

François Villeroy de Galhau: Financing of Very Small Enterprises (VSEs)

Introductory speech by Mr François Villeroy de Galhau, Governor of the Bank of France, at the Symposium on the Financing of Very Small Enterprises (VSEs), organised by the Bank of France in conjunction with the Federation of Approved Management Centres, Paris, 15 January 2016.

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Ladies and gentlemen,

Welcome to the Banque de France for this symposium on the financing of very small enterprises or VSEs. It was conceived and organised in conjunction with the Federation of Approved Management Centres, and I would like to extend my warmest thanks to them, and in particular to their President Yves Marmont. I am very pleased to have developed such a close and lasting relationship with your organisation, which plays a vital role in supporting SMEs and VSEs. This event would also have been impossible without the help of the individuals and organisations who have agreed to take part in our three round tables today, and I would like to thank them sincerely for their contribution.

It is a particular pleasure for me to be able to open this symposium today. As you know, just a few months ago, I had the honour of submitting a report to the prime minister on the financing of business investment, the first proposed recommendation of which was to “Improve access to credit for very small businesses, especially cash loans”. This is our focus today.

Although my role has changed since then, my belief in the fundamental importance of this issue remains the same. Indeed, my conviction has been reinforced by the Banque de France’s own commitment to supporting VSEs, both at a central level and through its local presence in France’s regions. One of the main advantages of this nationwide network is that it makes it easier to listen to and support local businesses, the majority of which are clearly VSEs.

Through its local branch network, the Banque de France is responsible for dealing with credit mediation applications. It provides valuable insight for economic and social actors by publishing statistics on VSEs, and is the only central bank in the Eurosystem to publish data in this level of detail. In addition, the Banque de France conducts studies into VSE finances and their positioning in the French economic landscape.

Clearly, this symposium is not just a one-off event reflecting a passing interest in a subject that’s currently in the spotlight. In fact, it is part of an ongoing and enduring initiative, and will provide additional impetus to the work already being undertaken at the Bank. I shall come back to this in a few minutes.

First of all, let me underline the importance of VSEs for growth and employment, and for the strength of our regional economic fabric.

As you know, VSEs are usually defined legally as undertakings with fewer than 10 employees, annual turnover or a total balance sheet of under EUR 2 million, and which are not part of a group managed by a larger enterprise.

France’s 2.1 million VSEs account for around 20% of private sector employment and close to 20% of total enterprise value added. If we include micro-enterprises, firms with very low turnover and which have a special tax and social security status, this segment comprises some 3 million business.

This is a lot more than we tend to think. What’s more, companies in this segment are spread out across the entire country rather than being concentrated in just a few dynamic industrial centres. VSEs are also an important source of investment in France and one that is badly in need of stimulus: according to estimates, at least half of all VSEs chose not to invest in 2013

and 2014. Fostering the expansion of these firms is vital for economic growth and for jobs. But to do this, they need to want to invest, and to have sufficient financing to do so.

What are the main approaches the Banque de France is taking to encourage the financing of VSEs?

The Banque de France's actions in this field are guided both by its knowledge of the statistics and its vision of the reality on the ground.

On the whole, French firms do not appear to have any particular difficulty accessing credit. Outstanding bank lending to corporates is rising at a faster pace in France than anywhere else in Europe: +4.5% year-on-year at end-November 2015, compared with +2.1% in the United Kingdom, +1% in Germany and an average of +0.9 % for the euro area as a whole.

In fact, based on the responses given by business leaders to our surveys, it seems that applications for investment loans are generally accepted fairly readily, and the same seems to apply, more or less, to cash loans. Although difficult to measure, firms' willingness to apply for loans appears to be strong. Surveys conducted by the ECB show similar results, and rank France on a par with Germany in terms of access to credit and willingness to apply for loans, well ahead of the other major countries in the euro area. Interest rates on loans are also lower in France than anywhere else in the euro area – by around 1 percentage point in the case of individual loans of up to EUR 250,000.

With regard to today's topic, however, there are a number of important distinctions that need to be made.

Access to credit is markedly more difficult for VSEs than for other SMEs:

- fewer than 60% of applications for cash loans were accepted (i.e. granting of 75% or more of the requested amount) in the third quarter of 2015, compared with 74% for SMEs. Of course we need to take into account the fact that smaller companies have potentially weaker finances, but this is clearly something that needs to be watched closely;
- outstanding loans to VSEs were up 2.8% year-on-year at the end of the third quarter 2015, whereas cash loans only rose by 1.1% over the same period. Equipment loans to VSEs also grew by just 1.3%, as facilities in this category are mainly used to buy property, which is clearly less likely to enhance productivity or competitiveness.

Evidently, things are proving more difficult for VSEs, and the sentiment on the ground seems to confirm this. It is in everyone's interest – both the banks' and the business community's – that we resolve this contradiction regarding credit: between the banks' ostensible commercial ambitions on the one hand, and the continuing failure to fully meet VSEs' demand for loans. It is therefore important that we improve VSEs' access to financing. I would like to propose **three main focuses for action: the first concerns the banks, the second the Banque de France, and the third VSEs' business customers.**

1) First of all, it is absolutely vital that –at the very least- the five fitting commitments made by banks to improve dialogue with VSEs and SMEs, which were set out at the end of the excellent report drafted by the Observatory for Business Financing in the summer of 2014, be fully implemented.

Let me briefly remind you of these:

- respond to all requests for financing within 15 working days of submission of the completed application. This commitment appears to have been met in 90% of cases,¹ which is commendable; but the remaining 10% still amounts to 100,000 late responses per year;
- explain to VSEs why their loan application has been rejected;
- in the event of the rejection or cancellation of a facility, inform the client of all the options available for recourse;
- provide better information on short-term financing;
- reduce the turnover of VSE financial advisers.

I would also like to highlight the valuable contribution of the FBF in producing an explanatory guide on VSE financing. A lot of entrepreneurs need to learn and understand the basics of finance. The misunderstanding between bankers and businesses often stems from the fact that they don't speak the same language: this makes it harder for VSEs to establish a close working relationship with their bank managers and financial advisers. In addition, the Banque de France and the High Council of the French Institute of Chartered Accountants have worked together to produce a financial guide for VSEs entitled *Guide du Routard du Crédit*. I would also like to single out the efforts made by the Observatory for Business Financing, which has put together a forthcoming glossary on loan pricing. All of this is extremely useful, but these documents also need to be widely publicised and made available, and this task falls first and foremost to the banks. This should in turn encourage them to make their bank fees and charges more transparent and explicit.

2) Turning now to **the Banque de France**, we clearly need to provide more help to VSEs **before** they get into difficulty. Credit mediation is a very effective tool for resolving VSEs financial problems after the fact, and indeed these make up the majority of cases submitted to the mediator. However, it is also important – especially so in my view – that we provide help before this stage, and prevent VSEs from getting into trouble in the first place.

We have therefore decided that, in addition to the legal and operational assistance provided via credit mediation, the Banque de France **will contribute to this preventive action by appointing a VSE Correspondent in each of its département branches**. The role of these correspondents will be to act as a first point of contact for VSEs and listen to their concerns in the capacity of a trusted third-party. They will be responsible for providing information – including the documents I've just mentioned – and for broadly identifying the VSEs' needs. If necessary, and of course only if the VSEs themselves are in agreement, they will also direct them towards the relevant professional networks which can provide appropriate support: approved management centres, institutes of chartered accountants, micro-credit associations, etc. All VSEs will be welcome, including, of course, those whose business is expanding and who need information tailored to their size.

The Banque de France shall guarantee complete privacy in these dealings – indeed this is one of its fundamental values and skills: VSEs will have the peace of mind of knowing that, if they so wish, all discussions will be fully confidential.

The VSE Correspondents will be appointed in the spring of 2016 and, after a period of specific training, will be fully operational by the autumn.

Also in the autumn of 2016, the Banque de France will provide firms with access to an online analysis and simulation tool called OPALÉ, which enables companies to assess their finances while also learning more about the subject.

¹ *Evaluation de la mise en oeuvre des 5 mesures prises par la FBF pour améliorer les relations banques-TPE/PME*, report submitted on 25 November 2015.

3) I'd like to turn now to my last suggested focus for action, which I believe is also extremely important: **reducing the amount of time it takes for business customers to settle their invoices**. Again it is difficult to provide accurate measurements – and at the Banque de France we are well aware of this as we have been helping to look into the issue for several years. However, the indications are that overdue payments pose a huge problem for businesses in general and in particular for VSEs: at end-2014, outstanding payment claims amounted to EUR 600 billion, of which some EUR 420 billion were owed by private sector firms... and the remainder by the public sector. This requirement should of course apply equally to the public sector, both at national and local level. Various surveys and qualitative assessments show that the situation has stopped improving in the past few months, and that payment times are no longer falling, and in some cases may even be increasing again. Long payment times are not just a financial problem for VSEs, they also place a brake on their expansion, as they spend too much time chasing up overdue invoices, time that could better be devoted to growing the business and investing.

The government is acutely aware of this issue and, in conjunction with the Observatory for Payment Times, is taking decisive action to resolve it. The Banque de France intends to help reduce these difficulties by drawing attention to all the solutions available to help small businesses. It will work actively with the Observatory for Business Financing, as well as through its day-to-day contacts with credit institutions and financing companies, to help develop financial products that can better reduce this obstacle to VSE growth.

The determined efforts that the Banque de France intends to undertake or to participate in, will of course benefit greatly from your input here today at this symposium. I shall follow your work and the results closely, and I hope you enjoy this excellent event.

Thank you for your attention.