

Lending to small companies tumbles

Fears grow over flagship scheme

Time and expense of process blamed

By Jonathan Moules,
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Lending under the flagship support scheme for small companies has dropped by nearly 60 per cent in the past 12 months, heightening concerns about the scheme and continuing low levels of business finance.

Figures from the business department show that lending under the Enterprise

Finance Guarantee scheme dropped from £254m in the first quarter of 2009 to £186m a year later. It fell a further 20 per cent in the next three months, to £149m.

The EFG scheme offers state backing for bank loans to smaller companies.

The fall in lending is partly due to reduced demand caused by businesses choosing to pay off debts instead of taking on new loans, according to accountants and financial advisers. However, some also criticise small-business owners for rushing applications and failing to make a

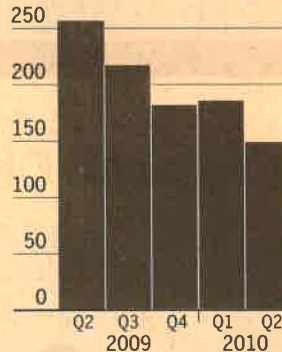
proper case to the banks using the EFG scheme.

Shelley Stock Hutter, a London-based accountancy firm that helps clients to borrow using the scheme, said there was a misperception among the small-business community about what the scheme could do, and it did not serve well those that needed money quickly.

Lynton Stock, a partner in the firm, said: "Unless you are a company that is able to put forward to the bank a very good and detailed business plan, which obviously takes time and is expensive, you have

Loans to business

Offered through the EFG scheme (£m)



Sources: Aldermore; BIS

absolutely no chance of getting this finance through."

Henry Ejdelbaum, managing director of ASC Finance for Business, said small businesses were either paying off existing loans or avoiding using the EFG scheme because of the work involved in an application.

"You cannot just put all the blame on the banks," he said. "Part of it is that people know the banks are difficult, but part of it is the negative economic outlook."

The banks claim they are lending more money to small businesses, but that demand has dropped. The

EFG scheme was introduced in January 2009 after the initial shock of the banking crisis in order to stimulate lending to small businesses by providing government guarantees for a percentage of new debt. Businesses with a turnover of up to £25m can apply for support through the scheme on loans of between £1,000 and £1m.

More than £1bn of loans have been backed by the government since the scheme was created; the coalition government announced an additional £200m of support for it in June's emergency Budget.

The latest figures on business finance under the EFG were obtained by Aldermore, a new British bank, through a freedom of information request. Aldermore said the rules governing the scheme could be improved to increase the flow of finance to small businesses.

The business department said the scheme was designed to provide "much-needed support to small businesses struggling to access bank finance in the worst recession since the second world war. It was not intended to make the government lender of choice for business".