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Address by the Hon. Censu Galea, Minister for Competitiveness and Communications, during the seminar on "The Evolution of Credit Management in Malta from an E.U. perspective" – Valletta – 6.5.2004

European Union legislation covering businesses operating within or trading with the EU is growing in its significance. In the past, a discussion of the impact of government on business was likely to have centred upon the role of national governments. Nowadays, the EU is playing an increasingly important role in the economies of member states.

This extends to the macroeconomy where the introduction of a common currency, the euro, has modified the note of national governments in the formulation and execution of monetary and fiscal policies, and to the microeconomy where the EU is developing European industrial and social policies.

The 1986 Single European Act introduced a new momentum to European integration, helping to sweep away a number of the remaining barriers to free trade and free movement of factors of production in the EU. Frontier checks have been simplified, public procurement programmes liberalised, trade-distorting taxes and subsidies simplified and technical standards levelled.

As a result of the continuous changes in the structure of the union, which are taking place in Europe at the moment, businesses have to face new challenges. In this scenario the Maltese business community is no exception.

We are living in a time of economic reform, leading to the harmonisation of many economic issues to achieve a consistent European market. This means that businesses have to adjust appropriately and on time to the new situations to remain both competitive and relevant in the existing market place, as well as to gain competitive advantage in other potential markets.

European companies are increasingly adopting modern control systems based on the groundwork of value-oriented corporate management with the aim of maximising the market value of the organisation. The Credit Management function contributes to the value enhancement of a business. However, businesses should consider by credit sales as an important investment – an investment in the current assets.

Businesses have a variety of investment opportunities: research and development, purchase of raw materials, capital goods, computer systems, and many others. However, an important investment is that carried out in the customers' accounts, and unfortunately, many businesses are not aware of the relevance of such an investment.Businesses may be careful and cautious when investing in fixed assets, but are usually not so diligent when the investment is made in their clients by way of granting credit, despite the fact that customers' accounts are more difficult to control since these assets are in the hands of the debtors or clients as may be the case.It makes no economic sense to sell without making a profit. Suppliers should analyse the creditworthiness of their future debtors, whilst reviewing the existing debtors on an ongoing basis. They should never forget, that accounts receivable represent the main source of financial inflows for the business. Therefore, credit management must administer current assets in a dynamic way, controlling overdue invoices and transforming them into liquid resources.

Unfortunately, though, our competitive market and trade culture do not help proper cashflow management. The small size, fragmented and generally saturated Maltese market tends to force suppliers to oversell - to gain a bigger share of the market - and sometimes suppliers go beyond their means when granting credit to their customers. More often than not, trade credit is still being done verbally with no documented credit terms and conditions, let alone signed credit agreements.

This culture should definitely change. The trade creditor should be more proactive and professional in the way he grants credit, for the benefit of the business organisation itself. And in a wider sense this would then reflect on the wider economy it operates in. Therefore, the aim of the suppliers should be to ensure that they do not over-sell without giving due attention to the financial position of the person or company they are lending their money to.

A prosperous business environment can only be guaranteed if credit is given to those clients who are creditworthy and considered as long-term business partners. No credit applicant should expect to be granted a credit facility without giving the adequate guarantees to the supplier providing the goods or services on credit, ensuring that adequate capital is being invested, and providing all the necessary information such as their business track record, operational & profit objectives.

Prior to granting a credit facility, other pertinent information, such as Trade and/or Bank references may also be requested for further evaluation. A client's failure to provide such information ought to throw a negative reflection on the client's application for credit facilities. After all, what is a sale if it is not paid up on time? This is an instance where co-operation between the banks and the business community is needed to the benefit of the supplier, the client asking for credit and the bank itself.

All these parties will ultimately benefit. The supplier of goods or services will have more information on which to form his credit decisions, the debtor will not be able to overtrade by means of over-indebtedness, and the bank will ensure a healthier business environment which will effect the profitability of the bank itself. One way businesses can achieve success in credit management is through developing and implementing efficient and effective credit information management systems which best satisfy the needs of the particular organisation. Credit managers need to know WHEN, HOW and WHAT actions may need to be taken at any instance, to the benefit of their own organisations whilst maintaining a sound business relationship with their clients.

Investing in the employees is another effective way to improve the practices and change the credit management culture in Malta. Maltese businesses may lack adequate training in credit management, and the initiative of the Malta Association of Credit Management to offer a recognised education programme for the credit practitioners and students in Malta is a positive step forward for the local business community and has the backing of this Ministry.

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