Payments taking longer

Businesses in Malta will not be pleased to learn that the time it takes to get paid has not improved but has actually deteriorated, from 83.50 days to 91.67.

The Malta Association of Credit Management reported an increase of 8.17 days between the annual average for 2014 and 2015, which it measures as the Average Days Sales Outstanding (DSO).

The survey was conducted amongst its members: suppliers and service providers selling on credit in Malta, hailing from all sectors of the Maltese economy.

"When this figure is compared with the DSO of 34 days for Europe, there is surely much to be desired. The average DSO for Malta is in fact higher than that of Italy (80 days) according to the European Payment Index published recently by Intrum Justitia," the MACM said.

The sad situation has been highlighted several times over the years – but seems an impossible nut to crack. In fact, in 2010, the DSO was 78.5 days, and that for 2013 was 90.93 days. The MACM did not conduct the survey for 2011 and 2012.

Debtors represent on average about 40 per cent of the total assets shown in the balance sheet of most firms and these assets are liquid. Therefore, an increase in the DSO could have an impact on the creditworthiness of the firms and could hinder further investment in businesses as more creditors and corporations would be reluctant to provide credit facilities, sell on credit or extend credit.

The MACM cautioned that a number of external factors may influence the DSO figure, so it was advisable to benchmark the the figure with that of the same industry – data which is available to MACM members.

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LEADING BY EXAMPLE

The worsening DSO is a clear sign that the Late Payment Directive – which allows credit to be extended up to 60 days (from 30 days) only if both parties agree – is clearly not having much of an impact. Josef Busuttil, the director general of the Malta Association of Credit Management, believes that this is a matter of growing concern.

Late payment in commercial transactions is one of the main concerns of the Maltese business community. Companies across all sectors of the Maltese economy are facing liquidity problems, evident from their audited accounts filed at the Registry of Companies.

We also see a great deal of bartering going on, especially in the construction industry, with building developers exchanging property as payment to their sub-contractors. Bartering has a direct negative effect on cash flow and hence late payment.

Other firms complain that as a result of late payment, they are unable to restructure appropriately in order to face the new challenges and opportunities of today's market demands.

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

A report issued last year by the European Union referred to late payment as the major cause of business insolvencies, threatening the survival of businesses and resulting in numerous job losses. Keep in mind that late payment has a domino effect: if a supplier is not paid on time, he may not be able to honour his own commitments.

The Late Payment Directive does not only set down credit parameters: it also gives victims the right to impose late payment interest, as well as compensation for the expenses incurred to recover past-due money from the trade customer.

Here in Malta we have a fast track judicial system under section 166A by which a firm can obtain judgment after 30 days but it is limited to €23,000. What if the outstanding amount is higher than this? The directive states that an enforceable title should be obtained within 90 days irrespective of the amount of debt!

However, although legislation and the law court may sometimes help businesses to recoup debts, procedures are expensive and not always a good tool – but rather something to use as a last resort.

Moreover, let us also keep in mind that for government-to-business payments, the deadline is 30 days and exceeding this has to be "expressly agreed" and "objectively justified in the light of the particular nature of the contract".

The Commission's report clearly noted that public authorities are not leading by example and are paying their suppliers remarkably late.

Reading between the lines, it is evident that suppliers often grant better credit terms to public authorities than they usually grant to their business customers, and that public authorities are paying later than the business customers.

The report itself states: "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 warns that something needs to be done: "Given the importance of public procurement in the EU (more than €1.9 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."