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At the end, it is really not about the money!

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It's' not just about the money

Across the global we continually hear financial commentators and academics highlighting the importance of SMEs and the role they play in various countries in employment, engines of economic growth, social development and how they account for large percentages of GDP and as such how the countries prospects for prosperity and the development of healthy market economies rest on them.

In addition, whilst access to finance is high on everyone's list when people talk about the challenges for SMEs, which restrict their ability to develop and flourish, we must ask if it is the only aspect holding back the development of sustainable enterprises – because if it was then surely it is a simple fix.

Economic, business environments, investment climates, and legal frameworks differ drastically around the globe, and market conditions are not stable in many countries, and as a result, a one size/ approach does not fit all. However, there are some fundamental aspects/building blocks that exist in varying forms, which can provide the foundations to promote growth and competitiveness for small businesses.

Vibrant SME sectors need to be supported by efficient advisory ecosystems, which provide easy access to advice, knowledge transfer, and skills training, alongside targeted policy interventions actions, coupled with access finance.

ACCESS TO KNOW-HOW

Business advice programs can play a significant role in providing tools, training, and expertise to SMEs. These can be delivered via the provision of international advisory services as well as local based consultancy. However, where these elements are missing or are unaffordable programs need to be developed to train local professionals to assist them to develop into local consultants. The areas and work undertaken in this area vary considerably from basic advisory projects ranging from financial reporting and systems (to help instill financial transparency), through to more bespoke topics strategy, marketing, energy efficiency, corporate governance, and much more. Through such an approach, Advisory work has a direct impact on SME development and performance, particularly as it helps to increase turnover, assists with job creation, improves productivity, and helps SMEs to develop and grow import-export revenues. The role of governments and donors to help to fund these is heavily underestimated.

POLICY

An increasing number of countries have developed or are improving their regulatory frameworks and introduced targeted policies to support Fintech and promote different initiatives. Examples of which are, inclusion in the areas of Women in Business, Youth, immigrants, incubators for innovation whilst others target particular problems and issues for SMEs such as addressing payment delays (through introducing e-invoicing systems) and opening up Government procurement to SMEs through digitalization.

A strengthened ecosystem removes barriers to accessing finance, provides improved capacity for both public and private institutions to serve SMEs, and ultimately provides platform advocacy for SMEs, this leads to better policies and regulatory support, stronger institutions, and improved market effectiveness.

ACCESS TO FINANCE

Not all finance is equal. And whilst in general private debt provided by the banking sector has risen over the past decade in more developed countries SMEs still traditionally look to private sources of capital. As bank finance still this has tended to be too short in tenor to support growth or too heavily reliant upon providing tangible security. The good news is that there is now notable expansion in the



use of alternative financing instruments by SMEs such as factoring, leasing, and hire purchase. Also, to a lesser extent crowdfunding is also playing a role in some markets.

In emerging economies, the role of local banks is important but is often supported and supplemented by the IFIs who use the local bank to deliver focused programs to help address the policy objectives mentioned above. Many of these come with technical assistance for the banks so that they can develop these activities into sustainable products which they can upscale.

Not one size fits all.

In more developed countries it is the Government and local Government agencies to whom the burden/responsibility falls to develop and finance much of the non-financial work. Whilst, in emerging markets there is a greater role played by Bi-lateral Donors (predominantly wealthier nations), International Financial Institutions (IFIs such as World Bank, IFC, EBRD, etc.) and institutions such as OECD and ICSB, combined with cooperation from the relevant host government. In some countries, greater emphasis is on finance, whilst in the others the transfer of skills and development of basic policy frameworks is urgently needed to allow access to finance to expand.

And then comes COVID!

COVID-19 pandemic disproportionate impact on SMEs:

- *Supply side*: reduction of supply of labor due to staff sickness, closure of schools and movement restrictions; disruption of supply chains leading to shortages of intermediate goods given the more limited number of suppliers for SMEs;
- *Demand side*: a sudden drop of revenues severely affecting SMEs' ability to function (more limited cash cushion); the impact of liquidity shortages and access to finance constraints; some sectors such as tourism and transport where SMEs are overrepresented suffering more;
- SMEs more likely to be vulnerable to "social distancing" constraints;
- Pandemic is also likely to widen gender gaps with Women-led SMEs more affected
- SMEs account not only for the vast majority of companies but also for significant value added and jobs in many Countries.

The pandemic effect on SMEs is especially severe, particularly because of higher levels of vulnerability and lower resilience related to their size.

Governments, Policy Makers, and Lenders have moved quickly to start supporting SMEs, in different ways, but this is just an initial response much more will be needed as the true effects flow through not only to SMEs but societies at large. There are already signs that there will be great differentiation in countries and across continents, both in respect to the shape and depth of the effects, recovery, and priorities for the future. The great debate begins over the nature of recovery, but at the very least sustainable economies will be the priority for every Government, and as such, the ecosystem for SMEs needs particular focus.

In conclusion, now more than ever providing the money is a great start but does not resolve the issues facing SMEs if we want them to be the powerhouses of our economies. It is undisputed that SMEs need access to finance to grow and develop, but they also need much more. There is no silver bullet solution, rather it requires a combination of factors to be present – and these will vary from country to country and from time to time, but at least we know what the ingredients are – developing each recipe however is the challenge which requires continued and improved coordination and co-operation from a cast of characters.

About the Author:

Andrew McDonald, Chair, Small Business Investment Committee, European Bank for Reconstruction and Development. He has 40 years experience in international banking, joining EBRD in 1995 and has spent the last 20 years involved in Central and Eastern Europe, Russia and the CIS in senior roles within both Banking and Risk/Credit. Prior to EBRD worked for 15 years in Australia, UK and US.



About the International Council for Small Business (ICSB)

The ICSB Gazette is a weekly edition of a key topic that ICSB will showcase. The content is varied from research, practice, policy, and education. The editors of the ICSB Gazette is Mr. Kyle Lyon, ICSB Junior Project Manager and Mr. Skye Blanks, ICSB Junior Project Manager He will be soliciting ideas and articles from ICSB members world-wide.



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Comment:

This ICSB Gazette issue is featuring an article written by Andrew McDonald, Chair, Small Business Investment Committee, European Bank for Reconstruction and Development.

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