

ACCOUNTANTS FOR BUSINESS

Access to finance for SMEs: a global agenda

ABOUT ACCA

ACCA (the Association of Chartered Certified Accountants) is the global body for professional accountants. We aim to offer business-relevant, first-choice qualifications to people of application, ability and ambition around the world who seek a rewarding career in accountancy, finance and management.

We support our 154,000 members and 432,000 students throughout their careers, providing services through a network of 83 offices and centres. Our global infrastructure means that exams and support are delivered, and reputation and influence developed, at a local level, directly benefiting stakeholders wherever they are based, or plan to move to, in pursuit of new career opportunities. Our focus is on professional values, ethics, and governance, and we deliver value-added services through our global accountancy partnerships, working closely with multinational and small entities to promote global standards and support.

We use our expertise and experience to work with governments, donor agencies and professional bodies to develop the global accountancy profession and to advance the public interest.

Our reputation is grounded in over 100 years of providing world-class accounting and finance qualifications. We champion opportunity, diversity and integrity, and our long traditions are complemented by modern thinking, backed by a diverse, global membership. By promoting our global standards, and supporting our members wherever they work, we aim to meet the current and future needs of international business.

ABOUT ACCOUNTANTS FOR BUSINESS

ACCA's global programme, *Accountants for Business*, champions the role of finance professionals in all sectors as true value creators in organisations. Through people, process and professionalism, accountants are central to great performance. They shape business strategy through a deep understanding of financial drivers and seek opportunities for long-term success. By focusing on the critical role professional accountants play in economies at all stages of development around the world, and in diverse organisations, ACCA seeks to highlight and enhance the role the accountancy profession plays in supporting a healthy global economy.

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This paper presents the ACCA Global Forum for SMEs' recommendations for the development of a visible and consistent global agenda on SME access to finance.

It calls for intergovernmental organisations to develop and support a consistent platform for sharing best practice. It also encourages national governments to engage in this process, developing a long-lasting change in SME financing across the world.

ABOUT THE ACCA GLOBAL FORUM FOR SMEs

The ACCA Global Forum for SMEs provides a unique platform for promoting the role of SMEs in the global economy. Representing over 15 countries and a wide range of professional backgrounds – from finance institutions, academics and professional advisers to entrepreneurs themselves – the Forum represents the sector's needs at a global level and facilitates the sharing of best practice.

INTRODUCTION

Much of the policy agenda relating to small and medium-sized enterprises (SMEs) is rooted in the national or regional context in which they operate, despite many common challenges that small businesses typically encounter – access to finance being the most notable constraint. In reality, access to finance is one of the few areas of enterprise policy that are truly global.

As there are an estimated 420 million–510 million SMEs (that is, firms with up to 250 employees) worldwide, most of them still informal (IFC 2010), the way in which such businesses access the capital they need to start, survive and grow is of paramount importance to the global economy. Many Western economies are witnessing an uncertain economic outlook and a broad trend of deleveraging in both the private and the public sectors while in other parts of the world, strong private-sector growth and SME-sector development are still not resulting in efficient financing channels for SMEs.

At \$3.1 trillion to \$3.8 trillion, SMEs' global unmet demand for funding is equal to over one-third of the sector's total access to finance. Two-thirds of the gap is in emerging economies, while SMEs in high-income countries account for 70% of total lending to the sector (IFC and McKinsey & Company 2010).

This raises an important question for policymakers – how can they address some of the persistent market failures that stand in the way of a long-lasting change in SME financing across the world?

In this paper, the ACCA's Global Forum for SMEs identifies some common ground that underlies this important agenda, using unique regional insights as well as existing evidence to present a global policy perspective on SME financing.

ALTERNATIVES TO BANK LENDING

Although banks remain the most significant source of external finance for formal small firms (IFC2010), bank finance is generally only available to those businesses that can offer collateral or a strong record of generating profit. This leaves out a sizeable proportion of the SME population, including those in the informal sector, and on the other end of the scale, those with high growth ambitions and mostly intangible assets in need of large investments. Rightly, much effort is invested in encouraging banks to reach out to the SME sector and to provide more suitable financial products to their existing clients, but alternatives to bank lending need to generate similar attention and investment in order to build more complete financing markets for SMEs.

The microfinance sector is offering a promising solution by tapping into social networks on the ground for the information and (social) collateral that banks are missing (ACCA 2011a), but the extent to which it helps the SME sector needs to be better understood at a macro level, especially where experiences from a number of markets can be shared. The opportunities to obtain equity finance also need to be increased, not only by building on existing supply and demand levels, but also by extending such finance to non-technology sectors where it is currently concentrated.

Finally, emerging and innovative financing solutions need to be encouraged and supported, the most notable recent example being 'crowd funding', which uses online communities for raising equity. Without the buy-in of a major industry, these alternatives to bank lending run the risk of not fulfilling their potential. While more research is needed to enable evidence-based policy, these efforts need to be considered at a global level to ensure that the goodwill and the potential for greater levels of financial inclusion behind many such initiatives are harnessed for the benefit of small business.

ROLE OF GOVERNMENTS

Financial markets for SMEs are far from perfect, which impels governments around the world to address what they see as a 'funding gap'. Offering loan guarantees or providing SME funds from the central budget is an approach found internationally (Thorsten et al. 2008) and the practical experience of ACCA Forum members reflects this. Although the ambition behind such schemes is positive, governments need to consider carefully how sustainable they are, especially where they seek to subsidise the cost of borrowing substantially. The full potential for defaults on such schemes cannot be deduced from the first years of operation, during which scrutiny tends to be highest. SMEs' awareness of the schemes also needs to be carefully addressed, because the demand for such products is often low. Finally, the official institutions, such as banks, through which these funds and products are often channelled, need to be encouraged to promote them more actively to their SME clients.

The role of governments in SME financing policy needs, however, to go much further than the support of specific funding schemes. In fact, the usual understanding of 'SME' or 'enterprise' policy is only a small subset of the actual policies that are relevant to the development of the SME sector. This means that government departments responsible for fiscal policy, justice or employment law may well have a greater effect on SME financing. Examples include favourable tax policies for equity funding, setting up or developing better access to efficient credit information facilities, and well-functioning property and contract law frameworks. This means that many other central government departments may have more influence on how SMEs access finance than the departments or agencies responsible for business and enterprise. With this in mind, the role of governments is evidently wide, and relevant global institutions should promote a lateral approach to SME financing policy by national governments.

GOVERNANCE

The ways that small firms approach risk and ensure that appropriate controls are in place to manage it should not be confined to the large firm rhetoric or practice. Managing risk is just as necessary for small firms as their very size makes them more vulnerable and exposed to it. Accountants who are finance managers in small firms are often looked upon to create appropriate internal controls to ensure that risk is adequately considered and addressed – indeed this is one of the earliest functions of fledgling finance teams. Increased awareness of how small firms approach their

governance arrangements needs to be tied more strongly into the access to finance policy agenda. After all, good governance practices pave the way for companies to grow or to attract additional investors, who will look for high levels of accountability and transparency to safeguard their investment. While much emphasis is placed on how companies present their business plans when approaching lenders or investors, more attention should be given to finding out how sound internal governance practices are implemented and communicated. This approach should be strongly promoted to national policymakers through global policymaking circles, with the aim of sending strong messages to national policymakers.

TECHNOLOGY

Technology has already proved to be one of the key factors in closing the gap between large and small firms and the role of the internet has demonstrated this most convincingly. The internet has provided small firms with unprecedented marketing opportunities and access to markets. Technology in its various incarnations, from mobile banking (Andrianaivo and Kpodar 2011) to electronic invoicing (CEN 2012), can also help improve the economics of accessing finance in favour of entrepreneurs.

Large firms are, however, still at the forefront in recognising and investing in IT innovations. One such example is the use of cloud services that allow companies to use files and applications over the internet, enabling significant flexibility within the company. From flexible working (being able to access information anywhere) to flexible growth, cloud

computing can enable businesses to develop or scale back their operations without a major upfront investment. This flexibility can also extend to the way small businesses manage their financial operations. Not only can they improve their own internal management capacity, but by involving their advisers, such as accountants, they are able to bring professional experts much closer to the operational and management aspects of their business. In this scenario, an external accounting practice can become a virtual finance director of a small firm, providing more timely and hands-on guidance.

Awareness of these services and the benefits they can bring is a critical factor identified by ACCA research (ACCA 2011b). While the Forum recognises that in some parts of the world providing reliable access to such technologies is still in progress, lack of demand still remains an issue in other regions where the technology has been around for some time. SMEs need to consider how they might employ technological solutions for efficient financial management. The subject has broad scope and considerable potential and needs to become integral to the debate about SMEs' access to finance – an approach that should be promoted by global-level institutions to national organisations and governments

EDUCATION

Although the external environment presents some of the key challenges in SME financing, such businesses' internal resources must not be overlooked. Of these, perhaps the most important is the knowledge and social capital that exists within each business. It is important to remember that while levels of

education often influence entrepreneurial ambition – with the more educated likely to have a higher desire to start a business – this ambition does not translate to higher levels of education among the actual business owners, as education improves their employment prospects (Zwan et al. 2010). In fact, formal enterprise or management training is rare among business owners, creating a significant skills gap common in both developed and less developed economies. This skills gap invariably affects owners' ability to obtain finance – from knowing how to present a business plan and being able to navigate through the available financial products, to knowing how to apply business skills and acumen to manage and develop their business with a strategic approach to its operations, and ultimately finance.

There is a significant role for the accountancy profession in addressing this challenge. Applying their broad-based knowledge in accounting and business, accountants are perfectly placed to work with governments and other relevant institutions, such as SME bodies, to provide financial literacy and management training for owner-managers. ACCA already has a good track record in organising its members to run financial clinics, and in many part of the world this grassroots engagement is the most authentic and effective means by which the skills of the SME sector can be improved. The Forum urges international organisations to work with national governments to encourage much wider use of such initiatives to raise the level of skills, with a particular emphasis on working with the existing SME intermediaries to enable reliable access to the sector.

THE ACCOUNTANCY PROFESSION

Slowly but surely, evidence is emerging of the link between the in-house financial capability of businesses and their ability to grow rapidly but sustainably (ACCA 2012). Small business owner-managers often also need external support, in the form of advice and professional services, to help them overcome their limitations or resource constraints. This is especially pertinent when seeking external funding where they need to overcome additional hurdles to mitigate risk aversion on the part of lenders. Accountants are almost universally the professional advisers of choice for SMEs (ACCA 2006) alongside bank managers and the legal profession (IFAC 2010), and their role as financial advisers is universally accepted as the core of the profession's offering to SMEs (Schizas et al. 2012).

The accountancy profession therefore has a broad role to play in improving SME's access to finance. Regardless of the regulatory environments in which ACCA members operate, their proximity to the sector is based on the value they add to business and ACCA sees business owners' willingness to pay for the profession's services as a reliable indicator of added value. Moreover, this demand for business support services is at the forefront of the profession's transition from providing compliance services to supplying business advice. ACCA, through the work of the Global Forum, will seek to use this broad experience, as well as its global reach, to influence this important agenda by working with a wide range of policymakers and regulators across markets. These groups can often find it difficult to engage with very small enterprises. Giving national

governments and indeed global institutions the opportunity to work with or through influential advisers, such as accountants, can lead both to the development of better-informed policies and to their successful implementation.

A GLOBAL AGENDA

Access to finance should be a high priority for global policymakers, as the shifting needs and risk profiles of start-up and growing businesses create genuine funding gaps that can greatly diminish the prospects of the most promising businesses, and thereby their economic contribution. The ACCA Global Forum for SMEs therefore welcomes the recent efforts to make financial inclusion of SMEs one of the explicit policy aims of the G20. Importantly, while the capitalisation of financial institutions has come under renewed scrutiny, the anticipated impact of deleveraging and capital regulation on SMEs is yet to be appropriately measured (ACCA 2011c). A coordinated global effort is therefore necessary to represent the needs of small firms – the sector known for its disparate nature and therefore in need of strong allies.

The ACCA Global Forum for SMEs is calling for long-term and consistent efforts at the global level to monitor the actual and anticipated state of access to finance for SMEs, and for greater levels of involvement of SME stakeholders to enable effective sharing of policy and practice from across the world. The ACCA Global Forum for SMEs will continue to work in the interest of raising the question of SMEs' access to finance at the highest levels of influence by providing a timely and evidence-based response to regional and global developments.

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