



Arbenigwyr mewn Busnes
Experts in Business

October 13 2021

Chair of Equality and Social Justice Committee

Senedd

Cardiff Bay

CF99 1SN

Dear Jenny Rathbone MS

RE: Debt and the Pandemic

I am writing to you to outline some of the evidence and concerns around debt and the pandemic for the small business, sole traders and self-employed.

In December 2020, FSB published a comprehensive analysis of debt in small businesses as a result of the pandemic in our 'A Fighting Chance' report. We have continued to collect evidence on this vital issue, and in our our last survey (June 2021) we found the following:

- Approximately 60% of UK small businesses currently have some form of debt
- 37% of UK small businesses with debt considered it unmanageable (34% in Wales)
- Applications for finance have soared in light of the emergency schemes – in normal times about one in seven firms would apply for finance, now it's close to one in three.
- Debt in the Hospitality sector is a huge issue after the pandemic – those carrying some form of debt has risen from 59% pre-COVID to 77% post-COVID.
- Hospitality and tourism small businesses are at the heart of their communities. 22% offer shared community spaces. At the beginning of the pandemic, 33% had donated to local food banks, 26% had carried out a broader community role, and 12% had provided free services or accommodation to key workers.

One concern with the BBLs and CBILS schemes was that they would cement the dominance of the 'big five' banks where small business finance is concerned. It seems that this has at least in part been realised. Applications for traditional loans/overdrafts are up, and applications for asset finance and peer-to-peer (P2P) lending facilities are down.

Small businesses that did not hold an account with the main high street lenders were at first unable to secure loans – this will likely create a situation where businesses feel they need a high street account (even if primarily unused) in case of another crisis.

The danger is that this trend serves to undermine years of work to diversify the SME finance market. The hope is that, amid established lender reluctance to take on any more small business customers and debt, alternative



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lenders and investors step in to provide the recovery and start-up finance many will be seeking as the economy bounces back.

There have been some reports of banks withdrawing elements of businesses' finance at short notice, like overdraft facilities. It is a concern that the increases in debt will place a further squeeze on access to finance for small businesses as a sector as a whole (including those not actually with debt pressures), placing a squeeze on the entrepreneurial activity vital for recovery in our communities. It is also likely that there is a greater issue of debt burdens in areas of multiple deprivation, and as such these impacts, coupled with the relative fewer banking facilities in some communities, will be felt disproportionately on individuals and businesses in poorer areas of Wales.

As such, it is important that access to affordable finance is available, and the use of mechanisms such as 'pay as you grow' to pay over the longer term are utilised effectively. Welsh Government should work with UK Government to ensure pressure is put on the big banks, as well as to work towards building a diversified pool of lenders in the market. The role of the Development Bank of Wales to fill any market failure in this regard should be explored in this changing context in ensuring low interest loans as needed.

FSB have looked at options such as a 'shares for debt recovery plan' through employee shares (<https://www.fsb.org.uk/resources-page/a-shares-for-debt-recovery-plan-may-2021.html>), and this may be a means for institutions such as Development Bank of Wales to explore as options, in particular as it dovetails with wider issues of SMEs' succession planning in the longer run.

It is also important that confidence is retained and access to finance is accessible to ensure new business activity is encouraged.

Given that many small businesses don't often have business accounts, any business debt for them is also personal debt. Equally, collateral for debt can sometimes be personal assets such as houses, leaving many small business owners particularly vulnerable. Given the interrelation of personal and business debt in these particular sectors (especially microbusinesses and self-employed), small business debt will place additional pressure on services accordingly.

While not specifically on debt, we asked questions on self-employment in our survey for the FSB Wales report 'What We Value', that provide a useful context for discussions on debt and access to finance, and strategies needing to be in place to address this sector specifically. We found the following:

- 3 out of 5 small business owners (62%) are in agreement that the current situation with Covid-19 makes self-employment less attractive, while only one fifth (20%) disagree.
- Only 20% of respondents agreed that 'The Welsh Government values the achievements of those that run their own business'.
- 62% believe that Self-employed are treated less favourably than larger business and 68% disagreed with the statement 'Self-employed people have largely the same rights and protections as those that are employed'.
- This suggests that there is a need to look deeper into the Fair Work Wales Commission's recommendations on looking at self-employment and fair work, with which there has been a relatively low level of engagement with Welsh businesses



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- The Covid-19 funding, while welcome, illustrated the lack of flexibility available to government when dealing with self-employment, and better response in support for self-employed in future (including debt and finance) should form part of any self-employment strategy
- Together these figures point to a need for priority for Welsh Government to provide a Self-employment strategy as a matter of urgency, along with exploring whether there is a need for more support for self-employed and incentives for start-ups as an area of particular need.
- Despite all this, 58% agreed with the statement that 'Self-employment is an attractive way to make a living', with only 14% disagreeing. This shows that there is a potential to harness self-employment as a means toward entrepreneurial activity that can aid recovery.

Debt and the pandemic will continue to be a key area of work for FSB. The equality and social aspects of debt and the pandemic are inextricably linked to the economy, and will impact on entrepreneurship in the future. As such, addressing these issues is vital to build economic capacity for recovery.

I hope that this evidence is useful to committee members and will be taken into account in your inquiry.

Diolch yn fawr.

Yours sincerely,

Dr Llyr ap Gareth
Head of Policy
Federation of Small Businesses Wales