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Credit where credit's due

Josef Busuttil highlights the value of credit for small and micro-firms.

Latest figures from Eurostat show that SMEs (firms employing less than 250 people) are critically important to the European Union economy as they are considered as potential for economic growth and valuable means of creating jobs within the EU-27. Hence, SMEs play an important role in Europe's 2020 Strategy, aimed to deliver high levels of employment, productivity and social cohesion.

The importance of SMEs is further reflected in Eurostat figures, which illustrate that about 21 million SMEs are active within the EU and these account for two out of every three jobs of value added within the EU-27 non-financial business economy. Besides, an overwhelming 92 per cent of the EU-27 enterprises are micro-enterprises, defined as employing less than 10 people. Hence, the stronghold of Europe's economy is micro-enterprises that on average employ two persons each.

Late payment in Europe is a critical commercial stress for small and micro-firms.

These figures clearly demonstrate that SMEs and in particular micro-firms are the backbone of the EU-27 economies – therefore respective governments should encourage them to prosper if they want to achieve the objectives of Europe's 2020 Strategy imposed by the EU Commission.

Governments should address a number of issues to assist these micro and small to medium firms. One of the major issues that concerns these firms is the current economic and financial scenario which is hampering their liquidity and cash flow. And cash flow is the lifeblood of every business.

Due to the current economic scenario, small and micro-firms are feeling the pinch and suffering from liquidity problems. One of the causes of inadequate liquidity is late payment.

With great satisfaction, MACM, the national organisation promoting and protecting all credit interest pertaining to Maltese businesses, notes that the European Commission recognises that late payment negatively affects the cash flow of businesses. Late payment does not allow firms to invest in their business operation, limits competition, and affects the bottom line of firms with a severe consequence on the economy at large, especially in recessionary times as we are currently experiencing. SMEs and micro-enterprises are more vulnerable than bigger organisations due to their size and much limited resources.

Key statistics published by Intrum Justitia regarding European Payment Index (EPI 2011) show that written-off debt across Europe has risen by €12 billion over the past 12 months. On the other hand, if all European businesses, public authorities and consumers paid their bills and invoices in full, the money saved from written-off bad debt would equate to a €312 billion cash injection for businesses – more than the financial assistance packages granted to Greece, Ireland and Portugal combined. This spells an increase of 4 per cent on the previous year (2010).

The EPI 2011 also shows the average time from an invoice being issued until payment is received to be 56 days for business-to-business payments and 65 days when the public sector is concerned. This is an increase of one and two days respectively on the previous year (2010).

This explains why 28 per cent of all companies in Europe perceive late payment as a threat to survival while 45 per cent perceive late payment as prohibiting growth.

The concerns of the European Union and the statistics published by Intrum Justitia prove that late payment in Europe is a critical commercial stress for small and micro-firms and the only option left to them is to request credit from their banks and trade suppliers.

Nevertheless, the same crisis has forced the banks to restrict credit to the business community. Despite the fact that the Small Business Act [Com (2008)394] suggests and promotes that SMEs should be properly funded, these firms are finding it more difficult to obtain finance and bank loans, which loans are considered by the SMEs as the oil that keeps their wheel turning.

On October 3, 2011, Eurostat released a study on the proportion of unsuccessful loan applications by SMEs, showing that unsuccessful loan applications rose between 2007 and 2010 in 19 of the 20 Member States for which data was available.

This study revealed that in 2010, the highest percentages of unsuccessful applications were found in Bulgaria (from 87 per cent of all loan applications in 2007 to 43 per cent in 2010), Ireland (from 97 to 53 per cent), Denmark (from 92 to 60 per cent), Lithuania (from 89 to 58 per cent), Greece (from 88 to 60 per cent) and Spain (from 87 to 59 per cent). Falls of less than 10 per cent were recorded in Finland (from 98 to 96 per cent), Malta (from 94 to 91 per cent), Sweden (from 84 to 78 per cent), Poland (from 92 to 85 per cent), Italy (from 87 to 78 per cent), Belgium (from 92 to 83 per cent) and Germany (from 85 to 76 per cent).

In 2010, the success rate for loan applications was highest in Finland (96 per cent), Malta (91 per cent), Poland (85 per cent), France and Belgium (both 83 per cent), while the highest shares for partially successful applications were recorded in Greece (30 per cent), Spain (28 per cent), Bulgaria and Denmark (both 22 per cent).

As these figures indicate, thanks to the stability of the Maltese financial sector, local small and micro-firms are far better off than their European counterparts in terms of access to finance from the banks. However, the pressure they make on their respective local trade suppliers to grant and extend credit to them is also a fact, and there is nothing wrong in investing in these small and micro-firms as long as they are able to pay as agreed with their trade suppliers. This requires good credit management practices by the trade suppliers in order to secure sound cash flow.

If the micro and small firms that represent the absolute majority of the Maltese business community, utilise the credit granted or extended by their suppliers wisely, it may well result in having a stronger economy in the future.

Sound cash flow emanating from credit assists firms to invest in better resources and processes which enhance their customer service, gain and sustain competitive advantage, increase 'profitable' sales, explore new markets (not necessarily local), and hence create more jobs to the benefit of themselves, their suppliers and the economy at large. We call this economic scenario as healthy, promising and attractive to even more foreign investors.

Josef Busuttil is Director General of the Malta Association of Credit Management. For more information visit www.macm.org.mt

The Malta Association of Credit Management (MACM) is a not-for-profit organisation, providing a central national organisation for the promotion and protection of all credit interest pertaining to Maltese businesses.

MACM represents the credit profession across all economic sectors. It offers a range of services to the local creditors, including credit management information systems, credit management education, training, conferences, and lobbying activities. It is the ICM (UK) accredited Training Centre for Malta. MACM is a member of the Federation of European Credit Management Associations – FECMA.

MACM is the distributor of Graydon International Credit Reports in Malta.

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