

Financial education for entrepreneurs: how to get it right?

7th October 2014

Under the patronage of Othmar Karas, MEP hotel Renaissance, Brussels

DRAFT REPORT



On 7 October 2014, ACCA (the Association of Chartered Certified Accountants) and Barclays organised a conference on “**Financial education for entrepreneurs: how to get it right?**”, under the patronage of **Othmar Karas MEP**, to discuss how to deliver more efficient financial and entrepreneurial education and to identify alternative approaches of providing the right skills and services to entrepreneurs.

The roundtable was moderated by **Frances Robinson**, from the Wall Street Journal, and composed of **Andreas Schleicher**, Director, Directorate for Education and Skills, OECD/PISA financial literacy assessment of students (by video call) , **Dr. Joanna Drake**, Director, SMEs and Entrepreneurship, DG ENTR, European Commission, **Richard Phelps**, Managing Director, Barclays, **Bart Neirincks**, Immo10, entrepreneur/Unizo member, **Emmanouil Schizas**, acting head of SMEs Affairs, ACCA, **Guillaume Prache**, Managing Director, Better Finance For All, FSUG member. **Brando Benifei**, MEP, also took the floor to present his views on the issue.

The debate revealed that:

- Entrepreneurs, who often lack the financial literacy skills required for the complex business decisions they face, need to better understand their financing needs and options, and to be aware of the support and services available to them. The contribution of every player in the financial ecosystem - including European, local, and financial institutions, as well as accountants - to help reach that aim is crucial.
- Financial education needs a coordinated and integrated approach and to be taught as early as possible. It is important to integrate and mainstream entrepreneurship throughout the whole formal education cycle, but also through training opportunities and mentoring.
- We need to move away from thinking that every business needs a loan, and the idea that financial education should be about knowing how to choose external finance. It should be first and foremost about financial management, so that the business can be financing itself to the extent possible and be more creditworthy, and second, about business planning, so that when the business does seek external finance, it is the right kind of finance, at the right time and for the right reasons.
- Besides a suitable regulatory environment, a shift of mentalities is urgently needed to develop a real entrepreneurial culture in Europe.



Main highlights

Othmar Karas MEP

- Financial literacy and entrepreneurship are not necessarily a matter of skills, but issues that need education, training, counseling, mentoring, and of course, a suitable regulatory environment. Entrepreneurial spirit and basic economic knowledge need to be already instilled in children and students. The earlier they learn about debt, savings and credit, the less likely they are to struggle in the future and the more likely they will become active and productive participants of the economy.
- The 2013 Entrepreneurship 2020 Action Plan recognised the link between entrepreneurial education, employment, and success as well as with other economic goals in a striving business environment. It proposes actions aiming at enhancing entrepreneurial education support to business creation and is followed-up by the governance mechanisms of the Small Business Act and the EU competitiveness and industrial policy.
- In order to boost growth and job creation in Europe, we need well informed investment decisions, either private or corporate. Entrepreneurial spirit, brain power, innovation: the quality and innovation capacity of European enterprises make us competitive and help us prosper as a business place.
- Special attention has been devoted to SMEs in the European Parliament. Jonathan Hill, Commissioner designate for Financial Stability, Financial Services and Capital Markets Union, mentioned as his main priorities Banking Union, Capital Markets Union, and access to finance for SMEs. The latter point is also one of the main priorities of the new European Parliament. But the issue is not only about access to finance. We need to focus on financial literacy of the society as a whole, not just on the relationship between banks and their clients. We need a broader understanding of our economic world and the global situation. Regulating is seen as easy answer, but it is not necessarily the right one and the problems of financial education can for instance not be solved with more regulation. Sometimes the problems lie outside European legislation, and are linked to other factors, like different taxation regimes. We must continue this debate. The Parliament and the Commission are very open to all the examples and experiences from outside.

Brando Benifei MEP

- During the hearings of the Commissioners designate, we were trying as much as we can to extract from Juncker's team, what kind of measures they intend to put forward to re-launch growth, economy, and competitiveness in Europe.
- Whereas some believe that new, "fresh" investments and resources should be deployed to get out of the crisis, on the other side, others may consider this unacceptable, and that a reorganisation of the budget lines would be more appropriate to fix the economy. At the same time everyone agrees that 'waste' is not an option, and that the new Commission, in full cooperation with Council and Parliament, will have to do everything in its power to make the best possible use of the scarce resources it is given.
- Making an effort to strengthen financial education for entrepreneurs clearly falls under this category, becoming one of the goals that the new Commission should seek to achieve. It is certainly a complex and multi-faceted discussion. Extending financial literacy for young people, but not exclusively for young people, should be seen as a priority target. It requires an effort on several fronts, from the formal to the informal education, but also on different levels of policy-making: national, European, local.
- There is some serious need to improve financial literacy not only for entrepreneurs, but also for those politicians who are shaping rules in this field. For example, when negotiating the MFF, if predominance is given to subsidies to the agricultural policy, instead of education, research and development; when Member States in the Council block those payments crucial for honouring the commitments already stipulated with the



other institutions; when, every day, in the EU an incredible amount of money is wasted, due to the impossibility of creating a genuine economic, monetary and fiscal union to run the single currency; in all these cases, it very much appears that politics would need some lessons on "how to get it right", as well.

Panel discussion, moderated by Frances Robinson, WSJ

Andreas Schleicher, Director, Directorate for Education, OECD/PISA financial literacy assessment of students (video message)

- We need to think of the ways to enhance financial literacy. Is it about the quality or quantity of teaching financial literacy? Do we need to teach it as a separate subject? Does it have to be an out-of-school experience?
- The out-of-school context seems to be closely related to the financial skills of young people. On average across OECD countries and economies, students who hold a bank account have better financial skills than students with similar socio-economic status who do not hold a bank account.
- When we look at the number of students who have the exposure to financial education, the link to financial literacy is not so obvious and clear. There seem to be other factors that play bigger role. The performance in mathematics used to be a better predictor for the financial literacy skills than the volume of financial education.
- If we look at the financial education as a school curriculum, there are big differences across many countries. There are some countries where financial education is thought as a separate subject. We have to ask if there is an outcome in financial literacy. Research shows that it is not always the case.
- Who teaches financial literacy? In the vast majority of countries, teachers play the predominant role. In some countries, people from the private or public sector, as well as from NGOs, are involved. However, in the majority of countries, teachers have the significant responsibility in financial education.
- Outcomes in financial capability among pupils in Europe vary considerably. Pupils in most EU countries included in the PISA lag behind their counterparts in obvious competitor countries in the Asia-Pacific region.

Joanna Drake, SMEs and Entrepreneurship, DG ENTR, European Commission

- At Member State level, chambers of commerce and local business organisations are currently playing a major role in offering good training opportunities, especially for those entrepreneurs, owners of SMEs and micro-companies who cannot access or afford organised training. In this regard, the role of banks and other financial institutions, as well as accountants and mutual-guarantee organisations, is also crucial.
- What we need is more and better synergies because entrepreneurial skills and financial skills go hand in hand.
- Evidence suggests that the smaller a firm is, the larger is the likelihood that its credit application might be declined. For this reason, smaller firms are also the ones where better information is most required. Applicants tend to lack knowledge of the specificities of bank lending requirements which results in information asymmetries: banks are unable to evaluate fully the risk and creditworthiness of clients as enterprises cannot grasp the contract terms and implications of credit evaluation procedures.
- We have some good examples where financial literacy is taken seriously, but they are still too few. Here I see a market gap which we as policy makers have to deal with.
- We need to define what we mean by financial literacy: is it about the sources of finance or about the actual financial skills.
- The role of financial institutions is particularly relevant here: they could play an important role in advising SMEs; especially those who were refused credit by signposting to them



- alternative sources of financing available at EU level. Our role should be not only disseminating information on access to finance, but also showcasing best practices that can be followed.
- At EU level we are taking actions to address these needs. We have recently launched the financial instruments under COSME and Horizon 2020 which will soon be available to SMEs, once the first agreements will be concluded. We would like the Enterprise Europe Network, our network of over 600 member organisations, to play an important role in providing information and advisory services on these funding opportunities to SMEs.
- We also want to leverage the on-line communication tools. To inform SMEs about the availability of EU financial instruments, the Commission has in place an online portal, www.access2finance.eu, which provides a single access point to all EU financing programmes with contact details of financial intermediaries which SMEs can directly approach.
- Financial institutions not always have enough knowledge about businesses. So we also need to look at the amount of competences and skills of those assessing the risks.
- Europe is at the stage where it cannot afford losing our innovative capacity.

Richard Phelps, Managing Director, Barclays

- We have to remember that entrepreneurs are the future of economic growth; they are the creators of new economies and the employers of the future.
- There is a big difference between educating entrepreneurs to make them financially literate versus “teaching” entrepreneurialism, which is in your DNA and in your environment.
- There is also a cultural component: our research shows that in developing economies, there is a far greater tolerance of failure than in developed economies. And in some locations, as is the case in Silicon Valley, failure can sometimes been seen as a badge of honour. This isn't the case in Europe. About 50% of all new businesses fail during their first five years, and to help entrepreneurs through this phase, banks can play their part in creating an ecosystem of support which goes beyond simple lending, such as providing a network of alternative investments like angels or venture capital.
- In the UK there is a school that had a “failure week” where pupils were encouraged to try something and fail in order to overcome the fear of failure. We should also have a discussion on how universities could encourage people to start a company and finish their degree.
- Educational literacy is important, and like other banks, we our doing our bit. We have our LifeSkills programme in the UK and are proud to be incubating several start-ups at the Barclays Accelerator in East London. We understand that for young people to be able to start on their own, they need to be in the right culture with the right skills.
- We have partnered with organisations like Junior Achievement to equip young people with enterprise and employability skills they will need to start a business or secure a job in the future.
- With regards to the financing issue, we are aware that more SMEs are turned down in loans claims than larger companies. We have a programme called School for Startups – we take businesses on a training programme and educate them on other possible forms of finance out there. We see examples of this overseas. For example, the UK and across the EU, business finance markets rely on 80 per cent of its finance to be provided by traditional lending, while in the US, it is 20 per cent, and the remaining 80 per cent comes from non-bank sources.

Bart Neirincks, Immo10, Entrepreneur/Unizo member

- When an entrepreneur goes to a bank to apply for a loan, the communication is often lost. The bank takes a decision to reject or to approve the application, but the entrepreneur does not receive any explanation together with the final decision.



- Another point, when a start-up gets a loan, the banks ask for guarantees. For a start-up it is a very difficult situation. In these cases we lose talented entrepreneurs because young people, who don't have money, do not find their way to the banks. This is of great concern.
- Before 2008, banks were speaking to entrepreneurs, trying to find solutions for businesses. After 2008 we noticed big differences and encounter greater problems in getting a loan. Instead of giving a loan, banks now ask for guarantees that you cannot provide. This is very disappointing for entrepreneurs in the Belgian market.
- With the current European measures, banks are thinking for themselves and forgetting their relationships with clients. National governments often do not realise that a lot of small enterprises are failing because they do not get the money for their projects. The atmosphere now is rather negative.
- It is important for policy makers not to put too much pressure on the banks and in such way disabling them in giving credit to small enterprises.
- Banks should also increase their "entrepreneurial literacy" and entrepreneurs have to be able to rely on advisors (accountants as well as bankers) to assist them with the necessary financial literacy
- There is no other way, as entrepreneurs we do need a bank, an accountant and we need the European Commission to make the bridge smaller between all the parties.

Emmanouil Schizas, acting Head of SMEs Affairs, ACCA

- Financial inclusion remains high on the G-20 agenda and a very substantial industry exists to promote it worldwide; financial education is a significant element of this agenda. It is such a popular topic, because it is a win-win for everyone. Financial institutions want more willing and more informed borrowers; policy makers want SMEs to have access to finance and be able to grow; and everyone hopes that if businesses and consumers are more financially aware, that maybe they don't have to regulate the financial services as tightly.
- This is sometimes portrayed as an emerging-market problem, but it isn't. In the UK, the majority of micro-enterprises have very low levels of financial capability, and this has been proven to impede their access to finance. The picture across Europe isn't very different, and we believe it will get worse.
- As Europe's business population becomes increasingly virtual and more informal, as audit thresholds continue to rise and financial reporting requirements are eased, the incentive and the opportunity for SMEs to build the in-house capability to produce financial information and give creditors a good account of themselves will fall. We believe our profession has a duty to address this problem.
- The evidence on the effectiveness of financial literacy interventions is clear: success is elusive. What appears to work is private-sector-led, highly relevant content, crystalized into practical rules-of-thumb and administered regularly at "teachable moments". ACCA believes that the act of business planning is the ultimate "teachable moment" for entrepreneurs, and that good financial education built around business planning can help SMEs without over-emphasising access to debt or other financial products. As the most trusted financial advisors of Europe's SMEs, accountants are de facto financial educators, and the profession embraces this responsibility.
- The lack of financial management skills among entrepreneurs means that Europe has to rely disproportionately on a) repeat entrepreneurs and b) second-generation entrepreneurs to build successful businesses
- Think last of principles and theories, start with business planning. Look backwards from what a business is trying to do, try to figure out where the gaps in terms of financing. In order to do that, you need to have professionals in place who are able to dig into a business plan and guide entrepreneurs.





Guillaume Prache, Managing Director, Better Finance for All, FSUG member

- Financial literacy is particularly crucial for entrepreneurs as they need to find appropriate funding for their enterprise: equity and loans. It is very important not only for SMEs, but for the EU economy as a whole. We now all agree that growth and jobs in the EU will come mainly from SMEs.
- Unfortunately financial products and services have become more and more complex, and financial literacy has been falling in the recent decades.
- School education has been falling down on basic financial mathematics such as interest rates and compounding, not mentioning teaching what equity and bonds are for example.
- The other main financial education opportunity for entrepreneurs is the point of sale (bank branches, financial advisors, accountants, etc.). There also basic knowledge of financing tools such as equities and bonds has sharply fallen due to the rise of "packaged products": even financial intermediaries themselves no longer "advise" or promote equity and bonds and therefore do not "educate" their clients and prospects on these financing tools which can be essential for entrepreneurs to know.
- Any effective effort on financial education for entrepreneurs must therefore: 1. involve independent bodies who cannot be biased by the economic need /incentive to sell financial products and services. 2. Involve the financial industry to actively offer and promote much simpler and cheaper products.

For more information

About ACCA

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