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CASE STUDY  
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## ► Promoting business linkages with small enterprises as an incentive to formalize

Experiences from  
Chile

This document is part of a series of case studies by the Enterprises Department of the ILO. Each case study presents one or several approaches that contribute to enterprise formalization across the world. The case studies provide a snapshot on a particular initiative and may not be exhaustive.

Promoting business linkages with small enterprises can be a strong incentive to encourage entrepreneurs to formalize their businesses. When along a value chain, buyers are looking for suppliers to obtain goods and services, while governments and other stakeholders back up business linkages by providing capacity building to SMEs, informal enterprises are encouraged to register. In Chile, this has taken the form of efforts to create and consolidate stable subcontracting relationships between a private or public entity and its suppliers, through both public and private procurement combined respectively with supplier development support and productivity enhancement.



## 1. What was the initial situation?

In Chile, the number of own-account workers increased by 24 per cent between 2001 and 2011, yet the formalization rate remained at 54 per cent. **ChileCompra**, the government agency in charge of government acquisitions, was created by Public Procurement Law No. 19,886 and formally began operations in 2003. The **Chilean Economic Development Agency**

(**CORFO- Corporación de Fomento de la Producción**) is an entity that coordinates more than 20 public institutions to develop programmes in accordance with the needs of SMEs. As part of its **Supplier Development Programme**, CORFO collaborated with a leading **multinational company producer of long steel** and one of the largest recyclers in the Americas.

### Constraints to SMEs' access to public procurement in Chile

i) Very large contracts	(vi) Excessive bureaucracy	(xi) Disproportionate financial requirements
(ii) Limited knowledge of procurement procedures	(vii) Delayed and long periods for payments	(xii) Excessive emphasis on prices
(iii) Little experience and knowledge of the preparation of offers;	(viii) Unclear requirements	(xiii) Temporary closure of markets due to the presence of framework contracts
(iv) Little time for their preparation;	(ix) Burdensome requirements relating to standards and certification	
(v) Little dialogue and feedback from purchasers	(x) Disproportionate requirement for technical skills	

## 2. What were the solutions?

Both ChileCompra and CORFO facilitated business linkages with SMEs, through procurement platforms, information sharing and trainings.

**ChileCompra's** system is composed of three platforms and/or sites:

- ▶ **Public procurement** ([Mercado Público](#)) where all procurement processes are notified.
- ▶ **Chile suppliers** ([Chile Proveedores](#)), a virtual window for public procurement, where suppliers can register themselves.
- ▶ **Chile procurement training** ([Capacitación ChileCompra](#)). Participation in the system involves training and capacity building, both for suppliers, particularly SMEs, and purchasers, on public procurement procedures in all regions of the country.

ChileCompra has had the constant concern to **reduce the bias of size** (whereby competition with larger companies might make it harder for smaller enterprises to access procurement opportunities), by putting in place a more even playing field for SMEs. Thirteen main constraints (see table above) faced by small enterprises to access public procurement were identified and have gradually been resolved for the most part. The design and accessibility of the ChileCompra web portal has improved over time, facilitating participation by smaller businesses. In 2013, ChileCompra created an MSE Advisory Council (Consejo Propyme), mandated to propose ways to promote small business opportunities in government procurement. The Council involves all relevant agencies and representatives of small businesses in jointly preparing a strategy to further consolidate MSE involvement in public procurement. Research indicated that the volume and average amounts agreed with enterprises







managed by women were lower than in the case of men. Based on this finding, a programme for a “Women’s Label” was established to promote the participation of women in public procurement through information dissemination, intensive training, mentoring and articulation with the State Bank Filial for Micro-enterprises.

In the case of the **CORFO Supplier Development Programme**, the steel multinational company established together with CORFO a three-year programme that aimed to **increase the competitiveness** of selected SMEs in the metal scrap and steel production chain for export. This Public Private Partnership was done on a 50/50 cost-sharing basis. The company leveraged efforts of the CORFO supplier development programme to increase the competitiveness of selected SMEs through a process of professionalization as a way to become suppliers of scrap in the company’s value chain. The initiative included an analysis of economic feasibility and training needs of new SME suppliers of recycled scrap. CORFO then provided SMEs with capacity building opportunities to increase their management skills, entrepreneurship, accounting, IT and software, inventories, and sales, among others. It then provided direct assistance and monitoring to the SMEs for improved work place practices and business planning.

### 3. What were the results?

In the first year of the initiative’s implementation, the **steel company** observed that the **level of compliance among participating SMEs** was approximately 25 per cent on average. This further increased to 56 per cent and culminated in 70 per cent, demonstrating increased positive impacts regarding the process of formalization. **Business linkages were positive** for both parties, as the MNE itself managed to **increase its sales** as well as those of its supplier SMEs, but smaller firms were the major beneficiaries with a **guaranteed large buyer** and the **availability of prepayments**.

The operation of **ChileCompra** has also had a major effect on small enterprises, including micro-enterprises, with its purchasing power acting as an incentive for formalization. Mercado Público became one of the largest e-commerce platforms in the country, bringing together in one place the demand of over 850 public buyers and the supply of thousands of suppliers. The volume of transactions exceeds 13 billion dollars per year (8.4 billion pesos) and is equivalent to 19 per cent of the national budget. In 2017, 59 per cent of purchases were done from MSMEs and 43 per cent from MSEs, with this latter figure being higher in the outlying regions (55 per cent). The magnitude of these figures is significant when considering that the percentage of sales by MSEs at the national level is only 8.4 per cent. In 2017, there were 123,000 suppliers, of which 90 per cent were MSEs (110,700) and 67,000 were registered with Chile Proveedores. Following the introduction of programme for a “Women’s Label”, the total volume of transactions rose from 21 per cent in 2013 to 27 per cent in 2017, and the average amount of each transaction rose by 11 per cent over the same period.

### 4. Lessons learned/key take aways

Access to public and private procurement opportunities, both at the national and local level, forms a powerful incentive to the formalization of micro and small enterprise. In both cases described above, trainings to increase the competitiveness of SMEs in terms of business management and of participating in the procurement process were key to reinforce business linkages between formally registered enterprises. As a result, supply chains were strengthened, generating business income and jobs, contributing to SME’s sustainability and the growth of the economy. Public-Private Partnerships are also a means for each actor (government and private company) to build on its strengths and mandate to promote enterprise formalization.

Additional measures creating an enabling ecosystem were key to facilitate SME's participation in supply chains in the country, especially for public procurement. For example, delays in late payments were restricted by law in 2006, and entry barriers were reduced for small businesses in 2011 through modifications to public procurement regulations that extended the time frame for presenting bids, allowed bidders to comply with the required bank guarantee presenting several letters of credit and increased the ceiling of public debt permitted. Another fundamental step forward in improving MSME's share in public procurement was the creation of 16 public procurement business centres and access points throughout the country.

## 5. Resources

- 🔗 [Formalization of SMEs in Supply Chains in Latin America: Thematic Policy Brief](#), ILO, 2016. Case study on Chile
- 🔗 [www.mercadopublico.cl](http://www.mercadopublico.cl)
- 🔗 [Formalization: The Case of Chile](#), ILO, 2019.



More case studies on enterprise formalization can be found [here](#)

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