

## Response to the Graham Review of SFLG

### Understanding the Market

i)

The development of Community Development Finance Initiatives (CDFI's). This has filled a significant gap in the market. Research in Hastings (the most deprived town in the South East) showed that of people who had thought about starting a business and didn't 36% cited lack of capital as a major factor (this being higher than the national average of 24% (Source SBS HSE Survey 2002).

Generally entrepreneurs require between £5000 and £25000 to start a business. In my experience this would be lower in a deprived area where there is generally more a leaning towards micro businesses and lifestyle businesses.

At the lower end (say up to £15000) banks will generally consider lending on an unsecured basis (relying on credit scoring).

ii)

The advent of CDFI's in some parts of the country has helped, however these benefits are offset by at least a perception that credit scoring has resulted in a tightening up of credit procedures. I say perception as in reality there are cases where a lending officer might feel that a decline of an application is the most appropriate action, but credit scoring passes and the loan is agreed.

iii) I believe that entrepreneurs associated with failed ventures are still discriminated against. They will generally have bad debts registered against them and will therefore struggle to access conventional bank finance.

iv)

I would agree, particularly at the lower end of the scale. I believe that around 5 years ago the banks would have started looking for security at around £10000 exposure, and that the figure has now increased towards £20000 (this is a rule of thumb).

v)

I believe the availability of alternative forms of finance has been beneficial, however many businesses are still unaware of the options. This is an education thing in part, however it is also about aspirations. Again if most businesses are micro and/or lifestyle there is less will to look for options.

## Understanding how SFLG is used today

i)

The SFLG is still a valued option, but I believe there is a perception that it is too bureaucratic. The evidence of this is the fact that locally some banks are more proactive than others about promoting the scheme – managers who have experience of the procedures are much more likely to consider it than those that haven't.

The SFLG does not support the smaller end of the start up market. Banks see the scheme as a makeweight for security not failing credit scoring (which is the main problem), and this is where CDFI's benefit the market.

ii)

See above.

Banks due use the scheme to work as part of an overall funding package.

iii)

I believe the ability for CDFI's to act as a route for agreeing SFLG would be very beneficial. It would benefit the schemes in view of the 'security' that would be available and would help to redress the shift away from the smaller loans.

vi)

I believe this shift is as a result of credit scoring. I feel that this shift may mean that smaller entrepreneurs are finding it harder to access funding.

vii)

Yes – banks will often package facilities. The SFLG will for instance purchase the 'business' or equipment, with working capital be funded through overdraft.

viii)

This is probably less likely with the credit procedures that most banks adopt (eg credit scoring/ profiling). However I would suggest that generally people who do not have security (or are unwilling to offer it) are generally a higher risk.

xi)

I would look to remove all restrictions on sector. I would review the bureaucracy of the scheme to ensure that paperwork is minimalised. I would also suggest working with providers to provide training/ case studies aimed at

encouraging use of the scheme. I would promote the scheme through the Business Links to raise awareness of the scheme.

#### Delivery and administration of the SFLG

i)

I believe that one of the risks to the scheme is in jointly owned properties not being pledged as security. To my mind this shows a lack of commitment. However if you were to remove this 'loophole' I believe it would seriously impinge on the number of loans agreed.

ii)

I would prefer to see a maximum amount of SFLG outstanding at one time

iii)

Would agree that by increasing the £30000 limit would benefit the process and the lower end of the start up market. A level of £50000 would be beneficial. I see no reason why borrowers or lenders would not agree with this as it makes the process easier.

iv)

Yes – over these levels businesses should really be encouraged towards equity finance.

v)

I see no reason why these should not be aligned at £5m.

vi)

I believe the exclusions should be removed wherever possible

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