

**Is Small Business Being Under-Funded Struggling To Grow Their Business?
Will Government Credit Guarantees Be Effective In Covid19 Crisis?**

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Amid the Covid19 outbreak, small businesses around the world find themselves in a similar situation where the usual cash flow is disrupted but costs still need to be covered. They become particularly vulnerable if they are unable to access funding from financial institutions who seem to be reluctant to lend them in this uncertain time.

Studies have been looking into the consequences of being under-funded, on small business growth, particularly for two types of firms. One is a self-selected firm that did not make a loan application despite cash flow shortages. The other is a rejected firm that applied for a loan but did not get accepted. Preliminary results from a study on UK small businesses found that these two causes of a lack of funding do not have the same consequences on business performance in the short and long term.

- i. For those who did not apply, they are less likely to grow in turnover and employment within the first year, but this decision does not have a longer-term effect.
- ii. For those who were rejected by a bank, their turnover increased after one year but they tended not to hire more employees, even after two years of rejection. These firms were also more likely to be discouraged in the following year of rejection, which suggests that both turnover and employment growth will be continually slow down.

This result implies that a self-selecting firm sees an immediate slowdown of its business in that year. Meanwhile, a rejected firm is more likely to suffer in the long term, especially if it is continually unable to secure a loan, even though in the short term, it finds an increase in turnover. This finding suggests a lack of funding severely impacts growth, regardless of whether it was due to the firm's decision or bank's decision. However, a bank's rejection has a longer-term impact on firm growth, especially as it also has indirect consequences on firms' decisions.

As such, a special credit guarantee program is crucial to help small businesses survive in this unprecedented period. Many governments around the world announced a credit guarantee program, for example, Bounce Back Loan

Scheme (BBLs) in the UK, is in place to help a business affected by Covid19 outbreak, obtain a loan. In a Credit Guarantee scheme, if a business obtains a loan from a participating bank, its loan is backed by the government. For example, in the case of BBLs, the government will back 100% of the value of the loan if the business is unable to make the payments. This helps reduce exposure of participating banks and thus motivating them to lend to small businesses. The firm does not have to make any payments for the first 12 months. Importantly, although small firm remains liable for its debt, banks are not allowed to take personal assets of its owners. This feature is particularly important for small firms who are still reluctant to borrow from a bank. These programs will be beneficial for small businesses by increasing their chances of securing a loan which should help them survive the Covid19 crisis.

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