

Teresa Graham OBE
The Graham Review of SFLG
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Dear Ms Graham

THE GRAHAM REVIEW OF THE SMALL FIRMS LOAN GUARANTEE

The Association of Chartered Certified Accountants (ACCA) is pleased to comment on the above consultation paper. In the following paragraphs we consider a number of questions posed in the paper.

Over half ACCA's 98,000 members work in or service SMEs. We therefore have a special interest in issues which concern small businesses.

Understanding the Market

1. Access to finance is generally not seen as a major problem by small businesses. The latest results from the Bank of England reveal that there is little evidence of firms facing difficulty accessing debt finance.¹ Concern about access to bank finance is not something which members of UK small business organisations are raising with them.² The Small Business Research Centre's European Survey for Lloyds TSB found that access to finance was a constraint on

¹ Bank of England. *Finance for Small Firms - A Tenth Report*, April 2003.

² Institute of Directors and Confederation of British Industry. In Bank of England, *Finance for Small Firms - A Tenth Report*, April 2003.

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growth for only around 1% of businesses.³ ACCA agrees that the market in which businesses raise finance has become more sophisticated since the Small Firms Loan Guarantee (SFLG) was introduced in 1981 and that debt finance does not present the problem it once did to a vast number of small businesses.

2. A review of the SFLG, and in particular, how it can be most effectively employed is well timed. Whilst research demonstrates that the availability of debt finance has increased over the past decade, this masks the diversity within what is a disparate small business sector. Research has focused increasingly on the challenges faced by businesses in certain sectors, ethnic or minority groups, and those wishing to access finance for growth capital, which will be discussed in more detail below.

Understanding how the SFLG is used today

3. The SFLG was introduced to make it possible for small firms with a workable business proposal, but lacking in security, to borrow money from approved lenders. It is recognised that security has become less of a barrier for small firms to access finance and so, as a consequence, it is to be expected that small firms accessing the SFLG are not necessarily 'excluded' or experience significant barriers. The typical loan awarded is now £75,000. 45% of SFLG schemes are to fund Management Buy Outs (MBOs), Management Buy Ins (MBIs) and franchises. The consultation paper is correct, therefore, to question how the SFLG can be most effectively employed in the current finance market for SMEs.

4. A number of specific groups and sectors have been identified as facing distinct challenges when accessing finance. Women, for example, receive one third of the level of finance as compared to men when starting up in business⁴. The newly formed National Council for Graduate Entrepreneurship will examine the issue of student debt and how this impacts on the ability of graduates to access finance to start a business. As recognised within the HM Treasury response to "Bridging the Finance Gap" December 2003, high-technology firms face specific issues in accessing finance. There could, therefore, be merit in targeting the SFLG to address those sectors and groups which face significant barriers.

5. Social enterprises are one such group that has been identified as having special needs as regards accessing finance. They are

³ Hart, M. (2003). 'Lloyds TSB/ Kingston University, European Small Business Survey', Small Business Research Centre, Kingston University.

⁴ Women's Business Ownership: A review of the academic, popular and internet literature, Carter, Anderson and Shaw, 2001

attracting a great deal of focus as research demonstrates that small-scale investments in businesses with a social focus can have a positive impact on deprived or disadvantaged areas in terms of social cohesion. Social enterprises are also likely to create more jobs at start-up and owner-manager stages of development and have higher median turnovers than their mainstream counterparts⁵. This type of business, however, faces very high failure rates in relation to 'normal' businesses when attempting to access finance.

6. A Special Report on the Financing of Social Enterprises, 2003 by The Bank of England recommends that the Department of Trade and Industry (DTI) might usefully review the terms of the SFLG scheme and encourage Community Development Finance Institutions (CDFIs) that lend to social enterprises to become approved lenders under the SFLG scheme. ACCA, therefore, supports broadening the lender base as proposed in question (iii) to trusted organisations such as CDFIs and possibly the operation of the scheme through organisations such as The Prince's Trust. The major clearing banks were responsible for 97% of all the SFLG funds granted in the year to 31 March 2002⁶. The promotion of the scheme through organisations which are in close contact with groups such as female entrepreneurs, graduates, high-technology businesses and social enterprises, may be of positive benefit to businesses which would not have considered going to a bank for finance and therefore would not have received funding.

Delivery and Administration of the SFLG

7. A recent ACCA Members' Survey on "The barriers in accessing finance through formal channels" identified a number of concerns about the application process for the SFLG. Accountants who work with their small business clients on making applications for the SFLG feel that there is a great deal of complexity in the approval system and that this not a particularly 'easy' loan to obtain. One respondent's comment reflects the feelings of many, "it should be made more flexible, the process should be simplified and the administrative burden reduced". A significant number of members felt that the process would be made easier if clear guidance on how to apply were produced. Greater clarity and transparency in the system, particularly in regard to the right of appeal, would reduce the administrative burden.

⁵ GEM Social Entrepreneurship Monitor UK 2004, Rebecca Harding and Marc Cowling

⁶ CBI Enterprise Group, January 2003 Small Firms Loan Guarantee Scheme – Plugging the Funding Gap.

8. There are a number of recognised hurdles to the current take-up of the scheme. In the main, these involve the high street banks who currently administer the majority of the SFLG applications. The banks display a distinct lack of common policy on the SFLG, with the criteria used to assess and process the applications varying among them: one such respondent to the ACCA Members' survey commented, "Educate the bankers, they are the ones who do not understand the rules or [who] try to impose their own rules and conditions". Given the proposal within the document to broaden the lender base, it is crucial that all lenders use the same criteria and that there be transparency within the system.
9. Despite the fact that the Small Business Service (SBS) is responsible for the promotion of the scheme to small businesses, it may be appropriate for lenders to advertise the scheme locally to potential borrowers. The SBS can work with banks and any additional new lenders to identify and then advertise the policies with regard to the SFLG. Any new system to improve the delivery and administration of the SFLG should create some sort of incentive for lenders to use the SFLG in appropriate circumstances. Again, there is an opportunity for the SBS to work with lenders to ensure that all lenders are supportive of the promotion of the SFLG and target any key groups and sectors accordingly.
10. The role of advisers is key to the successful promotion and take-up of the SFLG. Research by the Federation of Small Businesses⁷ found that small firms seek advice most often on accountancy matters, business planning and access to finance issues. Small firms most frequently seek advice from accountants rather than from the banks or government-funded business support schemes and are most satisfied with the advice which they receive from accountants as compared with other sources of support. It is, therefore, important to promote the SFLG to key intermediaries so that they can support and advise small businesses when making applications.

We would be happy to discuss in greater depth any of the points raised in this letter.

Yours sincerely



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Professor Robin Jarvis
Head of Small Business