

Late payment hinders economic growth

by Josef Busuttil

Director General

Malta Association of Credit Management

Tel +356 21423638 / 9

e-mail: jbusuttil@macm.org.mt

Extending credit to customers is healthy, both for business enterprises and the economy, as it helps in the selling process and in maintaining long-term customer relationship.

But credit costs money and should not be abused in any way. If it is not managed diligently by the supplier or the customer does not adhere to the agreed credit terms, it can have negative impact on the cash flow of the supplier, especially SMEs, which are more financially vulnerable.

People in business know well that in Malta, customers request long credit terms from their suppliers, sometimes running to 120 days – depending on the industry – and still fail to honour these credit terms by paying later than these agreed credit terms, or even worse issue post-dated cheques upon due date. Hence continue to benefit from the suppliers' money.

In some industries, the Government is far from leading by example. Some local suppliers are owed substantial amount of money from the Government with the consequence that they are unable to restructure appropriately in order to face the new challenges and opportunities of today's market demands.

Additionally, late payment causes cash flow problems leading to bankruptcies, loss of jobs, financial uncertainties to businesses and discourages entrepreneurs to invest. Thus restricting the economic growth which is much vital to an economy like our country's.

To combat late payment in commercial transaction, the EU has implemented the Directive 2000/35/EC. However, both in Malta and in the rest of the European Union, this Directive has been ineffective and late payment never improved.

The EU Commission acknowledges that late payment is causing bankruptcies and is harming the cash flow of businesses within the EU. For this reason, an EU-wide

consultation and surveys were conducted in order to understand better the magnitude of the late payment problem and its affect on businesses.

MACM - The Malta Association of Credit Management, took an active role in this consultation exercise, both as the Maltese body representing the credit interest of the local business community, as well as a member of FECMA – the Federation of European Credit Management Associations.

MACM is pleased to note that following this consultation, the EU commission has published a Report by which the difficulties related to late payment faced by businesses have been highlighted and suggestions have been made following a diligent impact analysis of the proposals made by European businesses and organisations similar to MACM. These proposals should come into force in 2010.

The Commission's Report clearly shows that the public authorities are not leading by example and are paying their suppliers remarkably late. Reading between the lines, the figures published in the Report reveal that although the suppliers are extending the public authorities better credit terms than they usually grant to their business customers, public authorities are paying later than the business customers.

The Report itself states that... *"Late payments by public administrations undermines the credibility of policies and contradicts declared policy objectives to provide for stable and predictable operating conditions for enterprises and foster growth and employment."*

It continues to state that... *"Given the importance of public procurement in the EU (more than €1,943 billion per year) late payment by public authorities has a strong negative impact on enterprises, notably SMEs. Many public authorities do not face the same financing constraints as businesses and late payment in their case is avoidable. It should therefore be more severely sanctioned when it occurs."*

MACM is also pleased to note that the EU Commission has pointed out that *"diverging payment attitudes across the EU might hamper business participation in public tenders, which not only distorts competition and undermines the function of the internal market, but also reduces the capacity of public authorities to get best value for tax payers' money."*

In a Press Release published on the 8th April 2009, the European Commission Vice President – Gunter Verheugen, who is responsible for the Enterprise and Industry, said that *"Late payment by public administrations should be no longer tolerated."* He went on to refer to the Commissions Proposal Paper intended to combat late payment in commercial transactions, whereby he said that *"this proposal provides an important impetus to overcome the economic crisis by helping to avoid further bankruptcies and promoting businesses cash flow in order to reinforce the competitiveness of European enterprises in the long term."*

In fact the proposed changes to the existing EU Directive 2000/35/EC related to late payments in commercial transactions are summarised as follows:

- Public authorities should pay within 30 days otherwise they will have to pay interest, a compensation for recovery costs and a flat rate compensation of 5% of the amount due, which kicks in from day 1 of the delay.
- The freedom to contract will be respected in business to business relations, however in case of delay in payment, businesses will be entitled to claim late payment interest and a compensation of recovery costs.
- The rules on grossly unfair contracts are tightened.

These proposals aim at improving the cash flow of European business which is particularly important in times of economic downturn. These proposals should serve businesses as effective tools to combat late payment in commercial transactions by confronting late payers, including public authorities, to discourage them from paying late.

It is also critical to keep in mind that credit is provided by the supplier and the credit terms should never be imposed by the customer, especially when the deal is a public tender.

MACM encourages the government to pay on time and adhere to the proposed changes in the EU Directive 2000/35/EC in order to assist the local business community and the Maltese economy at large.

Credit has a domino effect. If the government takes long to pay its suppliers, the latter would take long to pay for their purchases and a vicious circle would be created. We have all witnessed large international organisations going bust due to cash flow difficulties, leaving thousands of people unemployed. Therefore, the government should be the first to assist Maltese businesses to secure sound cash flow and maintain a high employment rate.

Therefore, if we truly want our economy to prosper, the government should be the entity to lead by example and pay on time!

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