LATE PAYMENT REGULATION

#SOTEU2023

Late payments affect every sector and every Member State and disproportionately impact SMEs. Each year across Europe, thousands of SMEs go bankrupt waiting to be paid, jobs are lost and the EU's competitiveness is negatively impacted. With these revised rules, the EU is stepping up its fight against late payments in commercial transactions, promoting SME liquidity and boosting EU competitiveness and resilience.

Facts and figures

By being paid on time, companies will save each year at least **5** man-days currently lost to chasing debtors, equal to **€ 8.74 billion** for the entire EU economy

The average payment by some public authorities exceeds **200 days**

Over **500** invoices are issued every second in the EU.

1/2 is not paid on time

1/4 bankruptcies are due to invoices not being paid on time

Consequences of late payments for SMEs:

Reduced competitiveness:

- Hassle/costs of chasing debtors
- Increased cost of financing

Reduced cross border trade:

- 34% of entrepreneurs say they would operate more in cross-border transactions if payments rules were respected

Increased uncertainty and risk:

- Reduced investment capacity
- Increased liquidity risk and bankruptcy risk
- Reduced trust and confidence in the market
- Lost jobs
- Reduced participation of SMEs in public procurement

Negative impact on society:

- Late payments affect the quality, choice, and continuity of provision of essential goods and community services such as public and collective transport, medicines, and medical devices for health care; construction and maintenance of schools, hospitals, streets; garbage collection and waste recycling, etc.
- Greater risk of stress, depression and anxiety for entrepreneurs

New measures to put an end to late payments

Stronger legal instrument: replacing the current directive with a regulation will bring benefits to the Single Market, making it easier for SMEs to operate cross border in the EU. It also means one rule for all – big businesses, SMEs and public authorities

Maximum payment term of 30 days that cannot be derogated from

Payment of interest is compulsory and shall accrue until payment of the debt
This is complemented by a flat-free compensation for all late payments

Enforcement and redress measures to protect creditors against bad payers:
Member States to set up enforcement authorities to monitor and ensure the application of the rules

Better protection of subcontractors in public construction works

Alternative Dispute Resolution (ADR)

Increasing credit management and digital financial literacy of SMEs

A clear-cut list of unfair practices and contractual terms

How will SMEs benefit?

Improved liquidity for businesses, especially **SMEs:** On average, reducing late payments yields an increase in **aggregate cash flow of roughly 0.9% for each day of reduction in payment duration**

Fewer bankruptcies due to late payments, leading to **fewer job losses**

Time and cost savings: being paid on time will save businesses at least 5 man-days currently lost to chasing debtors each year, equivalent to **€ 8.74 billion** for the entire EU economy

Prompt payment bring more money to invest in **innovation, to recruit new staff, to grow and expand into new markets directly into the hands of SMEs**

A fairer business environment: SMEs will be equipped with the tools to defend their rights when paid late (enforcement and redress mechanisms), reducing the fear factor that has hampered so far the implementation of the current directive

Luxembourg: Publications Office of the European Union, 2023

Print	ISBN 978-92-68-07406-0	doi: 10.2873/2677	ET-07-23-374-EN-C
PDF	ISBN 978-92-68-07407-7	doi: 10.2873/858390	ET-07-23-374-EN-N