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# SMES/MICRO-BUSINESSES AND FINANCING THEIR GROWTH FOR THE BENEFIT OF JOBS AND EFFICIENCY

SMEs/micro-businesses are a major source of job creation. Located in the nation's heartlands, across all local communities, these 2.5 million-plus companies are considered in all their diversity.

The main change they are facing is the information revolution - which is currently in its digital phase. This is prompting a new way of doing things and bringing about other criteria for assessing companies' business - where precedence is given to human capability, training, research, intangible investment and therefore efficiency, which concerns all value added relative to the investment - over and above the return.

The energy transition raises similar challenges for training and investment if it is to succeed.

Coordinating SME/micro-business growth and financing for the common good - namely jobs and improvement in terms of efficiency - is crucial. This calls for economic, social and cultural ambition and a turning-away from a certain distrust that has been detrimental to relations between SMEs/micro-businesses and the banking and financial system.

Financing comes in an array of forms: equity, bank loans, market-based financing or savings. Bank financing is the primary source, especially since the equity situation has improved.

Admittedly, loans are more readily available than during the financial crisis and the schemes set up since then have brought about a visible improvement (financial ombudsman service, Bpifrance, in particular). For their part, over-the-counter, market-based or savings-based financing solutions offer a real helping hand. But the abundance of loans is above all benefiting corporate real estate and equipment-oriented investment is not getting a sufficient look-in. This is not picking up for SMEs/micro-businesses either.

Moreover, two blind spots have been identified: cashflow and intangible financing. Lastly, despite fairly low nominal interest rates, under the effect of different mechanisms the burden of financial charges deducted from SMEs/micro-businesses' earnings is heavy (between 27% and 40% on average, half of which comes from interest on loans and guarantees).

What can the public authority do to improve the working relationship between banks and SMEs-micro-businesses, whilst leaving responsibility with these stakeholders and the existing eco-system? How can it show support for a selective approach to financing options based more on overall efficiency than on return? This is about training bank advisors and



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company managers alike. It is also about the steering of financing and application of criteria associated with growth, jobs and value added: regional funds, bank loans, Bpifrance's role, mutualised guarantees, action on the part of the ECB and EIB, regulatory supervision and channelling of savings.

What is more, worsening payment periods, relations between SMEs and multinationals, the social and solidarity economy (SSE) and struggling businesses are also key concerns to be taken on board.

## THE ESEC'S RECOMMENDATIONS

### 👉 Channel bank loans towards SMEs/micro-businesses with specific criteria

- Harness bank loans with the Regional guarantee, interest-subsidy and seed funds dedicated to SMEs and micro-businesses, supplemented by the State, to expedite investment conducive to growth, jobs and greater efficiency.
- Facilitate the effective digital transition and intangible investment via medium-term loans with intangible expenses, no personal deposit and no guarantee, with a grace period from Bpifrance's "micro-business growth loan".
- Change Bpifrance's strategy to focus on all micro-businesses and promote a selective approach to loans with different criteria.

### 👉 Improve relations between banks/SMEs-micro-businesses

- Limit banks' use of guarantees on SME/micro-business managers' personal assets and promote guarantees by mutual guarantee societies.
- Secure the missions of financial mediation over the long term and extend them to encompass preliminary advice for SMEs/micro-businesses.
- Bolster the financial consultancy sector for micro-businesses

### 👉 Transparency and regional involvement

- Improve public information on loans granted to SMEs/micro-businesses and organise regional and national annual conferences, with the Regional Economic, Social and Environmental Councils (RESECs) and the ESEC, on monitoring these loans, the investments they have enabled and their impact particularly in terms of jobs and value added.

### 👉 Equity and savings

- Bring down SME/micro-business income taxes if this is ear-marked as equity for productive investment purposes likely to create jobs.
- Steer part of the funds and reserves of household life insurance, socially-responsible savings and corporate employee savings towards financing for SMEs/micro-businesses.

### 👉 Management support

- Promote the "management consultancy" mission that expert accountants carry out for the benefit of company managers and systematically offer a "management consultancy" option to SME/micro-business managers.
- Strengthen the culture and training as regards corporate financial management of SMEs/micro-businesses.

### 👉 Inter-company relations

- Make multinationals more accountable in terms of bearing the collection costs of their late payments by providing, beyond the stipulated fines, for an optional reverse factoring clause in all contracts with their SME/micro-business providers.
- Plan to gradually bring the maximum statutory timeframe for inter-company payments down from 60 days to 30 days.

### 👉 International

- Encourage the European Central Bank (ECB) to direct its refinancing for banks in the eurozone towards SMEs/micro-businesses according to job and value added criteria.
- Place the facilitation of loans for SMEs/micro-businesses at the top of the international negotiating agenda at Basel.
- Finance the European Investment Bank (EIB) by part of the ECB's Quantitative Easing to meet the €100bn target for SMEs/micro-businesses set in the Juncker Plan, by 2020.

### 👉 Struggling SMEs

- Significantly raise the profile of the *Département*-level Committee for Examining Corporate Financing Problems (CODEFI) and scale up its human and financial resources.
- Make SME/micro-business growth one of the priorities of the territorial regeneration convention mechanism in connection with jobs.

### 👉 Social and solidarity economy (SSE)

- Extend to SSE structures all financing mechanisms available to other SMEs/micro-businesses.
- See that 50% of a grant agreed on for an association is paid out by 31 March of the year in question.