

Thank you for inviting the EMBF to submit a response to the Graham Review of the Small Firms Loan Guarantee Scheme.

There is currently a distinct lack of reliable statistics on how well the SFLG Scheme has helped ethnic minority businesses as we understand there is no requirement by Government to require approved lenders under the Scheme to collect such data. Such data is highly relevant if Government want to know the extent of ethnic minority take up of the Scheme and we strongly recommend that proper monitoring is implemented with annual reporting to highlight whether real progress is being achieved.

1 Understanding the market.

1. In recent years there has been a positive move from finance provided by the traditional high street banks to that provided by other types of lenders. This competition in the market place has benefited customers. However there is a great need to publicise the availability of non traditional bank finance to ethnic minority businesses
2. We agree that the availability of debt finance for SMEs has improved over the past decade
3. We agree that there has been little improvement in finance for start ups, firms with non standard applications or entrepreneurs with failed enterprises. Clearly specific financing schemes need to be developed to meet the needs of these groups.
4. We support the development of scoring systems to reduce the banks reliance on collateral. However a high degree of transparency is needed so that applicants can see clearly why they have been unsuccessful and they have not been turned down because of their ethnic background.
5. The growth in other forms of finance such as asset- backed finance, invoice finance and equity have offered greater choice and flexibility on debt finance to SMEs. From our experience there is still a big need to promote such alternative sources of finance to ethnic minority businesses. Following a joint seminar with the Bank of England in October 2003 the EMBF is doing a lot of work in this area.

2. Understanding how SFLG is used today

1. We understand that the SFLG is not a valued option for decision makers in lending who are reluctant to recommend the Scheme because it does not insist on the introduction of any personal risk capital on the part of the borrower. For

- borrowers the 2% premium is considered expensive so the tendency has been for both lender and borrower to look for an alternative financing solution.
2. In our opinion lenders are not using the guarantee as part of their regular business. It is not a popular Scheme and one that takes second place alongside their mainstream lending practices.
 3. We strongly recommend that the choice of approved SFLG lenders be widened to include more of those who lend to ethnic minority businesses including the Community Development Finance Institutions and the branches of foreign banks operating in the UK such as for instance the Bangkok Bank or the Bank of China who lend to ethnic minority businesses in the UK.
 4. We do not have any statistics of the types of businesses who use SFLGS or the commercial purposes for the loans. We welcomed the changes to the Scheme in April 2003 to include the sectors such as catering in which many ethnic minority businesses operate. There is a case to review the sectors again to see if the Scheme can be further widened.
 5. The decline in the number of smaller loans under £30000 should be a case for concern as it could be an indication that the 2% premium makes it less attractive to use the Scheme. On the smaller loans there is a case for reducing the 2% premium and increasing the 75% guarantee.
 6. We suspect that it is not common for SFLG to be used as part of a package of finance but the lenders should be able to provide the data to indicate the true position.
 7. In our view the SFLG loans are likely to have a different risk profile to non-guaranteed
 8. loans which will tend to be of lower monetary value and risk to the lenders.
 9. We do not have any data on the regional take up of SFLG loans but the EMBF would be interested in the ethnic minority business percentages.
 10. The 75% guarantee is not attractive to the lender and the borrower and the 2% premium is expensive for the borrower. These need to be reviewed to make the Scheme more attractive to both lenders and borrowers.
 11. The guarantee % should start go up to 100% for the smaller loans up to £30000 with a graduating scale for bigger loans. The 2% premium should be reduced to nil or 1% depending on the size of the loan.

3. Delivery and administration of SFLGS

1. SFLGS should be available to all borrowers who are not able to provide available assets such as a second charge on their family home as security.
2. We would favour not having a time limit of 10 years but having a maximum limit for each borrower at any one time, There is scope for considering changes to connected persons where the businesses being finance are quite distinct businesses.
3. The current £30000 limit for approval from the SFLG unit of the SBS should be raised to £50000
4. The maximum of £100000 for new businesses and £250000 for established businesses are reasonable
5. The turnover criteria should be the same for all sectors. We suggest that this be £5m .
6. The current exclusions should be reviewed to see if the reasons for exclusion are still justified.

4 Other Issues

1. Steps should be taken to reduce the bureaucracy involved in applying for SFLG loans with greater use of online applications.
2. The SFLG Scheme needs to be more actively promoted to ethnic minority businesses

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