

**THE GENESIS INITIATIVE
MANIFESTO 2024
THEME – PRODUCTIVITY**

THE GENESIS INITIATIVE (Genesis) Manifesto, 2024 will focus on **PRODUCTIVITY**, because efficient enhancement of productivity grows the gap between “costs of production” and “return on sales” which is the “profit margin”.

THE 2024 MANIFESTO

Genesis will advocate for, and promote:

- **Improved terms of payment for micro and small businesses. This covers both prompt payment against agreed terms and shorter periods of credit between supplier and customer.**
- **Enhancement and prioritisation of digitalisation for micro and small businesses.**
- **Enhanced and prioritised micro and small business access to academic and practical training and development courses and programmes.**
- **Greater access to finance to meet the very different business needs of micro and small businesses.**

KEY ISSUES

In 2024, Genesis will champion four key elements of the economy:

PROMPT PAYMENT

DIGITALISATION

EDUCATION

ACCESS TO FINANCE

SUSTAINABILITY (a catch-all term for ethical and environmental concerns across the world) will be addressed in all these key elements.

Micro, small and medium-sized enterprises

In 2022, there were 5.5 million UK private sector businesses¹. Of those, **99.9%** were categorised as **SME (Small and Medium-sized enterprises)**, employing 0-249 people. The largest SME sub-group is “micro” businesses (0-9 employees) which employ 32% of the total UK working population. Of those, 74% had 0 employees (aka “self-employed/freelance”). However, after 20 years of growth, and the COVID 19 pandemic, there has been a sharp decline in UK micro businesses, and particularly the self-employed.

This Manifesto will address the four key issues with an emphasis on micro and small businesses because Genesis members represent those sectors.

The Government and Genesis – Thinking Small First

The overriding objective for 2024 is to close the gap between Government and micro and small businesses so that their critical importance in and to the national economy is expressly and materially acknowledged; and, to urge that the effect on that sector is actively and expressly considered in all Government activities. In that context, Genesis will press for the concept of “**Thinking Small First**”. When policies and programmes are being designed and implemented, the position of micro and small businesses should be the primary consideration and the starting point so that they are not over-burdened with costly and cumbersome

¹ Source: The latest BEIS, Business Population Estimates, Oct.2022

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administrative systems. Their needs should not be overlooked in the mistaken belief that those needs are similar to the needs of the medium-sized enterprises they are usually lumped together with. In this regard, and in particular, Genesis will work with, and offer support and encouragement to, the **Small Business Commissioner** and the **Small Business Minister**.

The Age of Uncertainty

Micro and small businesses face significant economic uncertainty because of:

High inflation	Rising interest rates
Rapid technical changes	The pressures of sustainability
Difficulties in hiring skilled staff	

These elements feed into, are critical to, and are influential on, the key elements addressed in this Manifesto.

- Inflation is driven by external factors such as rising energy and raw material prices. However, it is exacerbated by rising interest rates which lead to higher borrowing costs.
- Inflation and rising interest rates lead to higher wage demands, which push up costs for micro and small businesses.
- The turmoil around immigration has reduced the total available workforce which has put further upward pressure on wages.
- The need to adapt quickly to technological changes, e.g. the advance of AI, and to be, and be seen to be, operating in a sustainable manner bring yet more increases in micro and small business costs.

In 2024, Genesis will seek to drive positive change to alleviate those negative pressures. It will use its unique position to influence those in power and those who aspire to power.

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**THE GENESIS INITIATIVE
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LATE PAYMENTS TO SUPPLIERS**

Manifesto Pledge

In 2024, The Genesis Initiative will promote improved terms of payment for micro and small businesses. This covers both prompt payment according to agreed terms and shorter periods of credit as between supplier and customer.

Introduction

The late payment culture existing between businesses in the UK means that:

- late payment and long payment terms remain persistent in key areas of the economy, with 40% of invoices still not being paid according to agreed terms
- In 2022, Small and Medium-sized Enterprises (SMEs) were owed on average an estimated £22,000 in late payments
- UK businesses are currently finding it difficult to address the issue. 48% of UK businesses are finding it difficult to negotiate payment terms which suit them and their customers.

(Source: Department for Business & Trade Payment and cashflow review report November 2023)

Consumers are used to paying for goods at the time of purchase, even if they use a credit card to delay the effect on their own cashflow. However, in B2B transactions payment is often due 30 to 90 days after invoicing.

Why is there any, or any material, difference between payment in B2C and B2B transactions? It's just an accepted business practice. However, delayed payments cause stress, disputes, frustration, and have a seriously negative effect on the UK economy because suppliers are unable to meet their own costs, including paying their staff, forcing them to seek expensive credit facilities. In essence suppliers become financiers of their customer's activities.

Many studies have been published in the UK that report figures of more than £20bn being owed to businesses by their clients as late/long-term payments. If such sums were released more quickly into the UK economy, it would be a no-cost equivalent of the Quantitative Easing seen during the last financial crisis and/or the Covid pandemic.

Encouraging better payment practices

The UK Government has sought to address the issue of late payments to UK businesses. For example, suppliers can impose late payment charges. This is a potential deterrent to poor payment practices, but it requires a courageous supplier to impose the charges and expect their relationship with the client to flourish thereafter.

The introduction of the **Prompt Payment Code** and improved agreements to require signatories to increase the speed of payments is welcomed. As is the statutory requirement for large companies to submit returns on their payment performance every six months for publication: [Check when large businesses pay their suppliers - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/news/check-when-large-businesses-pay-their-suppliers).

Further information on the payment performance of these companies can be found on the Good Business Pays website: [Good business is getting paid today, not tomorrow - Good Business Pays](https://www.goodbusinesspays.com/).

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Being able to check on the payment performance of a potential customer is a positive step forward in highlighting the importance of prompt payments, although the visibility currently only applies to companies and LLPs meeting at least two of the following criteria:

£36 millions in turnover £18 millions on its balance sheet 250 employees

More can be done to highlight the merits of making quicker and fairer payments.

Another positive step has been the creation, under the Enterprise Act 2016, of the **Office of the Small Business Commissioner (OSBC)** as an independent, UK public body to tackle late payments and unfavourable payment practices in the private sector.

The OSBC addresses the late payment culture existing between businesses in the UK which suggests that:

- One third of payments to micro, small and medium-sized businesses are late.
- The average value of each payment is £6,142.
- 20% of micro, small and medium-sized businesses have run into cashflow problems due to late payments.

The OSBC welcomed the release of a report (9 March, 2023) by the **Federation of Small Businesses (FSB)** highlighting the negative effects of late payments in the UK. The report, “*Time is Money: The Case for Late Payment Reform*”, exposes the insufficient measures in place to hold big businesses to account and calls for a level playing field for micro, small and medium-sized businesses.

Findings from the report identify that, for UK MSMEs, on average through 2022, quarter-on-quarter:

- 52% experienced late payment
- 25% reported increased late payment.
- The most affected sectors include education, construction, administrative, professional, scientific, transportation, IT, arts and human health and social work.
- Micro and small businesses in south-east and east of England, and Northern Ireland were more likely to experience late payments.

The report also reflects on the effect of late and delayed payments on micro and small businesses and the public’s expectations around prompt payment:

- 37% of applied for credit to manage their cash flow;
- 62% of the British public say businesses should be paid within a week; and,
- 55% of the British public would support more controls on payments.

What we know

Due to the uneven availability of public domain reports on the payment performances of large companies, there is a mixed landscape. The picture is not entirely bad. There is evidence of good payment performances by some large companies, showing average payment periods of less than 30 days and fewer than 10% of invoices being paid late.

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Therefore, it is possible for processes to be put in place to pay micro and small businesses quickly, although there are clear differences between industry verticals.

According to the published data (website: [Good business is getting paid today, not tomorrow - Good Business Pays](#)), banks are almost all achieving settlement of invoices within 30 days. This is to be expected from a sector specialising in the movement of funds and regularly reporting a significant level of profitability. The table below shows average days taken to pay an invoice and how often invoices are paid later than the agreed terms.

Bank	Average Time to Pay an Invoice (Days)	Volume of Invoices Paid Late (%)
Santander	11	9
HSBC	15	9
Arbuthnot	15	15
Lloyds	17	23
Barclays	19	8
Starling	21	13
Co-operative	27	8
Goldman Sachs	30	27

Similarly, two of the global payment brands report average time to pay within 30 days: Mastercard 21 days, 0% paid late; American Express 2 days, 1% paid late. Visa reports taking an average of 37 days, 8% paid late.

Supermarkets report average days to pay more in the 35 – 55 days range.

Supermarket	Average Time to Pay an Invoice (Days)	Volume of Invoices Paid Late (%)
Waitrose	37	6
Lidl	41	2
Tesco	41	3
Aldi	41	6
Morrison	43	1
Asda	47	7
Sainsburys	51	3

There are clear trends reflected by industry verticals, but at the other extreme, there are major companies that take much longer periods to pay.

Company	Average Time to Pay an Invoice (Days)	Volume of Invoices Paid Late (%)
Reckitt Benckiser	126	9
AB InBev UK	117	11
NTT UK	112	41
Coca-Cola Gp. Servs.	107	12
Kellogg Co. of GB	93	1
H J Heinz Manuf.	91	12
D S Smith Paper	91	9
Crown Paints	87	64
Nokia UK	86	9
Walkers Snacks	82	18

Taking the 5 largest UK companies by market capitalisation (at time of writing):

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Company	Average Time to Pay an Invoice (Days)	Volume of Invoices Paid Late (%)
Unilever UK	63	2
Astra Zeneca	51	7
Shell UK	48	5
Rio Tinto	33	20
Diageo	76	5

These data and trends convey key messages for addressing quicker payments to micro and small suppliers. In some cases, although average days taken to pay may be relatively high, the volume of invoices paid late are low. This indicates that suppliers have had to agree to providing extended lines of credit to their customers. To compound the problem, there are instances where large companies require more than 60 days to pay but still report a significant percentage of invoices are paid late.

Reducing the problem

After many attempts by Government and industry bodies to resolve the problem of late payments to micro and small businesses, there have been some measurable improvements, but there is still a long way to go. In addition, invoice processing, payment and data analytics technologies have improved, further enabling better payment practices, and reducing friction in the process.

What else can be done? At a high level, two immediate steps can be taken.

1. Communications

Through the OSBC, tangible efforts have been made to promote fairer payment practices to micro and small businesses. This voice should be amplified, increasing resources available to the OSBC to take steps to highlight the benefits of prompt payments to buyers and sellers.

For example, buyers that are paying quickly will attract the best suppliers. This has a positive, knock-on effect to the wider supply chain by accelerating the velocity of payments across multiple businesses. This simple catalyst can be promoted as a best practice for business in the UK.

Micro and small businesses that are paid quicker have more confidence and are more likely to invest in equipment, training, upskilling, innovation, job creation. This not only increases productivity and growth and improves the micro or small business but results in better outcomes for the customers employing their services.

Similarly, the payment technology providers should be engaged to amplify communications in a coordinated manner to highlight new and more effective ways of making payments, including the maintenance of cashflow and working capital optimisation tools for buyers and sellers.

The UK has become a vibrant and energetic place for new starts, particularly FinTechs, and amplifying their new payments technologies should be a priority. This aligns with the spirit and outputs of the Kalifa Review, which should be promoted: [The Kalifa Review of UK FinTech – GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/consultations/kalifa-review-of-uk-fintech).

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Similarly, the **FCA Innovation Pathways** programme is a positive and effective source of support for FinTechs that should also be more widely supported and promoted to improve the processes of making and receiving business payments.

Making the topic of late payments more accessible to the wider public can be achieved by publishing league tables of payment performance by industry sectors to keep the topic top of mind as a way of stimulating the UK economy through increased velocity of payments and sustainability of micro and small businesses across the supply chain. This should celebrate the best payers as well as highlighting those that could improve. As well as being informative, this action is likely to drive competition between companies to be seen as the best payers. In addition to sectors like the banks and supermarkets shown above, another example is the Premier League Football Clubs, arguably the most “competitive” of sectors!

Football Club	Average Time to Pay an Invoice (Days)	Volume of Invoices Paid Late (%)
Man. City	20	18
Chelsea	24	11
Arsenal	25	14
Liverpool	26	3
Man. Utd.	31	3
Spurs	34	20
Brighton & Hove	34	36

2. ESG

There is no doubt that improved and fairer payment practices between UK businesses delivers wellbeing and ESG (environmental, social and governance) benefits. Large companies are increasingly utilising ESG targets, data and measures in response to customer, shareholder and stakeholder demand. Tapping into this trend will revitalise the prompt payment topic and encourage greater focus by large businesses that will then expand to all UK businesses.

The ability to leverage fairer payment practices as part of the wider ESG discussion will have far-reaching benefits across the economy. In addition, there should be a discussion about how such ESG measurables can be represented in annual audited company reports and accounts.

DIGITALISATION

Manifesto Pledge

In 2024, The Genesis Initiative will advocate and promote the enhancement and prioritisation of Digitalisation for micro and small businesses

Introduction

It appears that the nature of digitalisation is wide:

- The European Commission, in a report focusing on digitalisation¹ defines *digitalisation* as the use of digital technologies (e.g. electronic tools, processes and systems), devices and resources that generate, store or process data.
- The FSB², from a trading perspective, describes *digital trade* as encompassing digitally enabled transactions in trading goods and services that can be digitally or physically

¹ European Commission: Annual Report on European SMEs 2020/21

² FSB Policy Report: Destination Digital November 2019

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delivered and which involves consumers, businesses, and governments. The FSB gives the example of a paperback delivered through an online bookseller.

There is strong evidence that micro and small businesses which adopt digitalisation improve the efficiency of their production processes, their ability to innovate products and services, their market competitiveness, and their development of sustainable business models. From a survey published by the **Enterprise Research Centre (ERC)**, investigating the adoption of digitalisation by micro and small businesses, it was found that a very high percentage of them adopt digitalisation in some form¹. Another survey by the **British Business Bank** found that two fifths of UK management view digitalisation as a top priority².

However, it is widely recognised that micro and small businesses are less likely to adopt new, digital practices and are more likely to limit uptake to basic services.³ Recent evidence from **House of Lords Communications Digital Committee (CDC)** entitled *Digital Exclusion* claims that £63 billion is lost each year to the UK economy due to overall digital shortages. In the context of micro and small businesses and the use of digitalisation it is the micro and small businesses that are lagging. This is of particular concern to the members of Genesis.

Discussion

The differences in the adoption of various digital technologies was significant as between micro businesses compared to larger ones. In the ERC Survey mentioned above, medium sized businesses were likely to use more and differing types of digital based technologies and emerging technologies such as cloud based computing and artificial intelligence as compared to simply using the internet for various fundamental business functions. This begs the question: how can micro businesses up their game by adopting and employing more sophisticated digital technologies to enhance their sustainability?

It also should be recognised that micro and small business digitalisation is strongly related to the way value is created within the firm and the sector in which it operates.⁴ For example, for UK micro and small businesses the adoption of digitalisation is very high in business and professional services.

The evidence suggests that micro and small businesses face many constraints in the wider adoption of digital technologies. Generally, the underlying reason is that they are resource-constrained, compared to larger businesses. Digitalisation developments will often have a minimum size for effective implementation that leads to higher fixed costs and higher burden for micro and small businesses. The most cited constraint is the lack of business skills. Skills shortages weigh on their capacity to adapt to a volatile business environment and embrace long term transformations. Rapidly changing digital technologies require continuous upskilling and re-skilling among both managers and employees, effective ways to find talent in the job market, and an ability to tap into expertise, knowledge and skills to develop in their economic environment. Such needs are amplified by the increasing relevance of data and data-driven business models, and the mounting challenges in the data environment. Proper data management and digital security require a level of awareness and understanding which is lacking in most micro and small businesses.⁵

¹ Enterprise Research Centre, *Digital readiness, Digital adoption and Digitalisation of UK SMEs*, ERC Research Paper No. 96. July 2021.

² British Business Bank. *Going Digital – The Challenges facing European SMES: European SME Survey 2019*.

³ OECD, 2019,2021

⁴ OECD: The Digital Transformation of SMEs. February 2021

⁵ OECD: The Digital Transformation of SMEs. February 2021

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Another important constraint is that micro and small businesses are often financially constrained and have greater problems accessing finance – this is discussed elsewhere in this Manifesto.

Clearly, if the UK economy is to grow it is important that further digitalisation of small businesses and particularly micro businesses, is enhanced. There seems to be a consensus in developed economies that government intervention and development of strategies is critical to this objective. In the UK, the Government had introduced a **Help to Grow: Digital Scheme**. Under this scheme, eligible businesses could receive discounts of up to £5,000 off the retail price of approved Digital Accounting and CRM software from leading technology suppliers. The Scheme also provided an on-line platform which was designed to help businesses in accessing practical, specialised support and advice on how to choose the right digital technologies to boost their growth and productivity through an online platform. Whilst recognising the benefits of the Help to Grow Scheme, which was closed prematurely in many businesses' eyes, in February 2023, and didn't extend to businesses with fewer than 5 employees anyway, skills and access to finance are the main constraints on micro and small businesses adopting up to date digital technologies. In that context, the Digital Exclusion report referred to earlier estimates 5 million workers in the UK will be acutely under skilled in basic digital activities by 2030. Genesis calls on Government to develop strategies to address those skills and finance deficiencies in the provision of support to micro and small businesses.

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TRAINING AND DEVELOPMENT**

MANIFESTO PLEDGE

In 2024, The Genesis Initiative will advocate for enhanced and prioritised MSME access to academic and practical training and development courses and programmes.

Introduction

Businesses do not exist in a vacuum; and it's axiomatic that access to people of appropriate quality is critical, irrespective of business size. However, each undertaking is likely to want to use human resources, training and other personnel support facilities of a cost, quality and scope that are appropriate to the economic power of the undertaking and its then-current needs and aspirations. The Trade Association members of Genesis endorse this point on behalf of their members. Therefore, "**Training & Development**" will be a focal point for Genesis in 2024.

Discussion

A range of different courses and programmes is available across the UK. Some will be employer-driven to ensure that people have the right skills and abilities to perform their allotted tasks and/or to take them to new levels of performance and capability; others will be chosen by individuals to meet their personal needs – such as meeting career objectives and/or performance needs. In addition, those different courses and programmes will span a range of levels, from degree apprenticeships to short skills courses which, these days are often accessible online.

Here, we focus on the apprenticeship element of training and development and specifically addresses "**Degree Apprenticeships**" and "**Traditional Apprenticeships**".

The Government apprenticeship scheme Website states that:

- 86% of employers say apprenticeships help them develop skills relevant to their organisation;
- 78% of employers say apprenticeships help them improve productivity;
- 74% of employers say apprenticeships help them improve the quality of their product or service.

www.apprenticeships.gov.uk/employers/benefits-of-hiring-apprentice

Degree Apprenticeships

Through its excellent connections with universities (e.g., Manchester Met., Brunel, Dublin and York) Genesis will promote connections, communications and practical actions that encourage students across the country, and at all levels of study to see the small business world as a vital, interesting, and challenging environment worthy of their attention and efforts. Of particular note will be projects that:

- Promote inter-university cooperation and collaboration in the field of Graduate Apprenticeships;
- Highlight to micro and small businesses, in particular the benefits of employing apprentices of all types;
- Highlight to students at all levels the value of working with small businesses as part of their study programmes;
- Bring government attention to areas in which it can help (i.e. practically and financially) small businesses access apprentices, and other students who otherwise might be unavailable.

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Note that the connections to universities will go beyond degree apprenticeships, because universities are a focus for education in its widest form and their capacity to network and enhance visibility should be optimised.

What are degree apprenticeships?

The UCAS Website (www.ucas.com) sets out core information on degree apprenticeships and is summarized here:

- Applied for like a job.
- No “application cycle” or period.
- Lead to a full undergraduate or master’s degree while at work.
- Take 3 to 6 years to complete, depending on the course level.
- Most of the time is spent working but there is part-time study at university. Overall, the % work/study split is approximately 80/20.
- Degree apprenticeships work differently across the UK:
 - **England and Wales** offer degree apprenticeships, with the most options currently available in England.
 - **Scotland**, degree apprenticeships are known as Graduate Apprenticeships.
 - **Northern Ireland** offers higher level apprenticeships that provide qualifications up to Level 7/master’s degree. However, the majority are at Level 5/foundation degree.

As noted above, Genesis has direct connections with some large universities in the UK and each offers an apprenticeship-based programme:

- **Manchester Metropolitan University** is a leading provider of degree apprenticeships. It partners with over 540 national and local organisations to give apprentices the opportunity to earn while they learn, and to develop the skills employers want and need.
- **Brunel University** apprenticeship programmes are developed by employers, professional bodies and the university. As an apprentice you will be employed throughout the programme, spending part of your time at Brunel and the rest with your employer.
- **University of York** - Studying for a Higher or Degree Apprenticeship means you get access to all of the same support enjoyed by students studying full-time and living on campus. This includes a range of learning support and wellbeing services for confidential, impartial help and advice on a variety of issues related to studying, achieving a successful work-life balance and staying safe.
- **TU Dublin** works closely with SOLAS to provide a diverse suite of apprenticeship education and training courses. They offer apprenticeship courses, in many different industries, ranging from construction and motor, to electrical and engineering. Nationally, over **8,000** employers are currently employing over **23,000** apprentices in Ireland.

Non-Degree Apprenticeships

In summary:

- In England, anyone over 16 can apply to join an apprenticeship scheme if they aren’t in full-time education.
- Apprenticeships aren’t restricted to those leaving education and are a good way to upskill any and all workers, irrespective of age and experience.
- Apprenticeships for career returners – such as parents re-entering the workforce after time off caring for children – are increasingly popular, as are apprenticeships for the over 50s.

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The Apprenticeship Levy is a tax designed to help and encourage employers to offer more apprenticeships. The tax revenue is held in a fund which helps pay for apprenticeship training costs. The Levy applies to businesses with an annual wage bill of more than £3m and is charged at 0.5% of an employer's total, annual wage bill. The tax is collected monthly via PAYE. Smaller businesses don't pay the Levy but will benefit from it if they hire apprentices. Larger businesses will only benefit from the Levy if they run apprenticeship schemes.

The benefits of apprenticeships for small businesses

1. **Upskill the team** - Help employee engagement and boost retention by developing existing employee skills. Apprenticeships allow businesses to expand the knowledge within existing teams and provide staff with valuable development opportunities. On-the-job training could be the ideal way to offer an apprenticeship to existing employees to study and work.

2. **Financial incentives** - All businesses hiring apprentices are entitled to £15,000 from the Levy; and, other financial incentives might be available:

- Training cost incentives – for businesses with fewer than 50 employees, the government will fund all training costs, up to the funding band maximum and subject to certain age criteria.
- Businesses with more than 50 employees that do not pay the Levy, share apprenticeship costs with the government and pay 5% of training and assessment costs. The government pays the remaining 95% - up to the funding band maximum.
- Payments for hiring a young apprentice – subject to certain age criteria, employers receive £1,000 for hiring an apprentice.
- The minimum wage for apprentices is lower than for regular employees. This accounts for the additional investment being given to the apprentice in the form of training.

3. **Retention** - There is strong evidence to show that apprentices are more likely to remain with their employer after they have qualified.

4. **Improve diversity** - Apprenticeships can improve workforce diversity by attracting different types of applicants.

According to the FSB (www.fsb.org.uk):

- There are currently over 550 apprenticeship standards to choose from.
- Apprentices are eager to learn and enthusiastic about the qualification they've chosen.
- 90% of apprentices stay at their company after completing their course.
- There is a wide range of apprenticeships your business can take advantage of, from finance and digital marketing to manufacturing and software engineering. Training someone up from a beginner means you'll be able to shape them to fit your business. You'll be able to choose a provider and apprenticeship standard that best meets your business needs.

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ACCESS TO FINANCE**

Manifesto Pledge

In 2024, The Genesis Initiative will promote greater access to finance to meet the business needs of micro and small businesses.

Introduction

Financing has been recognised for a long time as critical to SMEs sustainability. The importance of the gap between needs and access to appropriate finance for SMEs in the UK economy is demonstrated by the number of government enquiries. For example, the enquiry of the **Macmillan Committee** in 1931 by the then National Government under Ramsey MacDonald, included eminent members such as John Maynard Keynes and examined the gap in finance for the needs of growing businesses. The evidence suggests that this problem remains today. This is particularly the case for the financing of micro businesses (MSMEs).

Background

A careful search of the different sources of finance and their business needs indicates that micro and small businesses use different types of finance depending upon their size and sector. For example, a micro business employing just two employees in a traditional business trade such as plumbing will normally have very limited access to sources of finance, whilst a medium-sized FinTech firm employing (say) a hundred and fifty, it is likely, will have greater financing opportunities. Certainly, for all businesses that are not listed, there is no access to the capital markets compared to their larger counterparts, PLCs.

The majority of the trade body members of Genesis represent micro businesses. Therefore, Genesis' focus and concern is on the needs of, and sources of finance for, those undertakings. It should also be recognised that a significant proportion of micro-businesses are in the service sector. Therefore, their finance needs are likely to reflect the nature of these businesses for example, probably more emphasis on financing working capital rather than large outlays of finance for machinery and equipment.

Banks

From the perspective of high-street banks and other conventional sources of finance, the evidence is that micro and small businesses struggle to raise finance from these sources. This is evidenced by a recent survey collated from more than 100 finance brokers who submitted nearly 1,000 finance applications for small business loans in June 2023 (FIBA 07/2023). 84% of these experts claimed that high-street banks are increasingly reluctant to lend to micro and small businesses. This can be compared to the same survey indicating just over 80% of the brokers anticipate that the demand for finance from these micro and small businesses will increase in the next year.

Often the cause of the reluctance of banks and other sources of finance is the size and limited financial history of the micro and small businesses which directly relates to the lending criteria of these lending institutions and the greater level of perceived risk. Within the traditional banking culture, there is a negative approach to providing loans to businesses without a track record of success.

Looking more closely at these difficulties, and concerning recent research and surveys by recognised commentators on the economy and Genesis members, the main problems appear to be:

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- **Creditworthiness:** The majority of micro and small businesses will have limited credit histories, making it difficult to qualify for loans or secure favourable interest rates, for example credit scores
- **Lack of Security:** Traditional lenders often require collateral to secure a loan. That might be a charge over the business or the owner's property; and/or a personal guarantee. Micro and small businesses have very limited assets, so invariably the family home may be put on the line to secure funding. This has significant social implications
- **High Risk:** micro and small businesses, especially start-ups, are invariably considered high risk by lenders. This results in unsuccessful applications for finance or excessive interest rates
- **Cash Flow:** It is common for a business to be affected by seasonal variations in income and so, from an underwriting perspective, it looks as though regular fixed loan payments could be unaffordable, resulting in difficulty in accessing finance
- **Inadequate Business Plans:** As a prerequisite to borrowing, finance sources will customarily require a business plan and/or financial projections. It has been found that often there is a knowledge gap or a lack of financial insight for owners of micro and small businesses to produce such information
- **Limited knowledge of options:** This is one of the most important observations of the dysfunctional credit market for micro and small businesses
- **Competition:** Traditional lenders (and to a degree the newer lenders) are sensitive to over-exposure in different sectors and the perception that one may be more prone to a downturn than another. Hospitality is a prime example. The lending community is wary because the wider economic position could create less disposable income
- **Cost of Borrowing:** The very long, low-interest-rate economy has created a distorted view of the cost of borrowing. The current reluctance to borrow to grow is not only borne out of trepidation of the high cost of borrowing but also the hope that we will return to the rates of interest seen over the last 12 years
- **Time and effort against results:** When the traditional sources say "No", it takes a huge effort for a busy owner to go out and find other forms of finance. Experience tells us that once there is a first refusal, the confidence to borrow decreases rapidly to the point where it no longer seems worthwhile.

Genesis will advocate and support policies and interventions to address these problems. These include:

- Encouragement of business finance platforms, specialist lenders, and challenger banks to become more oriented to micro and small business needs which may well focus on working capital finance.
- Promoting support of micro and small businesses by professional advisors, including small accounting practitioners who are inevitably involved in the financial aspects of the business.
- The introduction of algorithms in credit ratings that reflect the reality of micro and small businesses rather than bigger businesses.
- The use of interactive digitalisation in the lending process that leads micro and small businesses successfully to appropriate finance opportunities.
- Provision of investment readiness support targeting those that need it most – young and high-growth businesses with particular attention to ethnic minorities, women, and rural

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businesses.

- Better education for entrepreneurs on understanding their risk profiles, the variety of finances available, and identifying finance that suits their profile.
- The delivery of guidance and tools to micro and small businesses to improve their financial management and business development.
- Expansion of the activity of the British Business Bank with greater emphasis on micro and small business finance.

Genesis supports the view that if micro and small businesses are more aware of how they can find finance for their business with greater access to more lenders and with the confidence they need to borrow, they can grow, provide more benefits locally, and contribute positively to the UK economy all with just a little more guidance from our Parliamentarians.

Funding for Growth directly to long-established Trade Associations

The Genesis Initiative proposes the use of central Government funding to be distributed directly to MSMEs through their Trade Associations in specific industries where they have detailed expert knowledge of their sectors. This would be specifically funding for apprenticeships for targeted skills training and enabling business growth channeled through these long-established Trade Associations rather than through third parties where there is a charge for their services in administering the funding part. The Trade Bodies could use 100% of the funding provided directly for business growth, apprenticeships, and enabling new start-ups in their sectors, giving uninterrupted involvement in specific Industries and geographical locations controlled by those with the greatest knowledge right at the coalface of their Industry.

For Micro and Small Businesses funding through overarching Not for Profit Bodies directly to their members would provide Business Growth to:

- Established projects that could grow and expand.
- Apprenticeship Schemes for targeted skills training
- Encourage more people to take on new businesses by coming into the Industry.
- Grants directly to those in the most need in the shortest time

Public Finances would achieve more through a route where the bodies fully understood every trade that they represent.

The Proposal:

£20m for 20 Industry Sectors allocated £1m each allocated Trade Association to encourage businesses to grow and new people into the right sectors in the correct locations.

Sectors (Indicative)

- Engineering including Export.
- Retail & Markets – Town & City Centre investment
- Hospitality & Leisure
- Manufacturing

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Introduction to the Genesis Initiative Limited

Formed in 1999, The Genesis Initiative has dedicated itself to improving the quality of the debate on micro, small, and medium-sized businesses and creating economic reform, driven by those businesses, Trade Associations, and their members, all supported by Parliamentarians. It is a company limited by guarantee and is cross-party in nature. Its vision from inception has been to make the UK the best place in the world for Micro, Small & Medium-sized Enterprises to start, grow and thrive.

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