

Assessing the economic impact of faster payments in B2B commercial transactions

The study

The issue

Payment delays of more than **60** or **30** days negatively impact firms and especially SMEs

Objectives

Assess how payments in line with the LPD affect businesses

Methodology and data

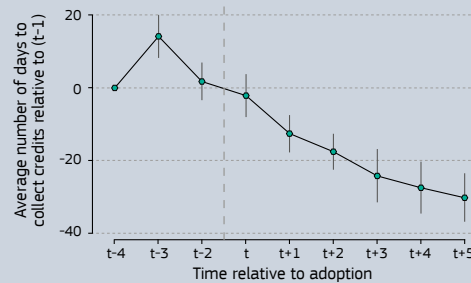
Difference-in-Differences with staggered implementation on firm level data

The sample

Firms operating in non-farm business sectors over the period **2010-2018** in **8** EU Member States (Belgium, Finland, France, Germany, Italy, Spain, Hungary, Netherlands) and the UK

Results

The Late Payment Directive reduced payment delays in B2B commercial transactions



Adoption varied in the countries of the sample from 2012 to 2014.



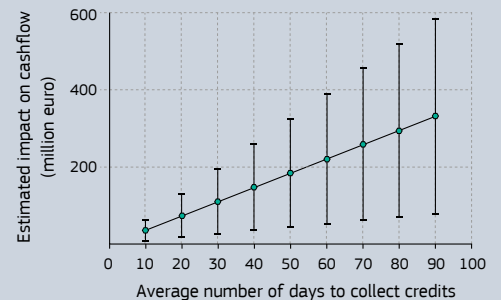
The effect is more marked for firms operating in the manufacturing and construction sectors, characterized by a strong presence of SMEs in the relevant supply chains

The effect on cash flow is more evident in Belgium, Italy and Spain, less in other MS where rules on payment terms were stricter than the Directive

Results and effects differ across MS influenced by the different level of enforcement of the Late Payment Directive at national level

Four years after the adoption of the LPD the average cash flow, in highly exposed companies, is over **60%** higher than before the introduction of the directive

What would have been the impact on cash flow had payment duration been equal to 60 days?



Estimates over the selected sample of firms point out that, 4 years after the adoption, on average, the LPD yields an increase in aggregate cash flow of approximately **3.69 million euro**, roughly a **0.9%** increase, for each day of reduction of payment duration.

Supply chain impacts

The effects of the LPD on cash flow in a sector are affected by payment duration upstream and downstream in the supply chain

Predictable payment terms within a "standard" time range (30-60 days) increases businesses' cash flow and sales. The study has shown that this mechanism is effective therefore it has to be preserved and enforced for the benefit of EU businesses