

Turin Round Table on the Impact of the Global Crisis on SME & Entrepreneurship Financing

March 26th, 2009

As President of ESBA, the pan-European Small Business Alliance I have made contact with member organisations and others to find out what small businesses consider to be suitable responses to their current finance problems.

Let me start with the Federation of Small Businesses. The FSB is the largest business organisation in the UK with 215,000 member businesses. As my home organisation I represent the FSB outside the UK as Chairman for International Affairs.

Since the start of the financial crisis 4 polls have been conducted to find out how members are affected. In line with EU statistics most of our members are micro and small businesses. The results of these polls correspond with findings made in other countries with lack of access to finance topping the polls, withdrawing overdraft facilities by banks, calling in loans and increased cost of borrowing. The drop in demand as a consequence of the crisis and the resulting job insecurity compound the situation. Late payments have increased considerably especially within supply chains.

The FSB has put forward papers on:

- 1) The Principles of Small Business Banking
- 2) A Proposal for a Small Business Survival Package
- 3) A five Point Plan for job retention and creation

The Principles of Small Business Banking contains the following suggestions for banks:

- The cost of loans and overdrafts should be fixed for the whole of 2009, if repayments and limits are not broken, to stabilise financial uncertainty.
- Base rate cuts by the Central Bank should be passed on in full to small business customers rather than using LIBOR rates.
- Switching between banks must be carried out within five working days to give customers the opportunity to take advantage of competition.
- All banks dealing with small businesses should apply for European Investment Bank credit, along with the Governments' Enterprise Finance Guarantee scheme and make these schemes more widely available and accessible.
- All reasonable requests for finance from a small business must be considered and, if refused, a letter of explanation must be produced.
- All documentation and contracts for finance must be clear, fair and not misleading.
- Financial penalties for the banks must apply where appropriate, if the above is not adhered to.

Similar to the FSB's Principles of Small Business Banking, the Small Firms Association in **Ireland** has come up with a banking code that is now legally binding.

The objectives of the code are to facilitate access to credit for sustainable and productive business propositions, to promote fairness and transparency in the treatment of SMEs by banks and to ensure that when dealing with arrears, assistance is given to the borrowers to meet their obligations.

Banks must demonstrate that they are in compliance with the Code.

The Code deals with applications of credit, security, declining or withdrawing of credit, procedures when financial difficulties arise from the borrower, provision of information and handling of complaints.

This banking code seems to be a step in the right direction and does require banks to produce records for the Financial Regulator. However, it does not stipulate preferential lending to small businesses.

ESBA's **Belgian** member SNI with a membership of 60,000 businesses has welcomed the introduction of a credit mediator. Although the scheme is very new and its success or failure is not known as yet, the option to get help when dealing with loan applications is seen as a very positive step forward.

I was also told that the Belgium Credit Guarantee Scheme allows applicants to get the credit guarantee directly from the Belgium Government prior to approaching the banks. This way only the difference needs to be secured by the business. Again we have to await the outcome of this approach.

The feedback I received from a **Swedish** business organisation is that 50% of Swedish small businesses claim that they cannot get loans from banks. The Swedish Government offers a Guarantee Scheme, which is not being taken up by all Swedish banks due to the high insurance cost associated with the scheme.

Iceland is a special case in that its economy is now practically bankrupt. The situation for small businesses there is not simply just lack of credit, but a fight for pure survival. Businesses now have to pay cash in advance to get goods, cash they do not have. The credibility of an entire nation and its population has fallen to such a degree that there is fear of social unrest and major migration from the island.

Who or whatever is to blame for this extraordinary situation, the aim should be to retain their small business base to give the country a chance for recovery. I would like to put it to this audience that Iceland being a small country, can be saved and should not be forgotten.

Common complaints of the FSB membership are the lack of face-to-face contact with a bank manager who understands their business. What happened to relationship banking? The impersonal structure of the modern banking system removes the business owner from financial decisions made at a bank's head office. To overcome these obstacles the FSB is suggesting the following:

- Small businesses need to have a named contact at their bank with proper training in small business. The position of a business relationship manager should be an important position within a bank branch and should be valued by the banking industry as much as it is by small businesses.
- Banks should return decision making to the local level. The circumstances and viability of individual businesses are best judged at the local level.
- Regular Banking – Business Forums at local level should be established across the UK in an effort to help viable small businesses access to essential credit and regain confidence in the banking system.

Finally on banking, let me give you one word: Micro Finance.

91% of all companies in the EU are micro companies, employing fewer than 10 people. These companies do not need venture capital, they will not issue shares, but what they need are small amounts to conduct their business. Easy access to micro finance at affordable prices will keep these companies going.

Countries like India and some in Africa have seen the light and offer micro finance. I think it is high time we do this in Europe as well. It will also help new start ups to give the newly unemployed an alternative to the doll.

Micro Finance reduces the risks to banks and enables small companies to survive and start organic growth.

The Proposal for a Small Business Survival Package by the FSB covers actions for the British Government and addresses the late payment culture as well as access to public procurement.

In the UK the FSB's call for a £1 billion survival fund has been heard by the government and they have extended the existing Small Firms Loan Guarantee Scheme to the Enterprise Finance Guarantee Scheme. New definitions should make it easier for small companies to access the scheme.

However two problems remain: 65% of FSB members are unaware of the scheme altogether and 25% say that the scheme is not available through their bank.

Information on new schemes need to be widely publicised. This can be done through business support organisations, accountants who have the closest links with small business owners and trade organisations.

Once the information is received applications need to be simply, short and a clear roadmap given how to go through the process.

The financial crisis has increased the already existing culture of late payment in the UK. Although FSB members confirm that government payments are being received within 10-20 days, the private sector has, as in other countries, extended credit lines to unacceptable levels. The FSB therefore proposes to fully enforce the Companies Act of 1985, which obliges companies to publish their payment performance. Due to lack of resources in Companies House this requirement has not been enforced and the information is not available. Publicly naming and shaming, including penalties for companies defaulting on their payment terms will improve this situation. Small suppliers cannot be used as a banking facility.

Retention of profits is another tool that can be used to let small companies use their own fund. By not taxing profits as long as they remain in the company and they are used for increasing the equity, as working capital or for investments, companies retain their own fund. Once the profits are taken out via dividends or withdrawals they can be taxed.

Access to public procurement is the best way to address the negative demand situation in the short term. Only 16% of public procurement in the UK is awarded to SMEs. The complexity of the process, lack of knowledge and associated cost are the main barriers. Our recommendations are to introduce a single pre-qualification questionnaire to be used in all public procurement contracts and to scrap the fee for nationwide access to public procurement contracts.

The FSB has suggested a **Five Point Plan for Job Retention and Creation**.

To deal with dropping consumer demand, jobs need to be retained and created.

Small Businesses in the UK employ 59% of the workforce. The FSB believes that with the following measures over 400,000 jobs could be generated in the UK.

These measures include:

- Cutting payroll taxes
- Simplifying public procurement contracts
- Declaring a moratorium on business regulation
- Promoting part-time work through tax exemptions
- Simplifying and promoting apprenticeships
- A short-time working subsidy to retain employees rather than making them redundant. This scheme is currently successfully trialled in Wales and similar schemes exist in Germany and France.

My time here today does not allow me to go into detail on these proposals, but they are available on request.

From the recent FSB polls I have extracted two reactions of members to measures taken in the UK:

- 23% of the membership thinks that the VAT cut from 17.5% to 15% was a waste of effort, cash and time, and has caused some members serious problems.
- 15% were pleased with the opportunity to spread tax payments, but felt unable to handle this offer without consulting costly accountants.

I mention these examples to show that consequences of actions need to be considered thoroughly and changes need to be easily implemented to avoid additional cost.

To give a short summary of recommendations I would like to suggest the following:

- Affordable Micro finance for small companies
- Credit Mediators to help overcome access to finance
- Local Branch Managers establishing old fashioned relationship banking
- Small business cannot be used as a cash cow by banks or the supply chain
- Concise and widespread information on available finance schemes with simplified rules
- Retention of profits

In conclusion, business organisations all over the world come up with ideas and solutions. Countries have to decide what is best for them. What is important in my view is that governments listen to the small business community and take their ideas on board. Considering the billions that have been spent on banks and large corporations, the demands of small companies are minute. Give them what they need now and they will survive, prosper and create the jobs we all need in the future.

Thank you

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