Emergency cash is not reaching small businesses

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The government has rightly tried to help small businesses through the pandemic. Its emergency lending scheme, however, is struggling to get funds to flow to the parts of the economy where they are needed.

A fifth of small businesses planned to apply for the state-backed coronavirus business interruption loans to insulate them from damage caused by the lockdown. About 300,000 are thought to have inquired, but only 2 per cent have been successful so far.

By April 14, three weeks after the scheme was announced, £1.1 billion had been lent to 6,000 of the UK's 5.9 million small businesses. In contrast, 1.2 million mortgage borrowers had already been given payment holidays by Tuesday morning, according to UK Finance.

Although teething issues are to be expected, borrowers complain about the bureaucracy of the scheme. It is sufficiently complex that they need training by the British Business Bank. Also, as banks will be on the hook for a proportion of any losses, they have to vet each loan prudently.

The chancellor and the Bank of England deserve praise for the innovative wage support scheme, the injection of liquidity and the swift measures, but given how fast they were drawn up it was inevitable that changes would need to be made. To simplify decisions and speed up funding for businesses, guarantees should be broadened, caps lifted and the process streamlined.

Policymakers should draw inspiration from the financial response to hurricanes and other Covid-19 programmes about how to disburse grants effectively. The Swiss emergency lending scheme was started on March 24 and by Tuesday night had passed on funds to 98,500 small firms, 16 times as many as the UK scheme. The loans are 100 per cent guaranteed by the state and so the banks are not required to undertake all the time-consuming checks that you would expect any lender to make. Rather, it is a one-page online form and funds are paid the following day. Loans are up to 10 per cent of turnover to a maximum of SwFr500,000 (£414,000). There is a second scheme for larger firms.

The German scheme, which by April 10 had extended €7 billion, started, like the British scheme, with an 80 per cent guarantee for loans to the smallest firms, but last week this was moved to 100 per cent to simplify and speed up the process. Hong Kong and many other countries are also providing 100 per cent guarantees for loans to the smallest firms to support employment.

This also would make it far easier to leverage non-bank lenders, which represent one sixth of small business lending in the UK. So far, they have been left out of the solution.

It is understandable that the Treasury is keen to protect the public purse and to minimise moral hazard by imposing tough terms, but without modification the risk is that too little money will be disbursed and more jobs will be lost.

Another benefit of using government-guaranteed funds is that it creates the option of a debt forgiveness programme for those that have been affected the most so that firms can prioritise job creation and future investments. America's scheme has this option in its design.

Tweaks also should be made to the large companies scheme, but the larger the business, the more the risks should be shared with banks.

Small businesses are the engine of the economy. In the UK they represent 60 per cent of all private sector jobs and more than half of turnover. Small company failures will be a direct function of the length of the shutdown and lack of funds and will add immense friction to restarting the economy. Help is urgently needed.

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