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Mr John Hawkins
Committee Secretary
Senate Standing Committee on Economics
PO Box 6100
Parliament House
Canberra ACT 2600
Australia

Email: economics.sen@aph.gov.au

Dear Mr Hawkins,

Access of Small Business to Finance

During the hearings in this Inquiry we undertook to provide additional information in relation to the lending practices in other jurisdictions and in particular how other governments supported small business access to finance.

Our research indicates that in most developed and developing economies special attention is paid to the needs of small business, most often in the form of government funded loans, loan guarantees or funds channelled through development banks or loan guarantee funds.

An example of the latter is South Korea which during the Global Financial Crisis provided additional funds to State banks, the Korea Credit Guarantee Fund and the Korea Technology Guarantee Fund to support SMEs specifically.

Other examples include:

- **Canada –** The Canada Small Business Financing Program makes loans available to small businesses with a turnover of $5,000,000 or less. Up to $500,000 is available for each business
- **USA –** The Small Business Administration provides advice to small businesses and acts as a loan guarantor to bank loans, guaranteeing up to 90% of the loan value. This reduces the risk to the funding institution and allows it to reduce the interest rate differential between small and larger business loans.
- **USA –** Government requires banks to report on loans to small business and reduce lending fees as part of a package aimed at addressing the GFC. Specific requirements exist for banks helped by federal funds or guarantees.
- **UK –** Has had a small business loan guarantee scheme since 1981.
- **Philippines** – Has an integrated approach to help SMEs grow, inclusive of a financial support mechanism through the SME Unified Lending Opportunities for national Growth (SULONG) which is a collaborative program run by a series of financial institutions including the Land bank of the Philippines, Development bank of the Philippines, Small Business Corporation and the Philippine Import-Export credit Agency among others.

The World Bank has funded a number of studies and conferences on small business finance, dealing with the problem of credit rationing in tough times.

Papers presented at those conferences confirm that:

- Most countries (developed and developing) have small business loan guarantee schemes in place – either through state run institutions (e.g. a development bank), private sector banks or both.
- In many cases such schemes are supported by directed credit (a requirement to lend to small business), interest rate subsidies or regulatory subsidies.
- That such guarantee schemes are effective in promoting small businesses and business growth and in addressing the credit rationing problem.

A paper written by authors at the World Bank Development Research Group[1] (copy appe ded) demonstrates the first point. It surveys 76 schemes in 46 countries – developed and developing.

Marc Cowling of the University of Sussex Institute of Employment Studies demonstrates the last point in his paper[2] (copy appended) on the UK loan guarantee scheme, concluding that this mechanism is effective in promoting access to finance for small credit constrained firms.

Please contact us should you require further details.

Yours sincerely

Ken Henrick
Chief Executive Officer

[1] The Typology of Partial Credit Guarantee Funds around the World, Beck T.; et al, World Bank, March 2008

[2] The Role of Loan Guarantee Schemes in Alleviating Credit Rationing in the UK, Cowling M., Institute of Employment Studies, University of Sussex, February 2007