Small US businesses struggle for credit a year after regional turmoil

NEW YORK — Small business owners in the US are struggling to get financing from traditional lenders as the impact of higher rates and bank failures of a year ago linger, holding back business growth for some.

The difficulty in getting more traditional forms of credit shows how sharp interest rate hikes by the US Federal Reserve, exacerbated by the failures of Silicon Valley Bank and Signature Bank last March are reverberating in the economy, say analysts and other industry insiders.

Small businesses are key to the country's economic health, with one study showing they account for 44% of US economic activity.

Over half a dozen small business owners contacted by Reuters in the last few weeks said they had found it harder to get traditional forms of credit such as loans from big, mid-size and small regional banks.

Some were wary of turning to non-traditional lenders like fintech firms or companies that provide financing based on prospective revenues, even though these were readily available. Small businesses typically go to mid- and small lenders for loans, said industry analysts.

These small businesses were spread across the country and included restaurants, nonprofit entities,retail boutiques, online education firms and mom-and-pop stores.

About 77% of small business owners are concerned about their ability to access capital and 28% of loan applicants said they had taken out a loan or line of credit with payment terms they felt were predatory, according to a survey by Goldman Sachs released in January which included nearly 1,500 small borrowers across the country.

"When banks tighten their underwriting criteria, it usually impacts low to moderate income communities more and they have been seeing a significant uptick in outreach from predatory lenders," said Carolina Martinez, chief executive officer of CAMEO, California's statewide micro-business network.

The Goldman survey also said Black-owned businesses were struggling even more for access to capital. It said 32% of Black-owned businesses that applied for loans secured one, compared to about 47% of white small business owners. In addition, 86% of Black-owned businesses were concerned about having access to capital.

In the past year banks have pulled back on lending to both consumers and businesses.

The Fed's quarterly Senior Loan Officer Opinion Survey released in January showed more banks tightening lending standards for small firms than loosening them, though not to the degree seen over the previous several quarters. Still, the net share of banks offering more stringent loan terms for smaller businesses was more than twice the historic average since 1990.

US small business sentiment in January fell to its lowest since May 2023, as labor costs and slowing sales squeeze bottom lines, according to a report published by the National Federation of Independent Business last month. Small businesses have also been finding it difficult to access credit at a time when inflation has remained high. — ***Reuters***

Investors push Zara owner Inditex to publish its full supply chain

LONDON — Investors want Zara owner Inditex to follow rivals H&M and Primark in making its full list of suppliers public so they can better assess any supply chain risks.

Inditex is an outlier among big clothing retailers in not publishing which factories it sources from. Regulators and investors want greater transparency and better disclosure from companies.

Clothing retailers, in particular, are under pressure to prove that there is no forced labor in their supply chains, and that garment workers are paid decent wages.

Chinese fashion group Shein has come under scrutiny from US lawmakers over supply chain risks ahead of plans for a US listing.

In the European Union, disagreements have stalled proposed rules that would require all big companies to disclose whether supply chains harm the environment or use child labor. Proposed sanctions for not complying could include fines of 5% of revenue.

Fashion brands and retailers, including Adidas, H&M, Hugo Boss, M&S, Nike, Primark, and Puma, already publish detailed supplier lists, including factory names and addresses.

Inditex publishes annually the number of suppliers it sources from in 12 core countries, but gives no information on individual factories.

Reuters asked Inditex shareholders what they wanted to see from the company in terms of improved disclosure.

In response, Dutch asset manager MN said: "In our engagement with Inditex one of the things we ask is if they could disclose a list of their suppliers and the geographical location."

"Even though Inditex assures us that they have this data available, up until now Inditex is not willing to disclose this information unlike some industry peers who publish extensive supplier lists."

MN, which manages Dutch pension fund assets, said it was important to have this insight to show whether Inditex has this information available, as well as for its own due diligence.

MN leads the Inditex dialogue for Platform Living Wage Financials (PLWF), a group of 20 institutional investors with combined assets under management of €6.58 trillion ($7.16 trillion). It works to promote higher income for garment and footwear industry workers.

Inditex, set to publish annual results on March 13, declined to comment on investors' demands for it to publish its full supplier list.

"Inditex has a deep commitment to maintaining high standards in its supply chain, and believe that our industry-leading traceability system, which gives us maximum visibility of the supply chain, is key to this," an Inditex spokesperson said.

Inditex founder Amancio Ortega holds a 59% stake in the company, with a 5% stake held by daughter Sandra Ortega. Together they are worth about $69 billion.

The five Inditex investors who responded to Reuters' questions hold a combined stake of worth around $2 billion in the company, whose current valuation is about $140 billion.

None of the investors Reuters spoke to are considering divesting from Inditex.

MN said it advised its clients in December to divest from off-price retail chain TJX, which owns Homesense and TK Maxx, and they were divested as of Jan. 1.

"Over the more than three years of engagement we have seen very little improvement on human rights due diligence in their global supply chain," MN told Reuters.

TJX said it has strengthened its vendor code of conduct and its factory auditing programme in recent years.

MORE TRANSPARENCY

Inditex has an agreement with global trade union federation IndustriALL under which it provides it with its full list of suppliers. But IndustriALL wants wider disclosures from all companies, including Inditex, it said.

Know The Chain, a benchmarking initiative for companies and investors to address forced labor in supply chains, gave Inditex a lower overall score in its 2023 assessment than its 2021 assessment.

"The company is encouraged to strengthen its supply chain transparency by disclosing a full, rather than partial, list of its direct suppliers," Know The Chain said.

Publishing its factories could bring more competition from Inditex rivals for the same suppliers, investors say.

Swetha Ramachandran, portfolio manager at Artemis Investment Management in London, wants to know what share of Inditex revenues is manufactured in each different supplier country. "It would help us determine their supply chain resilience," she said.

Inditex's published supply chain figures since 2019 show the company has cut suppliers in China and increased them in Bangladesh and Morocco. But it gives no details on the amount of products it buys from those suppliers.

Grace Su, portfolio manager at Clearbridge Investments, which holds Inditex shares, said she has asked for more clarity and supply chain disclosure.

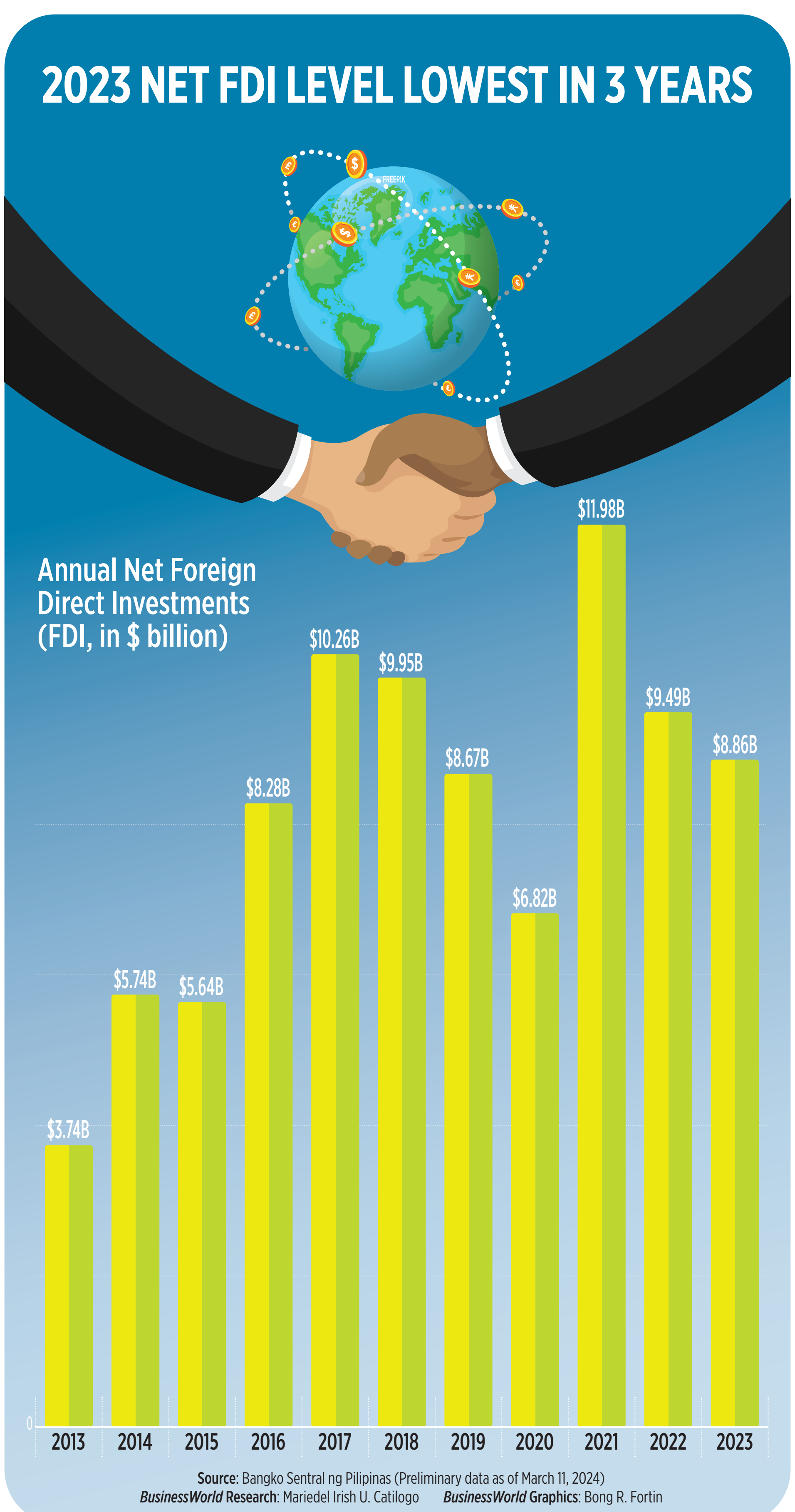
"It's very important because of all the scrutiny around ESG, and labour, and inputs. They claim to be a leader in this so it's really important for them to actually have that level of disclosure."

Inditex shareholder Schroders tracks companies' awareness of manufacturing sites, and encourages apparel retailers, including Inditex, to be transparent, said Hannah Shoesmith, head of engagement at the firm.

Improved disclosure, among other environmental, sustainability and governance factors, could influence investment decisions, Marie Payne, responsible investment officer at Inditex shareholder Cardano, said.

Norway's sovereign wealth fund, which has a $1.4-billion stake in Inditex, said it engages regularly with the company on supply chain risk management, human rights and transparency.

It declined to give details of those discussions. The fund said regarding companies' supply chain practices in general that "there are continued challenges, including when it comes to traceability and reporting." — ***Reuters***



Treasury, DoF appointees announced

PRESIDENT Ferdinand R. Marcos, Jr. has appointed former Deputy Treasurer and World Bank Officer Sharon P. Almanza as the new national treasurer, replacing Rosalia V. de Leon, who is now a Monetary Board member.

Mr. Marcos also appointed two new undersecretaries and one assistant secretary for the Department of Finance (DoF), as well as two new directors for the Information Management Service, the DoF said in a statement on Monday.

Ms. Almanza had been officer-in-charge at the Bureau of the Treasury, having served as deputy treasurer.

She was also seconded to the World Bank Group between 2021 and 2023 as the alternate executive director and senior advisor for the Constituency of Brazil, Colombia, Dominican Republic, Ecuador, Haiti, Panama, Philippines, Suriname, and Trinidad & Tobago.

Ms. Almanza has also held positions in the DoF as the division chief for Debt and Risk Management and Multilateral Assistance for the International Finance Group (IFG).

Mr. Marcos also appointed Rolando G. Tungpalan as the finance undersecretary for the Corporate Affairs and Strategic Infrastructure Group.

Mr. Tungpalan will be in charge of fast-tracking the rollout of the Build Better More program by addressing bottlenecks and helping create a conducive environment for investors.

He had served as undersecretary for Investment Programming at the National Economic and Development Authority (NEDA), chairing the Technical Boards of the Investment Coordination Committee and the Infrastructure Committee of the NEDA Board.

He was also the primary government representative for multilateral and bilateral programming of official development assistance, leading negotiations and high-level consultations.

Joven Z. Balbosa was appointed undersecretary for the International Finance Group (IFG), where he will be in charge of securing foreign development financing and formulating policy related to prudent external resource mobilization.

He will also head the collaboration of the DoF with other government agencies on international agreements covering trade, investments, and tax treaties.

Mr. Balbosa had served as advisor to the Southeast Asian Department of the Asian Development Bank and as an economist at the World Bank.

Gerald Alan A. Quebral was appointed assistant secretary for the Revenue Operations Group, tasked with overseeing Bureau of Internal Revenue (BIR) operations to ensure adequate revenue collection.

Mr. Quebral was previously the executive director of the Congressional Oversight Committee on Comprehensive Tax Reform Program in the Senate and House of Representatives.

He also spent almost 20 years as a revenue officer in various BIR divisions. — **Aaron Michael C. Sy**

House plenary awaits new MSME lending quotas bill

A SUBSTITUTE House bill extending by 10 years the lending quota for micro, small and medium enterprises (MSMEs) and de-emphasizing the need to provide collateral is currently awaiting plenary discussion.

House Bill (HB) No. 10049, which remained with the House Committee on Rules as of last week, seeks to further support the growth of MSMEs with new chapters and revisions to Republic Act 6977, or the Magna Carta for MSMEs law.

The amendments seek to address the mandatory allocation of credit resources to MSMEs by lending institutions, which had expired in June 2018.

"There is the need to strengthen and enhance the financing and other support programs for MSMEs," according to Misamis Oriental Rep. Christian S. Unabia, who chairs the House Committee on MSME development.

Mr. Unabia told *BusinessWorld* in a Viber message that the amendments specify that lending institutions should "allocate 10% of their total loan portfolio" for MSMEs for an additional 10 years, stipulating however that "only a maximum of 3% thereof shall be the allocation for medium enterprises."

The amendments also require lending institutions to "actively support and participate in programs" that could enable the growth of MSMEs. — **Kenneth Christiane L. Basilio**