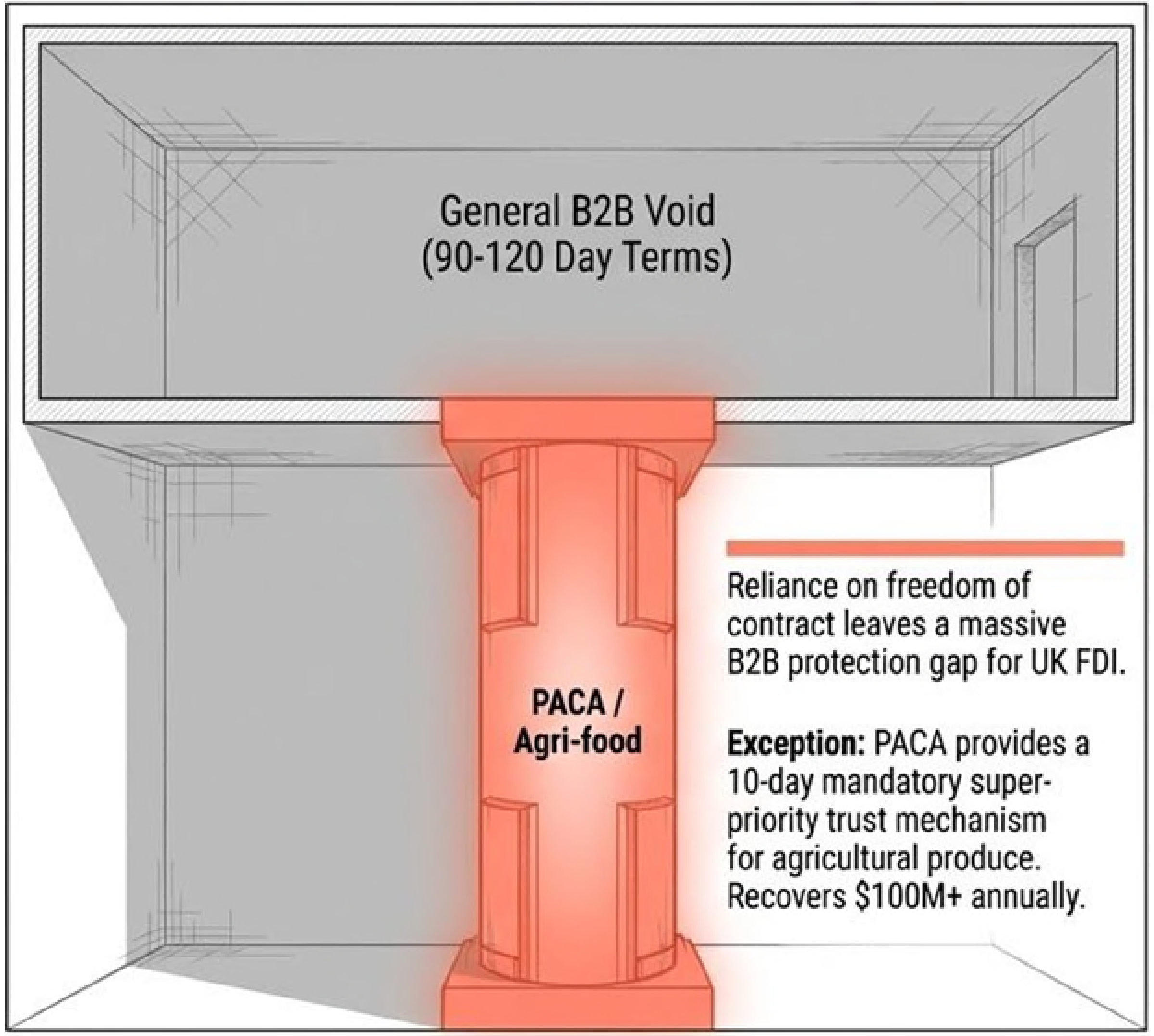
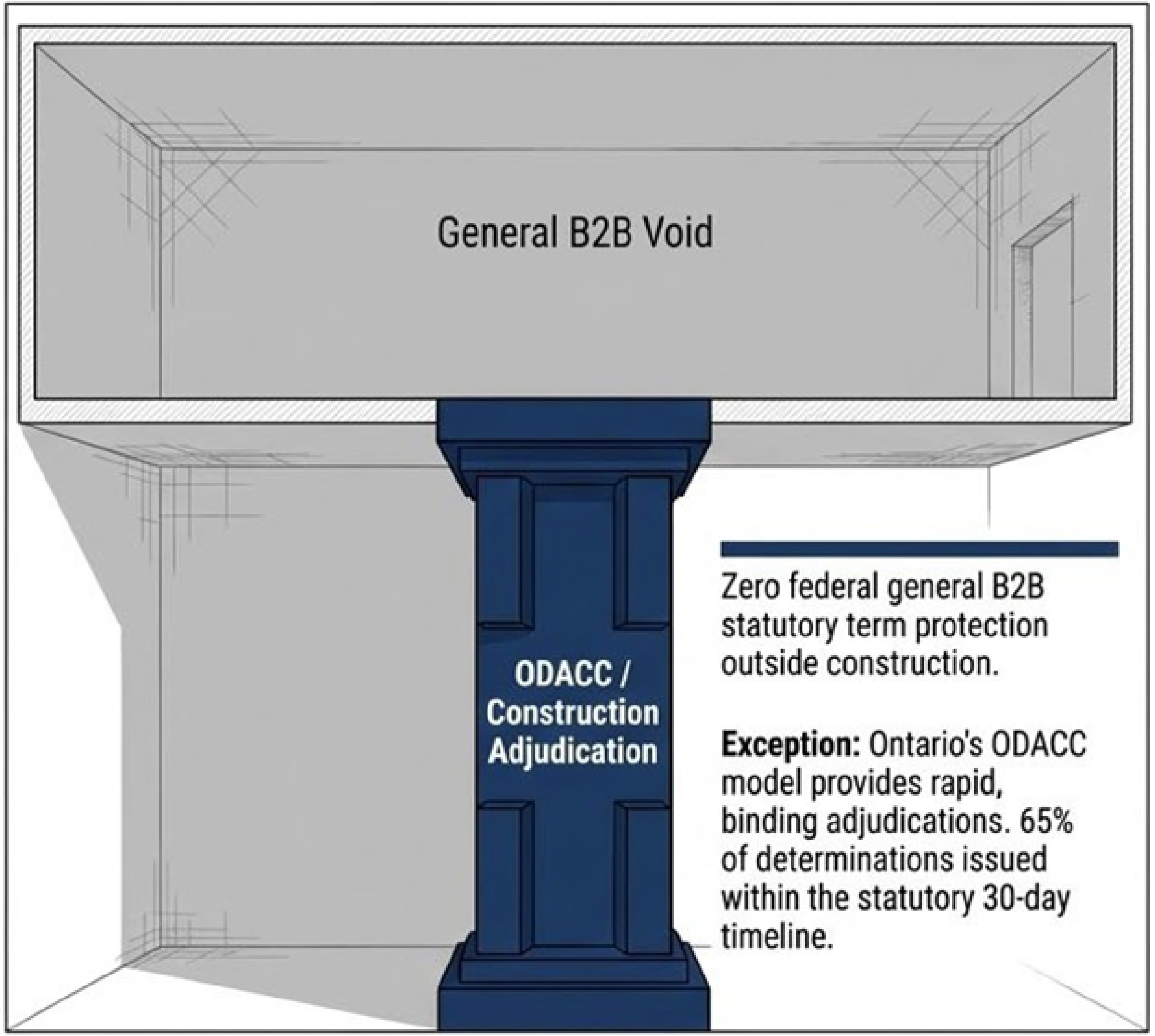
# Canada & The US: Sector-Specific Successes in a General Void

## United States (Agri-food Exemplar)




## Canada (Construction Benchmark)



# Gold Standard II: Accessible adjudication alters the cost-benefit reality of enforcement

**The Strategy:** Rapid, binding determinations that unblock supply chain cash flow in weeks, not years.

### UK HGCRA (1996) Model:

- The world's first statutory construction payment rights instrument.
- Introduced mandatory 'pay less notices' and a 28-day adjudication right.
- Credited as an 'essential catalyst' for cultural change in UK construction.

### Ontario ODACC (2018) Model:

- Currently the global benchmark for accessible adjudication timelines.
- 65% of determinations issued within the strict 30-day statutory timeline (2023 data).
- Prohibits 'pay-when-paid' clauses and mandates strict 28-day supply chain cascading terms.

**The SME Imperative: Adjudication only works if the financial cost of initiating a claim is significantly lower than the value of the withheld payment.**

# G7 Diagnostics | France & Canada: Administrative Fines vs. Rapid Adjudication

## France (LME 2008)

**Mechanism:** 60-day hard cap; non-waivable penalty rate (12.15%); DGCCRF administrative enforcement.

**Action:** €30 million in fines across 138 procedures in H1 2024.

**The Limit:** Despite heavy fines, relationship dependency persists. Only 15% of large French companies pay on time.

## Canada (Ontario ODACC)

**Mechanism:** Construction Act 2018. Rapid, statutory binding adjudication.

**Action:** 65% of 161 determinations issued within the statutory 30-day timeline.

**The Limit:** Complete absence of general B2B framework at the federal level leaves most non-construction SMEs unprotected.

# 60.3 Days

**Average B2B payment sits at double the 30-day statutory default.**

## Section 2: EU Member States & The Collapse of the LPR

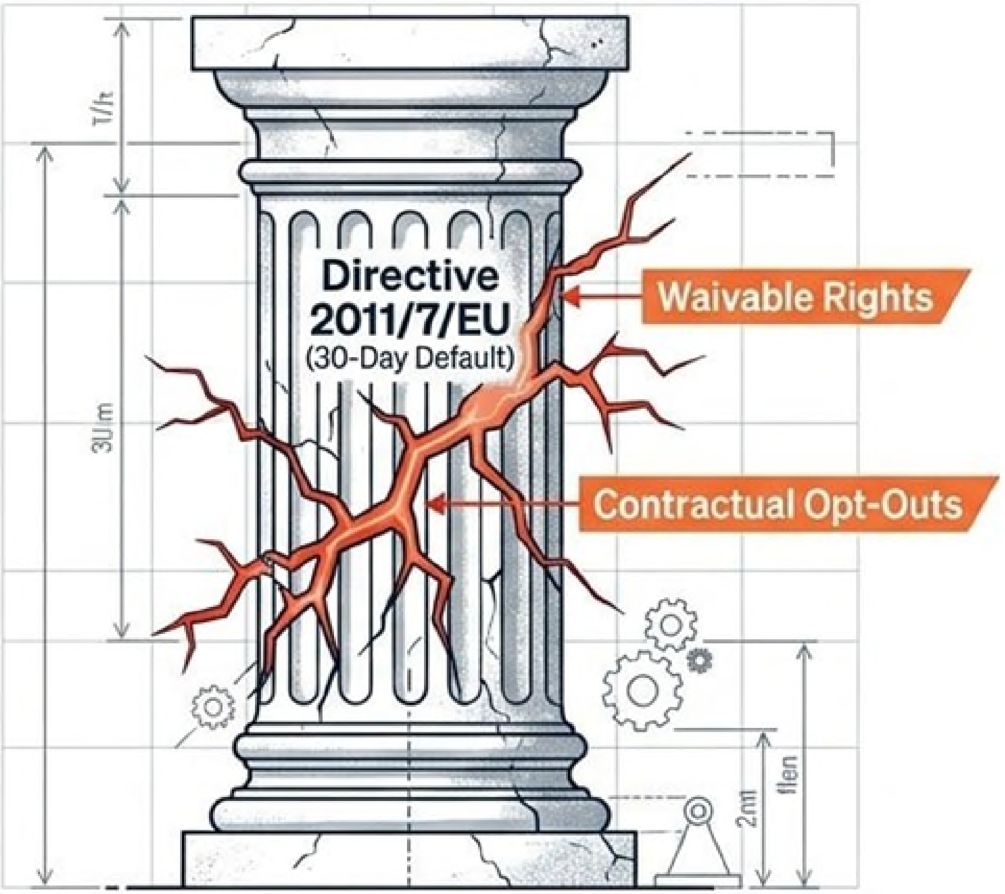
- Despite 13 years in force, 56% of companies report late payment difficulties (up 10pp since 2021).
- **Takeaway:** Blunt universal compression fails; targeted architectural reform is required.

### The Regulatory Vacuum

The proposed 2023 Late Payment Regulation collapsed in 2025 due to fears of a €2 trillion supply-chain finance refinancing gap.

# EU Member States | The Structural Collapse of the Baseline Directive

## The Cracked Foundation



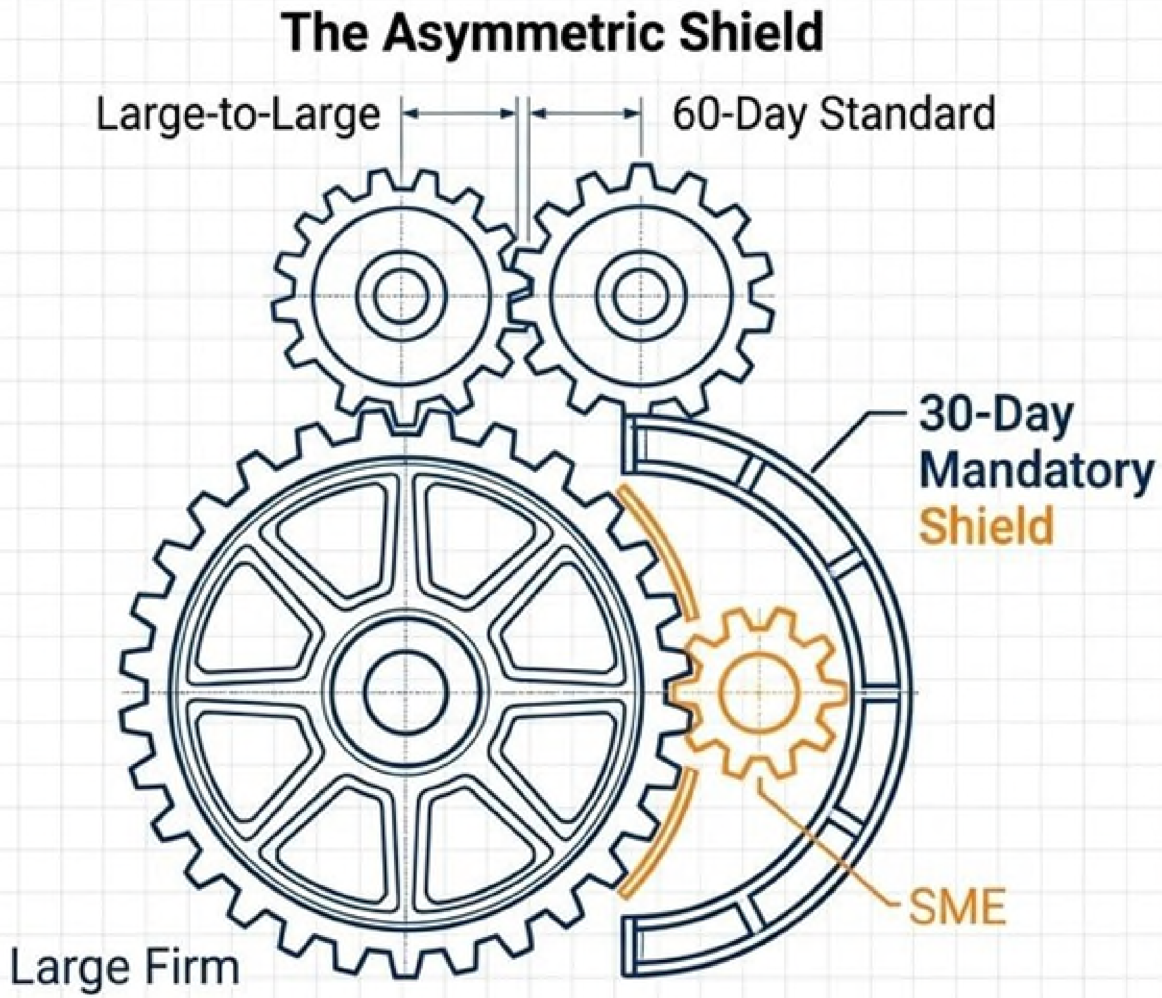

**13 Years Later:** Average EU B2B payment periods sat at **60.3 days** in 2024.

**Deteriorating Trend:** 56% of companies report difficulties, up 10 percentage points since 2021.

**The Loophole:** The 'not grossly unfair' carve-out enables large buyers to coerce extended terms.

Rights that can be contractually waived provide zero structural protection for SMEs. The proposed 2023 LPR collapsed under opposition from the €534bn supply chain finance industry, leaving a vacuum for national action.

# EU Member States | The Netherlands' Asymmetric Cap

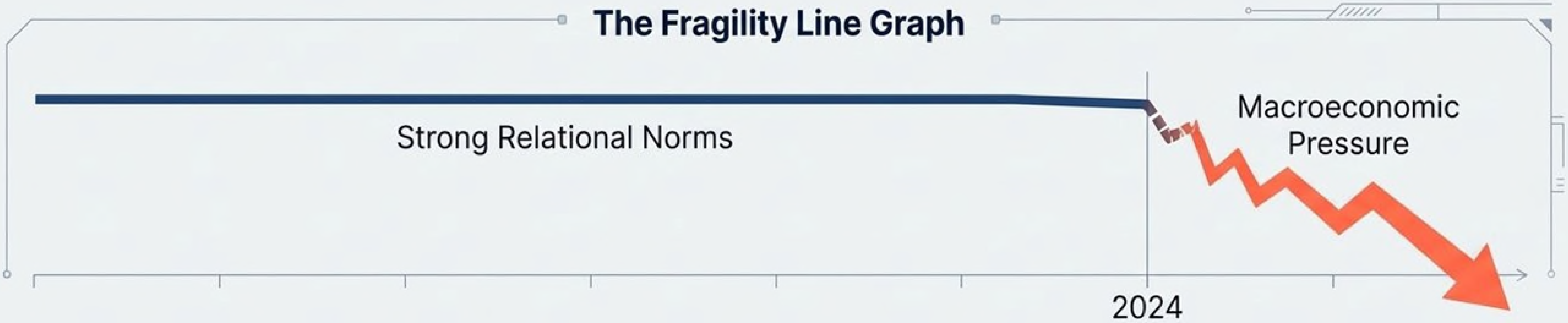



**Mechanism:** Wet Betaaltermijnen Grote Bedrijven (2017): Imposes a mandatory 30-day maximum specifically when a large company is paying an SME creditor. **General** B2B default remains 60 days.

**Effectiveness Metric:** The Netherlands maintains the lowest late payment incidence in the EU (31% of companies reporting difficulties in 2024).

**Takeaway:** Target the asymmetry directly without requiring universal market term compression.

# EU Member States | The Fragility of Cultural Compliance in the Nordics




## Country Data

- **Denmark:** Strongest in EU (41% incidence, 57.6 days), but 48% admit terms are too generous—driven by culture, not enforcement.
- **Sweden (The Warning):** On-time rates across all firm sizes converged down to 55% in 2024. Large Swedish companies paid 28% of invoices late to SMEs.

### Academic Anchor (Kim et al., 2026)

Market-based discipline produces a **1.24% market value loss for bad actors**, but this effect is **attenuated** for **high-profitability firms**.

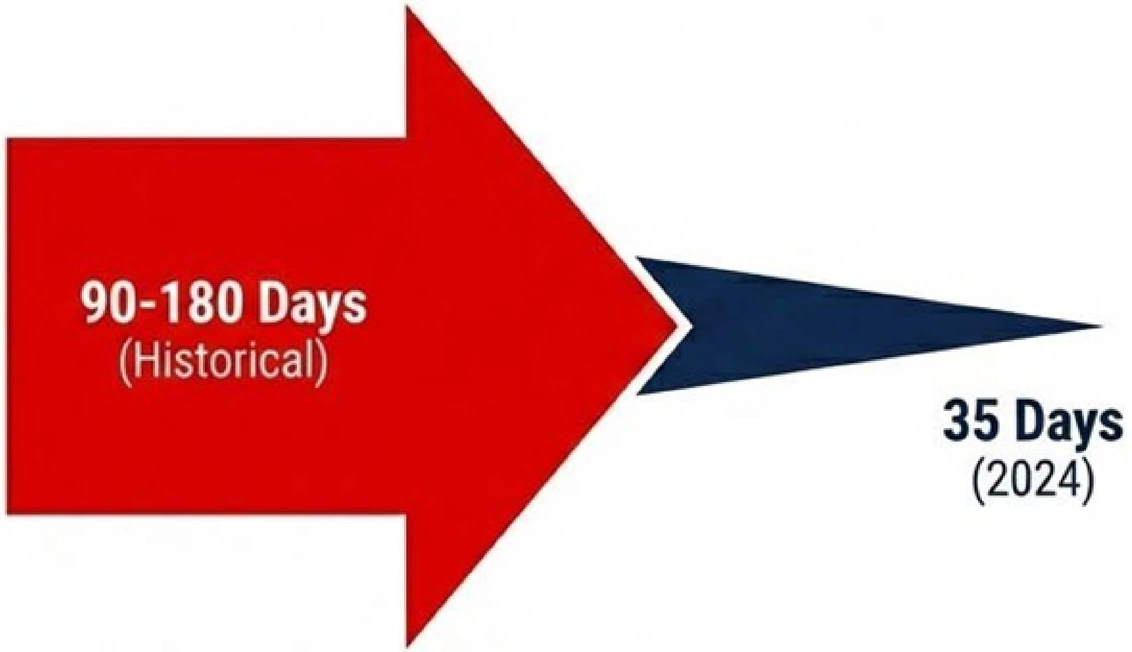
**Takeaway: Enforcement-light regimes relying on cultural norms break down when competitive pressures rise. Profitable buyers escape market discipline.**

# Germany & Italy: The Limits of Civil Litigation

## **Germany** (Cultural Limits)

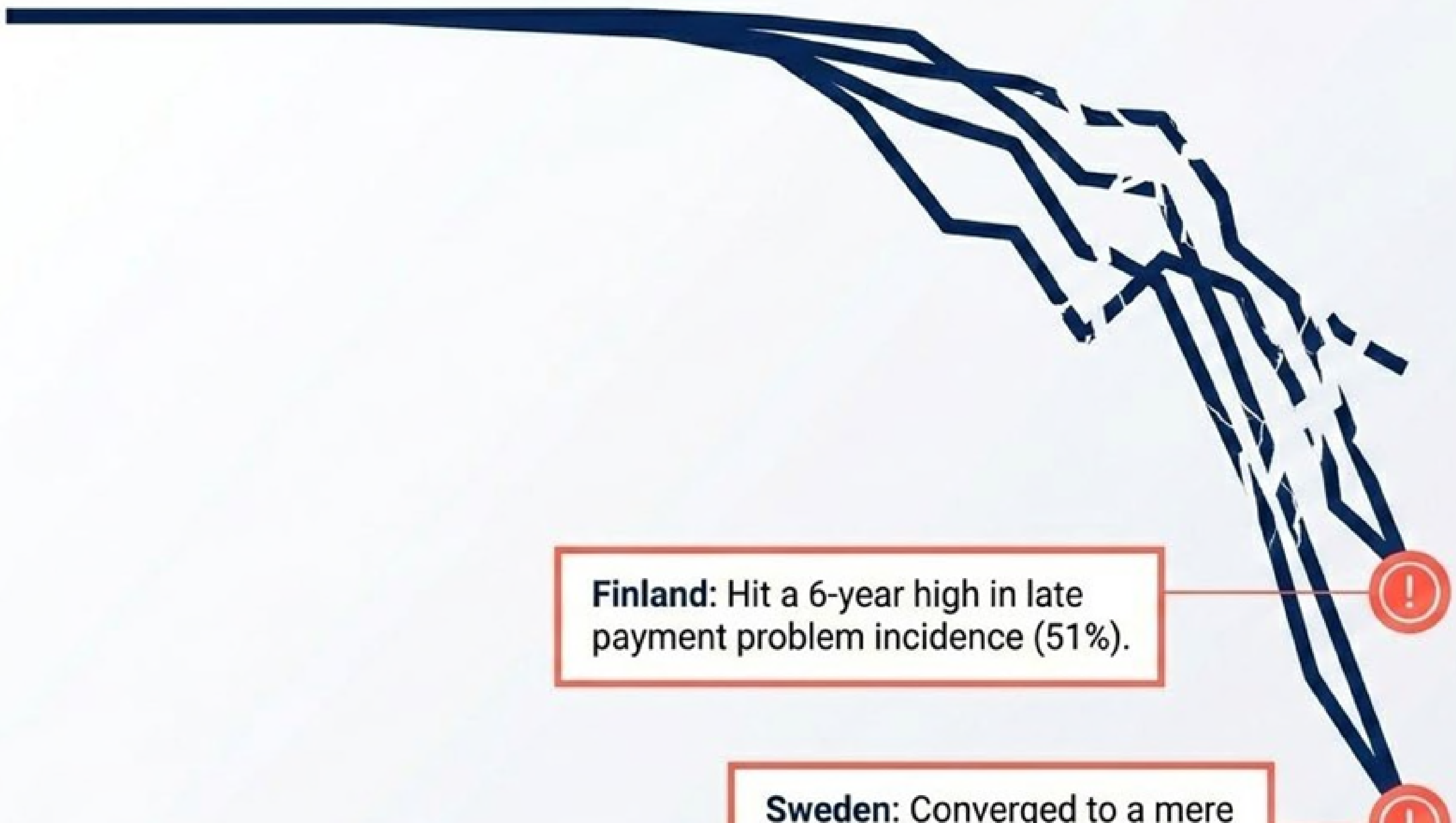

- Relies entirely on civil courts (BGB) and relational norms.
- **The Crack:** G2B payment times spiked 10.4% in 2024 (up to 71 days). Market-based discipline fails to deter highly profitable buyers from extracting capital.

## **Italy** (Institutional Targets)




- Historically chronic G2B delays in Healthcare, despite transposing EU law.
- **The Fix:** Drastic improvement down to 35 days purely through binding PNRR institutional targets and EU infringement pressure. General civil law is inadequate for dominant buyers.

# The Nordics: When Culture Meets Economic Strain



**Finland**: Hit a 6-year high in late payment problem incidence (51%).

**Sweden**: Converged to a mere 55% on-time rate in 2024.

## The Vulnerability of Enforcement-Light Regimes

Historically, Nordic states relied on strong cultural compliance, eschewing active enforcement bodies.

## The Warning Sign

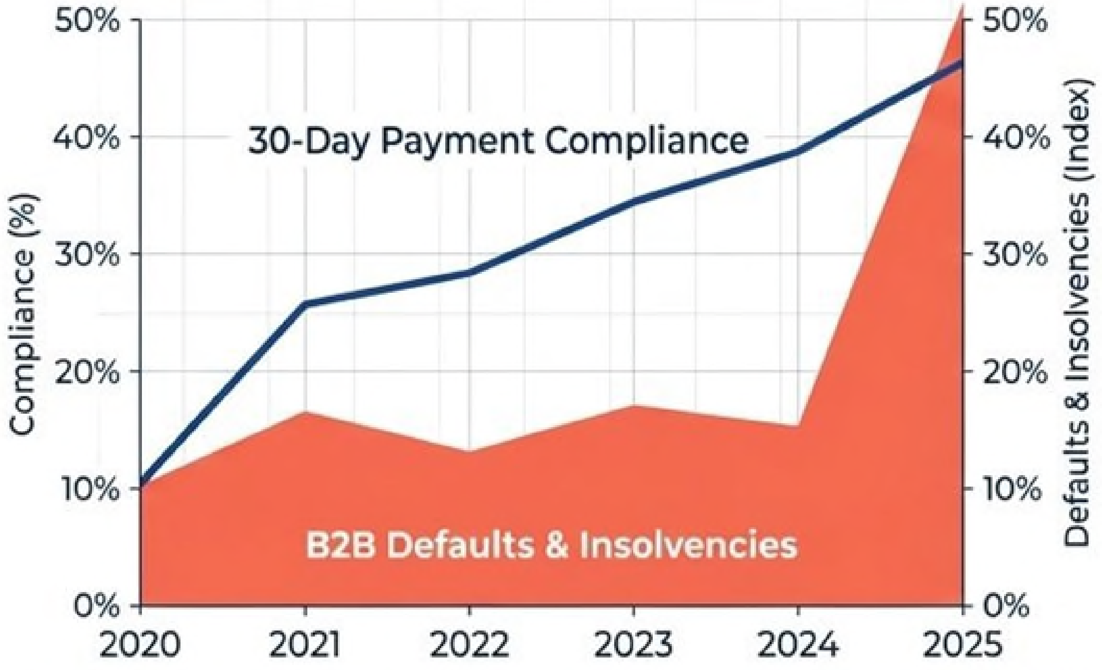
As economic pressure mounts, cultural norms erode rapidly. Good culture is not a substitute for hard enforcement during a recession.

**Competitive pressure easily displaces behavioral norms.**

# The Transparency Ceiling (Australia)


Australia's PTRS (Payment Times Reporting Scheme) creates a world-class reporting culture identifying the slowest 20% of payers.

**The Gain: 5.7 percentage point improvement in 30-day rates.**




**The Failure:** B2B defaults more than doubled (+100% increase) in 2024-25; insolvencies hit a four-year peak (+57%).

Transparency improves reporting hygiene, but without mandatory term limits and hard financial consequences, it cannot prevent systemic cash hoarding during economic downturns.

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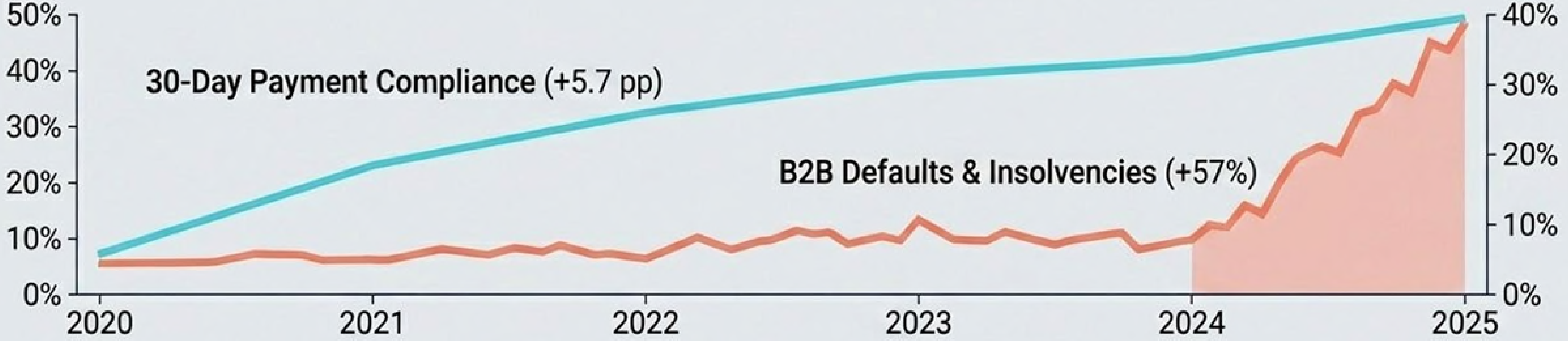
# Transparency improves reporting culture but cannot prevent defaults.




## Australia (PTRS)

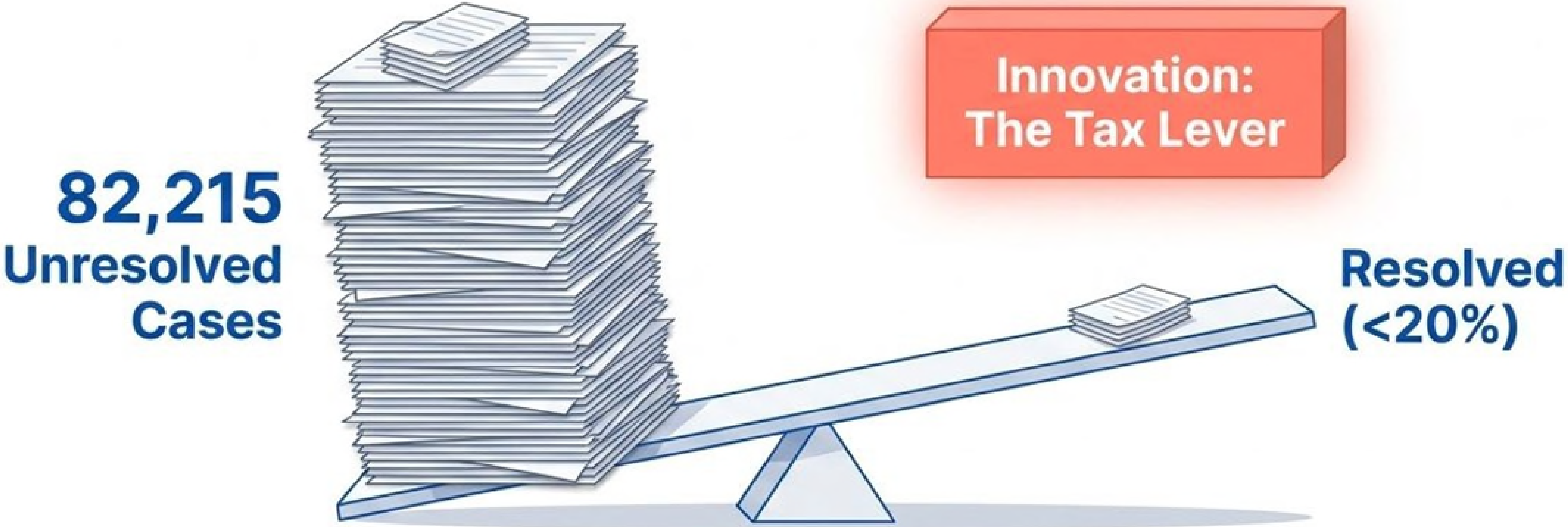
Transparency creates self-policing during stable times, but shaming mechanisms fail when macroeconomic pressures incentivize cash hoarding.

## UK (Reporting Regulations 2017)

Only 31% of all businesses are even aware of the reporting obligations, signaling a low ceiling for awareness-constrained self-policing.

**Core Insight:** Transparency is a necessary foundation, but it is structurally insufficient without hard payment term limits and enforcement consequences.

# India: Ambition vs. Implementation Reality




**The Implementation Gap (MSMED Act)**

Strong design (45-day mandate, 3x interest). Procedural complexity and lack of proactive capacity recreates the demand suppression dynamic.

**The Structural Innovation (2023 Finance Act)**

Disallows corporate tax deductions for large buyers if MSMEs aren't paid within 45 days. Creates an automatic fiscal penalty without requiring SME complaints.

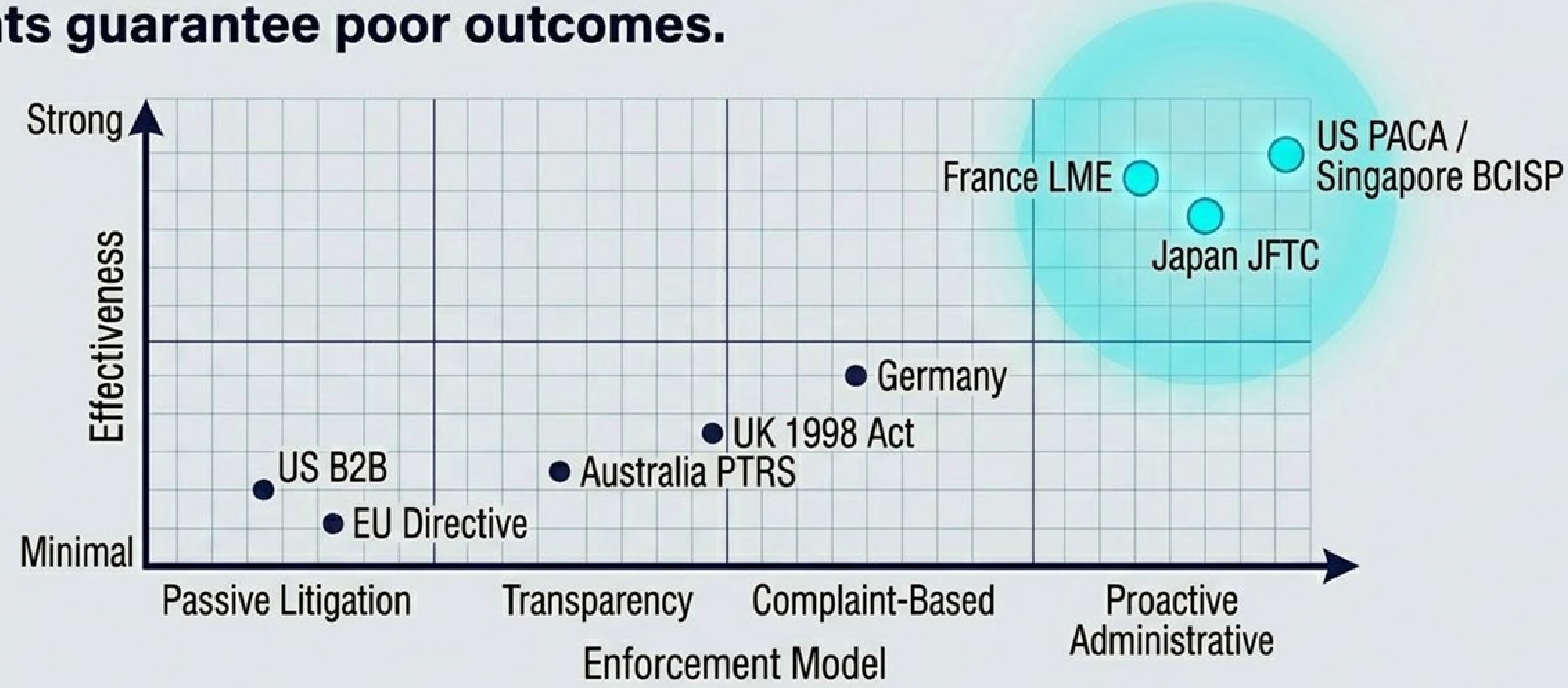
# Singapore:
# The Sector Adjudication Benchmark


**Building and Construction Industry Security of Payment Act** (BCISP): Globally leading construction payment regime, prioritizing rapid cash flow relief.

**Finality:** Exceptionally low challenge rate (>900 cases processed with negligible resistance). Courts enforce determinations promptly.

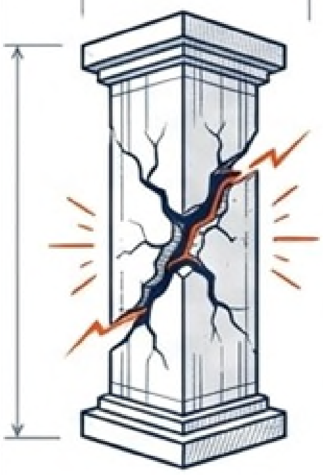
**The Limitation:** Only applies to construction. General B2B SMEs remain reliant on slow, expensive civil courts.

# The Global Enforcement Matrix: Passive rights guarantee poor outcomes.



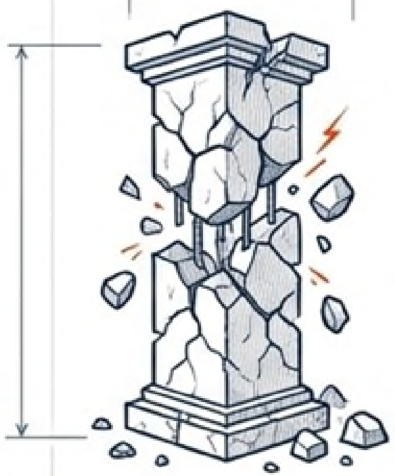

**Matrix Takeaway:** Efficacy clusters strictly to the right.
Without public enforcement capacity, payment caps are merely suggestions.

# Analytical Synthesis: What Fails



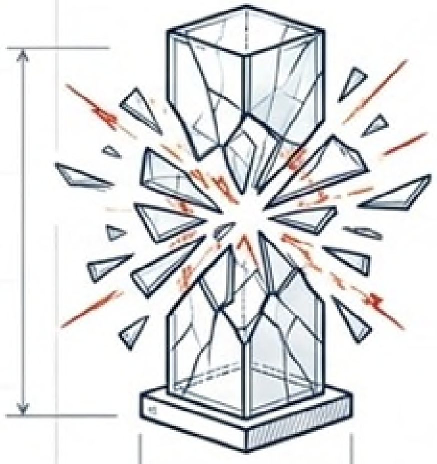
**Waivable Rights** – (e.g., Pre-2025 UK, EU Directive).

Providing an opt-out allows large buyers to systematically contract out of statutory interest due to power asymmetry.



**Complaint-Dependent Enforcement** – (e.g., Germany, Pre-reform UK).

Relying on the SME to trigger enforcement structurally fails. 60% will suppress their claims to preserve commercial relationships.



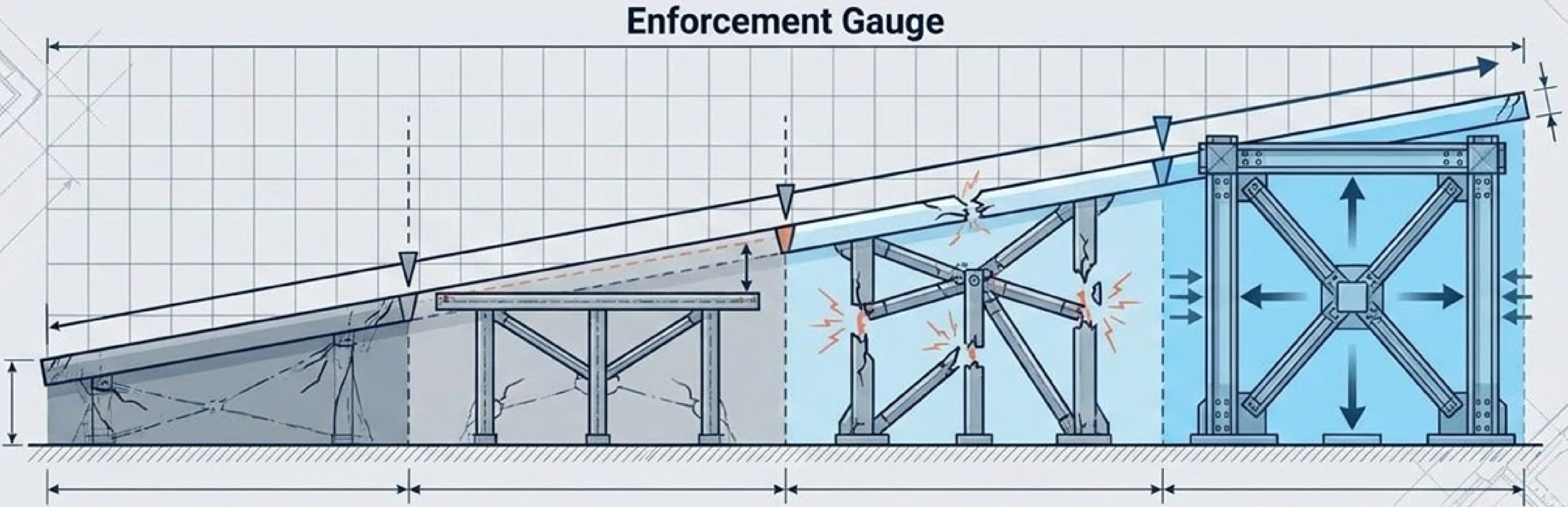
**Transparency Without Consequences** – (e.g., Australia).

Improves reporting culture but completely fails to prevent defaults or cash hoarding during economic downturns.

**Voluntary Codes & Soft Law** – Have not shifted aggregate performance in any jurisdiction. Culture crumbles under market pressure.

# The Global Enforcement Spectrum

Global jurisdictions fall along a continuum, from passive reliance on cultural norms to aggressive, proactive state intervention. Effectiveness scales directly with the degree of state intervention.




**Level 1: Cultural Norms**

Denmark, Sweden. Highly vulnerable to economic stress.

**Level 2: Transparency & Disclosure**

Australia PTRS, UK Reporting Regs. Creates a ceiling; doesn't stop defaults.

**Level 3: Passive Civil Litigation**

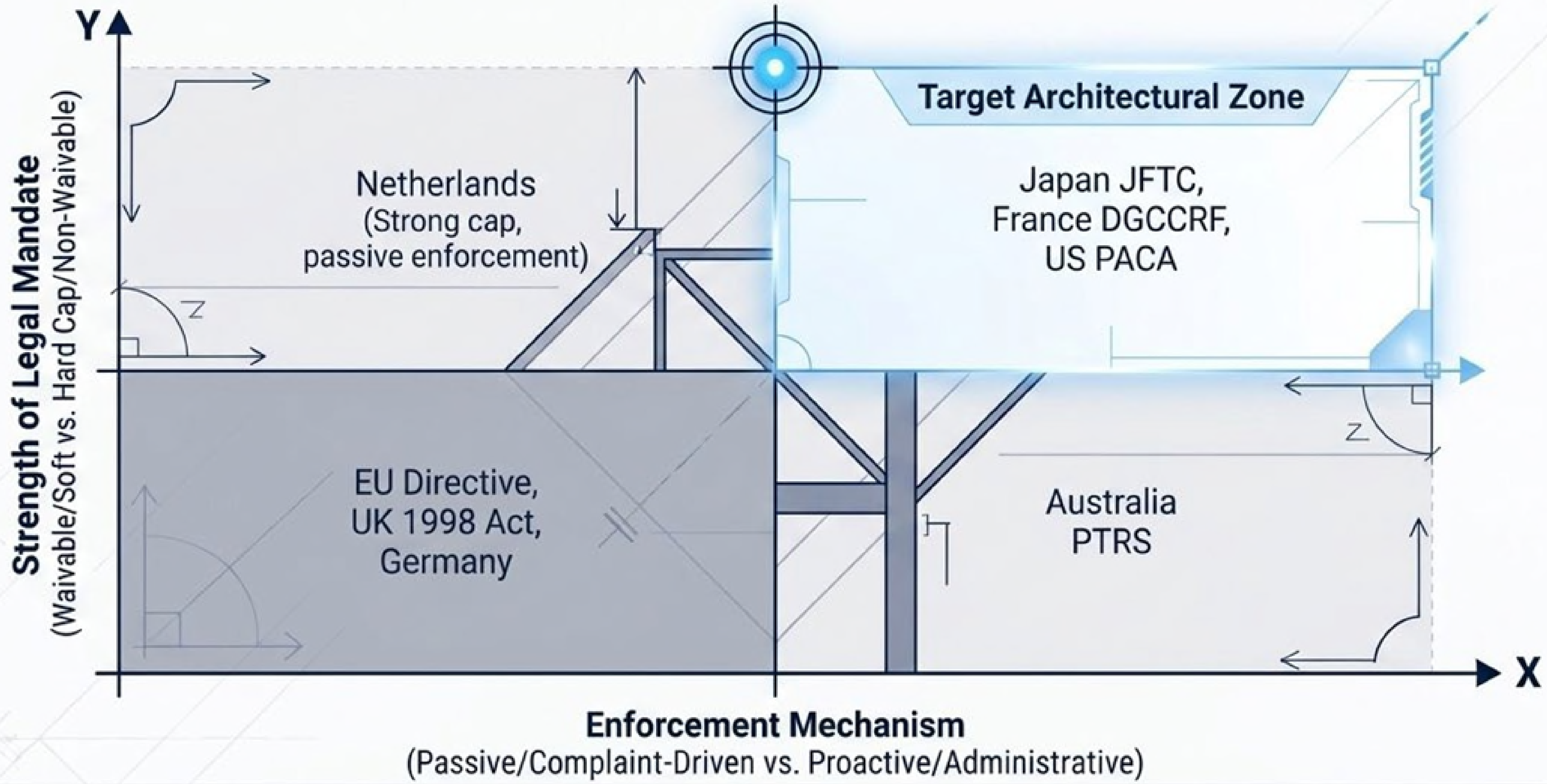
Germany, EU Directive. Fails due to demand suppression.

**Level 4: Proactive Administrative Sanction**

Japan, France. The only model proven to force behavioral shifts.

# The Global Efficacy Matrix

**Insight:** SMEs cannot be expected to enforce their own rights. Only regimes that shift the enforcement burden away from the individual SME achieve structural success.



# Empowering the SBC:
# Shifting the enforcement burden off the SME


### From Reactive to Proactive:

- **Current State:** The SBC can only act when an SME files a complaint (resulting in only £8m recovered for 695 businesses).
- **Future State:** SBC granted powers to compel disclosure, investigate autonomously, and impose civil penalties calibrated to unpaid statutory interest.

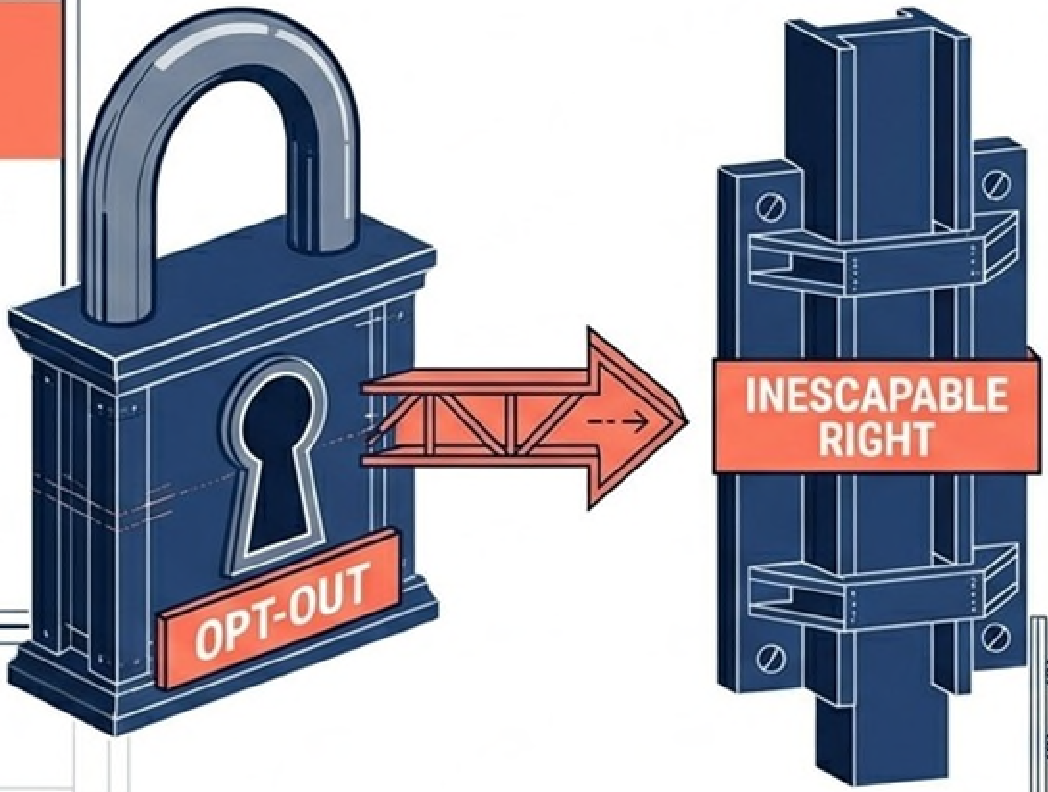
### Adopting the Sector-Specific Success Model:

- The SBC will offer an adjudication model inspired by the Grocery Code Adjudicator (GCA) and construction regimes.
- **The Goal:** Provide a low-cost, rapid alternative to civil litigation that operates independently of an SME's willingness to formally sue their primary client.

# Fixing the foundation: Removing the opt-out makes rights inescapable

**The Historical Loophole:**

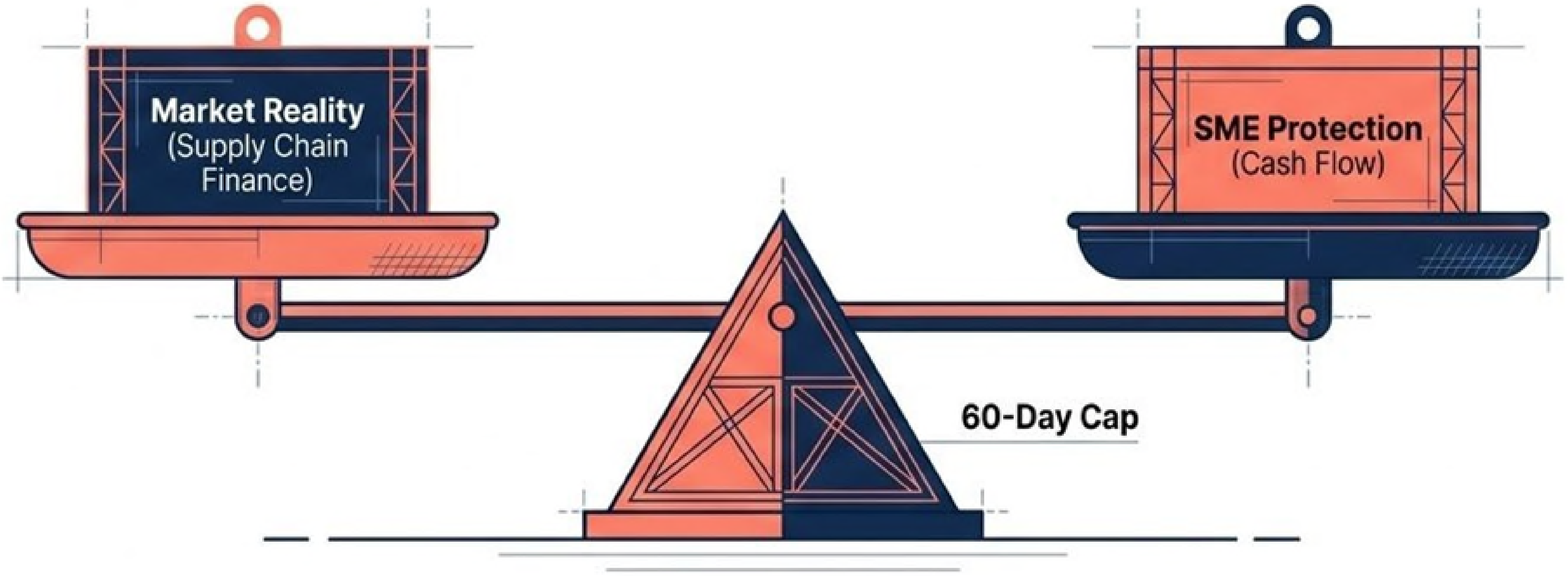
The 1998 Late Payment Act allowed parties to agree to "alternative remedies." Dominant buyers weaponized this to systematically exclude the statutory 8% + Base Rate penalty.




**The 2025-26 Intervention: Mandatory Non-Waivable Interest**

- **The Mechanism:** Transforms the interest right from a voluntary claim to an automatic legal obligation.
- **Why it matters:** It is the single most analytically important element of the reform. It targets the "Demand Suppression" loop directly.
- **The Global Precedent:** Mimics the success of France's LME non-waivable minimum penalty and the US PACA trust mechanism, where where SME rights are self-executing rather than negotiated.

# The 60-Day Hard Cap: Balancing stringency with implementation credibility




**The EU's Collapse (A Cautionary Tale):**

- The European Commission's 2023 Late Payment Regulation proposed a rigid 30-day cap.
- It collapsed entirely due to warnings of a €2 trillion SME refinancing gap and disruption to the $534 billion European Supply Chain Finance market.

**The UK's Pragmatic Baseline:**

- The 60-day hard cap eliminates the most egregious outliers (e.g., 90–120 day terms exported by US multinationals) without triggering massive supply chain refinancing crises.
- Matches the statutory ceiling of France's LME (the only G7 economy with a cap enforced administratively).
- Positions the UK to establish the de facto G7 standard following the EU LPR's failure.

# Evaluating the UK Blueprint: Architecturally Complete

**Automatic Rights**

**Proactive Enforcement**

**Accessible Adjudication**

**Transparency + Limits**

**Non-waivable 8% statutory interest**
(Closes the 1998 Act loophole)

**SBC new investigation powers**
(Adopts the Japan JFTC model)

**SBC dispute resolution function**
(Scales the Ontario / UK HGCRA model)

**60-day cap + Procurement Act targets**
(Fixes the Australian PTRS ceiling)

**Conclusion:** While France pursues harsher fines and Japan utilizes stricter inspections, the UK package integrates all four global lessons simultaneously, making it the most structurally coherent framework in the G7.

# Anatomy of the UK's 2025–2026 Reform Package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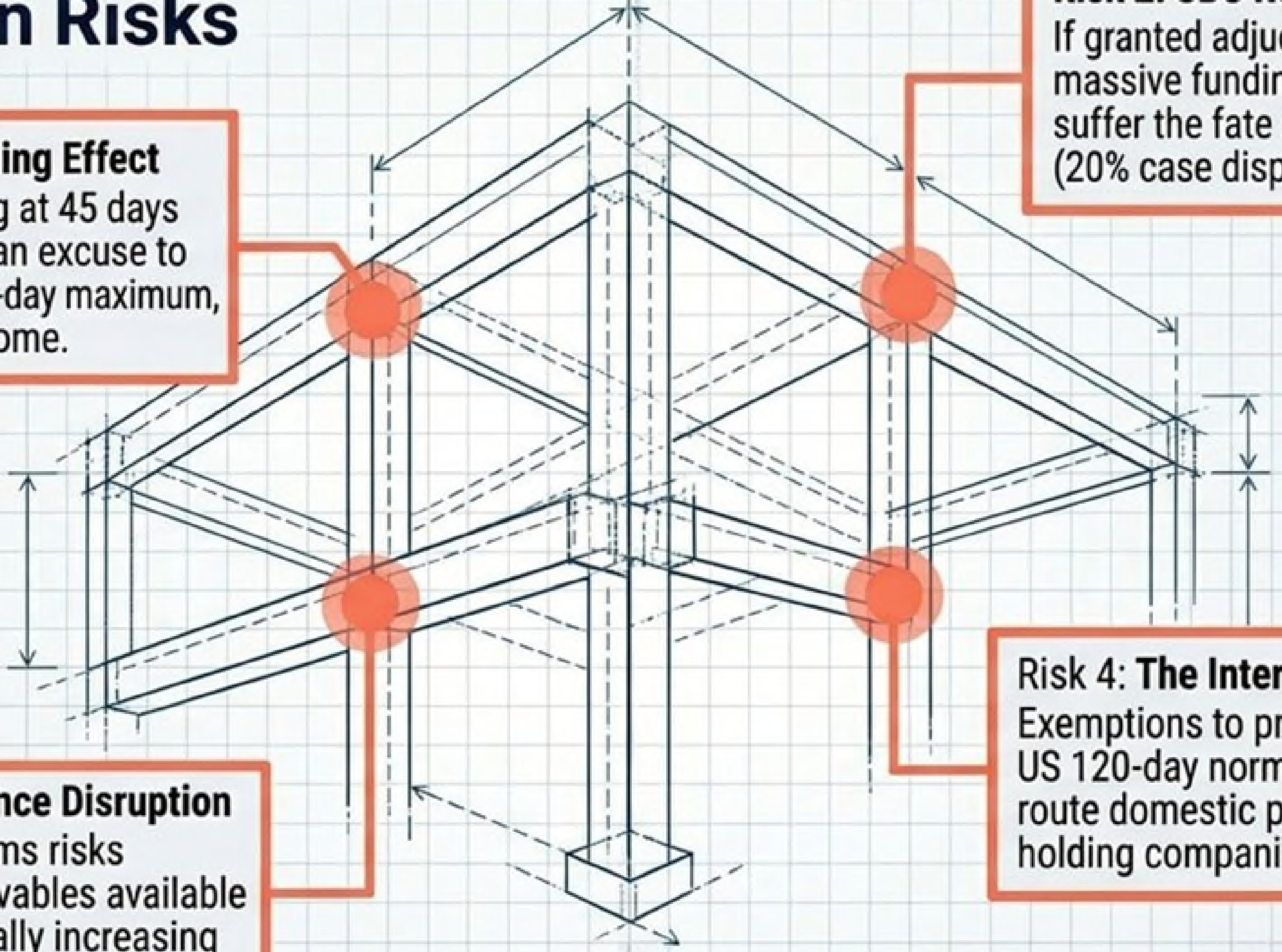
# Structural Vulnerabilities and Execution Risks

**Risk 1: The 60-Day Bunching Effect**
Companies currently paying at 45 days may use the legislation as an excuse to stretch terms to the legal 60-day maximum, worsening conditions for some.

**Risk 2: SBC Resourcing Constraints**
If granted adjudicative powers without a massive funding scale-up, the SBC will suffer the fate of India's MSMED Act (20% case disposal rate).



Risk 3: **Supply Chain Finance Disruption**
Compressing payment terms risks shrinking the pool of receivables available for SCF programs, potentially increasing borrowing costs for SMEs.

Risk 4: **The International Trade Loophole**
Exemptions to protect UK exporters from US 120-day norms might be exploited to route domestic payments through offshore holding companies.

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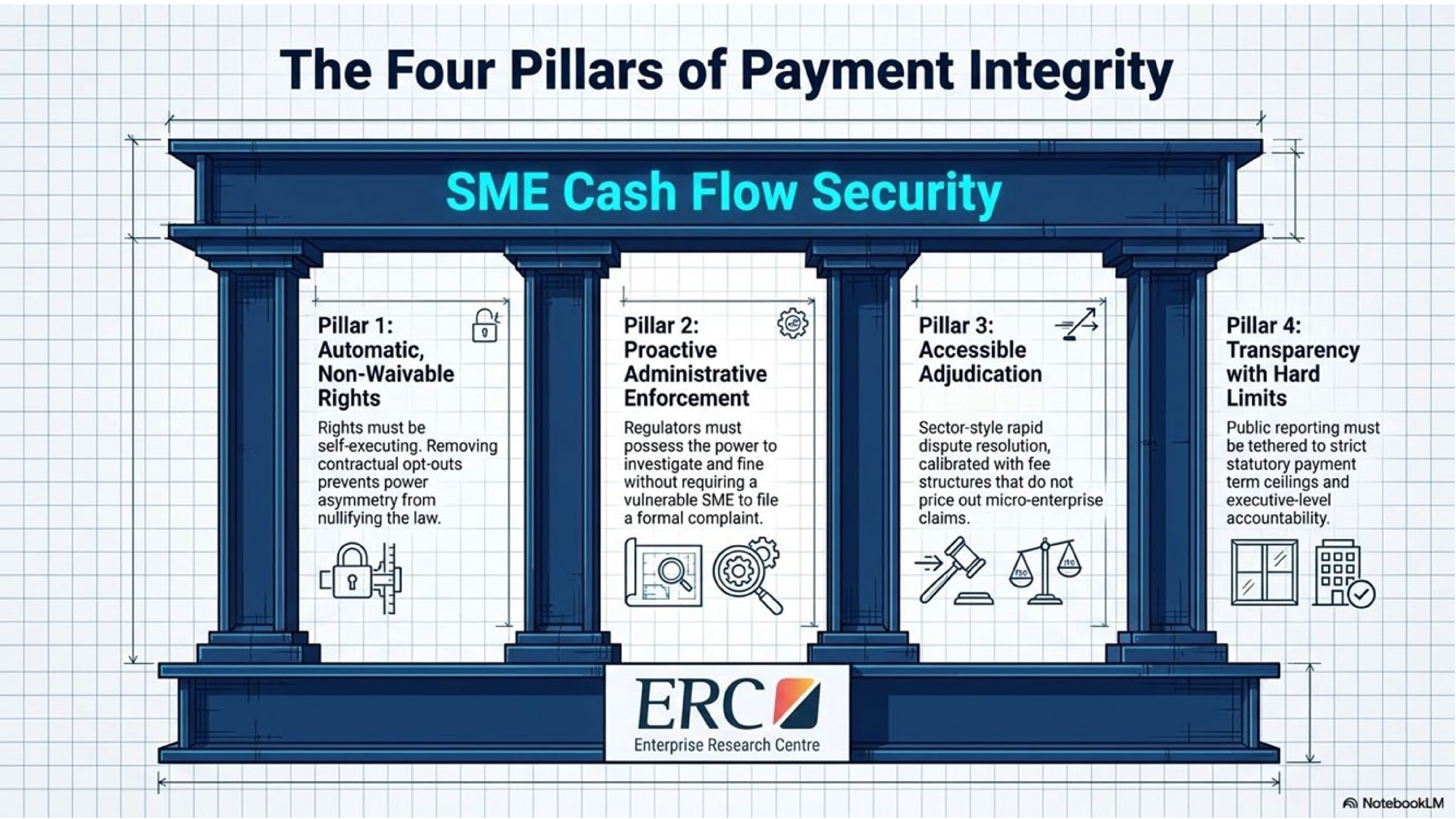
The Four Pillars of Payment Integrity
SME Cash Flow Security
Pillar 1: Automatic, Non-Waivable Rights
Rights must be self-executing. Removing contractual opt-outs prevents power asymmetry from nullifying the law.
Pillar 2: Proactive Administrative Enforcement
Regulators must possess the power to investigate and fine without requiring a vulnerable SME to file a formal complaint.
Pillar 3: Accessible Adjudication
Sector-style rapid dispute resolution, calibrated with fee structures that do not price out micro-enterprise claims.
Pillar 4: Transparency with Hard Limits
Public reporting must be tethered to strict statutory payment term ceilings and executive-level accountability.
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# From De Jure Rights to De Facto Reality

## We can no longer rely on the fiction of ‘freedom of contract’ in markets where bargaining power is inherently asymmetrical.

Educational campaigns and voluntary codes have uniformly failed. The shift from compliance to structural engineering—where rights are automatic, non-waivable, and proactively enforced—is the only proven mechanism to secure payment integrity across the global supply chain.

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# International Payment Partnerships

## Panellists

Ryland Atwood, Director, Performance & Analytics, Procurement, Barclays
Glenn Collins, Head of Technical & Strategic engagement, ACCA
Jenny Van Atta, Head of International Procurement, Intuit
Dr Sangho Chae, Associate Professor, Warwick Business School
Ralph Rogge, Founder, Crezco
Véronique Williams, Secretary General,
SME United

# The role of payment in the UK's Small Business Plan

Blair McDougall MP

Minister for Small Business

Department for Business & Trade

ERC Enterprise Research Centre

Small Business Commissioner

# Next Steps & Closing Comments

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Department for Business & Trade

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# Thank you

Thank you for joining us today and for your contribution to this work on late payments.

We will follow-up with slides, resources and next steps in the next few days.