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The Government's CBIL Scheme is Not Fit For Purpose

The Government's Coronavirus Business Interruption Loan Scheme is the tip of the spear in the economic fight against Coronavirus. However, its current form is not fit for purpose. The scheme's main function should be to give employees, who are also consumers, the certainty that their jobs are safe for the length of the crisis. This is the single biggest source of anxiety currently, after fear of catching the virus.

Therefore, for the scheme to succeed, it needs to be simple, fast, and fair. In its current form, it falls short on each of these three criteria.

- <u>It is not fast</u>

It requires a business to shop around for the best commercial terms offered by lenders. This is a time-consuming process at a moment when business owners need to focus all their attention on crisis management.

It also requires businesses to apply for loans through the usual banking channels. Their multi-step decision making process is slow. Their branches are going to be largely closed. Their computer systems, as we know, are antiquated, and will likely not cope with the sheer volume of applications that will flood them. It is a two-step process to access the government guarantees. This adds to the processing time.

- <u>It is not simple</u>

It lacks transparency as it leaves it to each bank to determine, based on their criteria, which business can obtain a loan on "standard commercial terms", and which needs to be guaranteed by the government. It requires banks to expand hugely their balance sheets at a time when, based on what we learnt in 2008, they will be reluctant to do so.

- <u>It is not fair</u>

Not fair for the taxpayer – as it doesn't tie the loans to a promise to keep jobs.
Not fair for business owners – who are subject to each lender's lengthy and often cumbersome decision process, and to their policies in terms of interest rates. It often exposes them to potential predatory lending practices.
Not fair on employees – they depend on the business owners' decision on how to spend the borrowed money and are left exposed to potential abuses. What prevents business owners from firing their staff and increasing their dividends, for example?

To fix these issues the government must reform the proposals with three key changes:

- **The government should be the lender, not the banks.**

The banks should only administer the lending, not make decisions. This would accelerate the process and would eliminate business owners' need to shop around. It would also guarantee that all business owners have a level playing field, avoiding exposing them to unequal lending practices and terms imposed by different lenders.

- **Loan terms must be directly tied to employment commitments.**

The loan amount should be set to a multiple of the SME's quarterly payroll, say 100% of net payroll, with quarterly advances. The government can easily verify the employees and the amount paid out before the crisis through the PAYE system. So, if the SME lays off staff, the amount of funding available decreases.

Also, NI contribution should be delayed so that the businesses have skin in the game. Payments to partners and business owners should be capped at a multiple of average salaries to avoid abuses.

- **Business owners must be kept accountable.**

Disbursement of the loans shall be tied to business owners' written representations to the government such as: a ban on dividends and a commitment to spend at least 80% of the loans on payroll. Business owners can be held accountable by criminalising the breach of the representations.

Loans should be interest-free for 6 months, extendable if necessary, until the end of the coronavirus crisis. At that point, the interest is set based on a simple formula: lower interest rate for businesses that have preserved the same staff levels as they had at the beginning of the crisis, higher for the others.

The loan then runs its term, with provisions allowing businesses to amortise it or prepay it, with the set level of interest rate.