Access to Finance Spotlight: UK findings

Research report
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Contents

Summary of key findings

Current landscape

- The demand for finance was thought to be strong amongst SMEs at all development stages across the UK, largely as a result of the Covid-19 pandemic. Respondents were most likely to say that demand was strong among SMEs surviving in uncertain times (90%), while they were the least likely to say that demand was strong among SMEs consolidating success (57%).
- Start-ups have increased in number in 2020 and demand among start-ups was thought to be high. Similarly, respondents felt demand was high among scale-ups, who would be looking to expand and grow as they move out of the pandemic. Notably, sectoral differences were seen to play a key role in the variation for demand.
- Despite high demand, most respondents felt this was not matched by the available supply of finance. Eight in ten respondents (79%) agreed there were gaps in the supply of finance in their region or nation, especially for early stage equity, growth stage equity and debt finance. Risk-aversion amongst banks was cited as a key barrier to the supply of finance.
- Lack of awareness of the range of finance options available was a key theme in this research. Respondents felt SMEs tended to be focused on debt finance options and more traditional lenders when seeking finance, especially earlier stage and smaller SMEs who would also find it more difficult to demonstrate viability and experience to lenders. These findings are supported by the SME Finance Survey which found similar awareness problems.

Evolving financial landscape

- Four in ten respondents (41%) said that SMEs had taken on too much debt due to the Covid-19 pandemic, and 69% thought SMEs were not well-equipped to reduce their debt burden over the next 12 to 18 months, reflecting their challenges coming out of the pandemic.
- Respondents felt that SMEs' demand for finance would remain high over the next 12 to 18 months, especially for debt finance, growth stage equity, early stage equity and alternative finance.
- There was optimism about the supply of finance increasing. Respondents thought most forms of private sector SME finance would be more likely to increase than decrease over the next 12 to 18 months, especially alternative finance and growth stage equity. However, a relatively large proportion expected the supply of debt finance to decrease, which was seen to be driven primarily by the big banks.

Enhancing the ecosystem

- Respondents' views were mixed on the adequacy of the finance ecosystem to support SMEs at various development stages within their region or nation. The ecosystem was often described as 'patchy' during the qualitative interviews, particularly in the context of supporting start-ups and scale ups.
- Lack of SME awareness of resources available was a concern among respondents. For example, over three in five (64%) respondents said that SMEs in their region or nation were not

confident in their knowledge of where to obtain information on the types of finance and specific providers available.

- Awareness of specific finance options and providers was also thought to be low, particularly when it comes to equity or alternative finance. This could perhaps be explained by the feedback on SMEs' reluctance to seek professional advice and a perceived gap in the delivery of financial advice provided by both the public and private sector.

ESG and net zero

- Respondents' were split on the importance of ESG and net zero for SMEs and suggested that businesses have a limited knowledge and understanding of the meaning and implications of these.
- Additionally, access to specific finance that SMEs needed to realise their ESG and/or net zero goals was seen as limited. Among these respondents, the most often cited reason for that was lack of awareness among SMEs of where to find the information about their finance options.
- This was also raised during the qualitative interviews, closely linked with a more general lack of understanding of these issues as a whole. As such, awareness raising and educating SMEs about ESG and net zero was identified as a crucial step towards filling the finance gap.

Methodology

British Business Bank (BBB) commissioned Ipsos MORI, an independent market research organisation, to conduct research among SME intermediaries who have been previously in contact with BBB's UK Network (UKN). In addition, the survey included the wider intermediary population by engaging with national stakeholders that represent intermediaries across the UK. Intermediaries were broadly defined as those who serve and support SMEs in their finance needs (e.g. accountants, banks, legal professionals). The research involved an online survey of 511 SME intermediaries, and 36 follow-up one-on-one qualitative interviews with survey respondents. The research took place between 23rd February and 30th March 2021.

The research findings were shared at a series of UKN-hosted regional round-table events during April and May 2021, providing an opportunity for intermediaries to discuss and respond to the findings from their region or nation.

Current landscape

This section describes respondents' views of the current landscape for SME finance in their region or nation at the time of the research.[1] The section covers respondents' views of the level of demand for finance; how well this demand is currently met by the supply of finance from different sources; and views of the factors influencing this for SMEs at different development stages and across sectors.

Demand for finance

Demand for finance was described as strong across SMEs in all development stages. Nine in ten (90%) said there was **strong demand among SMEs surviving in uncertain times**, and there was a view among respondents in the qualitative interviews that government loans had been largely successful in meeting this demand by making these loans widely and easily accessible. This is also supported by findings from the SME Finance Survey, which has seen an increase in demand among SMEs with three in five (60%) firms across the UK saying they have been seeking some form of external financial support in the three years to 2020 compared to 44% in 2019.

The role of the pandemic in driving demand was raised in the qualitative interviews, where respondents noted not only the unprecedented amounts of finance made available through the government loan schemes, but also the variety of ways SMEs were using these loans. They reported SMEs using government loans to survive, to pay off existing debts, to pivot their offers or expand their business to exploit new opportunities, or to build up reserves given the economic uncertainty created by the pandemic.

Respondents felt the most likely reason for SMEs taking on finance over the next 12 to 18 months was surviving through the pandemic (83%), followed by company expansion (75%) and rolling over existing finance commitments (65%).

"When you get to the survival stage, this has been swamped by Covid-19-related demand, and that has been very adequately funded by the government."
Financial advice respondent

Over eight in ten said there was **strong demand for finance among SMEs who were starting up and scaling up** (84% and 81%, respectively), in line with analysis from the Centre for Entrepreneurs showing new business formations in the first nine months of 2020 were 9.5% higher than the same period in 2019.[2] Respondents thought **SMEs in these development stages naturally had a higher demand for finance**. They felt start-ups would always need finance to develop and commercialise

[1] Interviews took place from 23rd February - 21st March 2021.
[2] https://www.enterprisenation.com/learn-something/rise-in-startups-during-coronavirus/

products or services and to establish themselves, while scale-ups would need finance to expand their networks, teams and sales over an extended period of time.

Demand was seen to be lowest among SMEs consolidating success, with only 57% saying it was strong and 33% weak. In the qualitative interviews, respondents felt this might be because SMEs consolidating already had financial arrangements in place, had gone through their technical development, and had a product or service on the market. These SMEs would therefore not be at a stage where demand for finance was as strong, and they might not need finance if they already had sufficient cash.

"[Some SMEs] have taken the government-backed debt and repaid their more expensive borrowing … SMEs at the moment are sitting on their hands, trying to spend as little as possible, knowing that when business resumes, reality will kick in."
Financial advice respondent

Although demand for finance was strong overall across the UK, 79% agreed that **demand varied considerably between the business sectors they worked with**. Similarly, respondents in the qualitative interviews reported the impact of the pandemic on sectors such as leisure, hospitality and tourism was severe, while other sectors, such as technology and online retail, had found opportunities for growth. Some businesses had also been more successful than others in pivoting towards the opportunities presented by the pandemic, for example some retailers had been able to move quickly to online trading, while others had not.

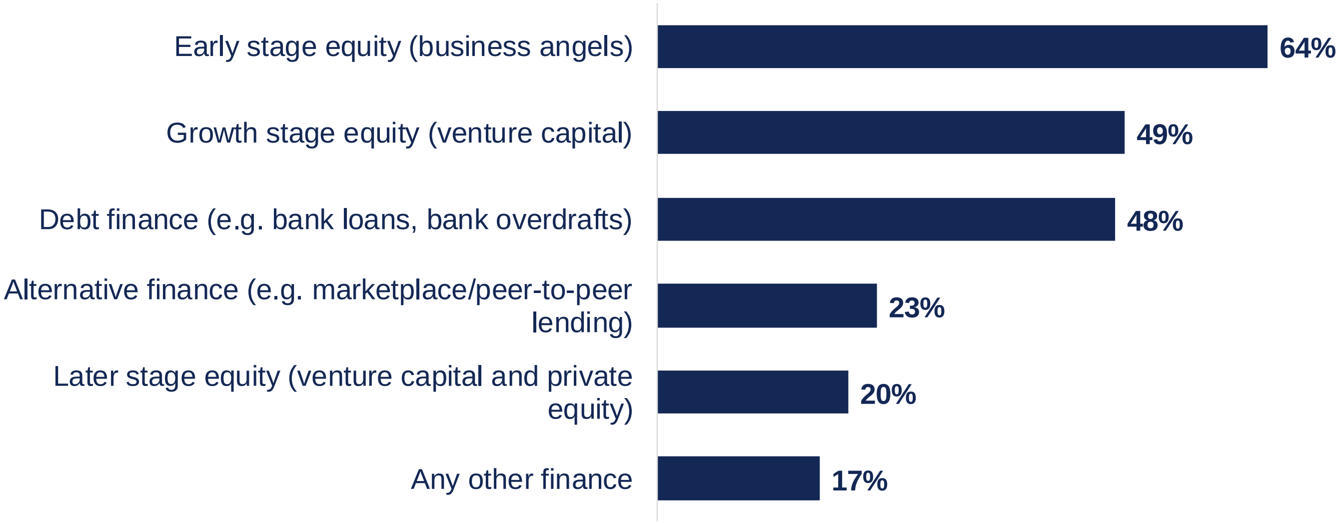
"Hospitality will still be in survival mode, it will still need a lot of help. Same for people with shops, or landlords. But tech will not change, or those who have successfully moved to online trading."
Financial advice respondent

Gaps in the supply of finance

Most respondents felt that demand for finance was not matched by supply, perhaps due to heightened demand as a result of the Covid-19 pandemic, also seen in the findings of the SME Finance Survey. Six in ten respondents (59%) said **demand for finance exceeded supply**, and eight in ten (79%) agreed **there were gaps in the supply of finance in their region or nation** (only 12% disagreed).

Early stage equity (64%), growth stage equity (51%) and debt finance (49%) were the types of finance respondents were most likely to identify as having gaps (see Figure 1). Business finance providers were particularly likely to mention debt finance (59%).

Figure 1. Gaps in the supply of different types of finance



Base: All respondents that agree there are gaps in the supply of finance for SMEs in their region or nation (n=405)

In the qualitative interviews, respondents said that **risk aversion amongst high street banks was a major reason for gaps in supply,** and that this has been increasing over recent years.

"You can't rely on banks for any of those development stages because banks do not take risks, they are not allowed to take risks anymore. They are risk averse."
Financial advice respondent

In interviews, respondents identified several reasons for banks being risk averse. First, they felt banks were reluctant to lend to SMEs because of the **amount of debt SMEs had taken on during the pandemic**. Second, respondents anticipated a great deal of **economic uncertainty** coming out of the pandemic, making it harder for SMEs to make financial forecasts. Without such forecasts, respondents felt banks would be reluctant to offer finance. While this issue existed before Covid-19, the pandemic has exacerbated the problem.

There were also some respondents who reported that the **closure of local bank branches** meant relationships between branch managers and local businesses were not as close as they previously were. This meant the banks' understanding of SMEs might be less detailed or nuanced, leading to increased hesitancy to lend. These respondents felt the impact of this was greatest in more rural or deprived areas. For example, one respondent noted that more deprived areas tended to have higher start-up rates and demand but also higher business mortality, while other respondents noted that rural areas naturally have less dense ecosystems. This suggested SMEs in such areas had less access to advice and support, and were more reliant on relationships with their local bank branches.

"In more deprived areas you tend to get higher start-up rates, and also higher business mortality rates, because what happens is that people find a job and a job is seen to be more secure than running your own business."
Financial advice respondent

Some respondents suggested that **risk aversion amongst traditional lenders particularly impacted early stage SMEs' access to finance** because these SMEs were less able to demonstrate profitability. Consequently, funders and investors considered early stage SMEs more risky, compared to more established SMEs, although there were exceptions for high-growth sectors like technology. **Gaps were also highlighted in the supply of early stage equity**, and 64% of respondents thought that there were gaps in early stage equity supply. In the qualitative research, respondents highlighted lack of understanding and awareness of options other than debt finance, and lack of a proven track-record, as key barriers to supply of early stage equity.

"Historically, start-ups have found it difficult [to access finance] and that landscape hasn't materially changed. That is where most of the risk is for funders. That is not an easy solve."
Finance provision respondent

In contrast, there were respondents who felt the supply of finance for early stage SMEs was good, as SMEs starting up had access to many enterprise loans. They felt **there was a gap in supply for more mature SMEs**. They thought SMEs scaling up often needed larger amounts of finance over longer periods of time, so these SMEs might struggle to find finance from risk averse lenders.

"It's the mature growth businesses who are having difficulties in finding funding."
Financial advice respondent

Gaps in the supply of other types of finance were less likely to be mentioned, although in Northern Ireland, gaps in later stage equity were mentioned almost twice as much as in the UK overall (38% versus 20%, respectively).

Respondents felt **some sectors were more likely to be impacted by gaps in the supply of finance than others**. The most likely were production (mentioned by 64% of respondents) and business services[3] (57%), followed by other services (47%), construction (43%) and distribution (43%). These findings were consistent by region, except that respondents in Northern Ireland were more likely than average to say that the construction sector would be impacted (61%). In the qualitative interviews, one respondent reported that construction SMEs in the south of Northern Ireland were particularly impacted by EU Exit, as these firms were very exposed to cross-border trade and Irish businesses.

In the qualitative interviews, respondents also described some sector variation, saying SMEs in sectors like tourism and leisure, which had been particularly affected by the pandemic, were finding it more difficult to access finance than SMEs in sectors regarded as more promising, such as technology.

"[There are] a number of sectors that the banks don't like, particularly hospitality and tourism at the moment."
Financial advice respondent

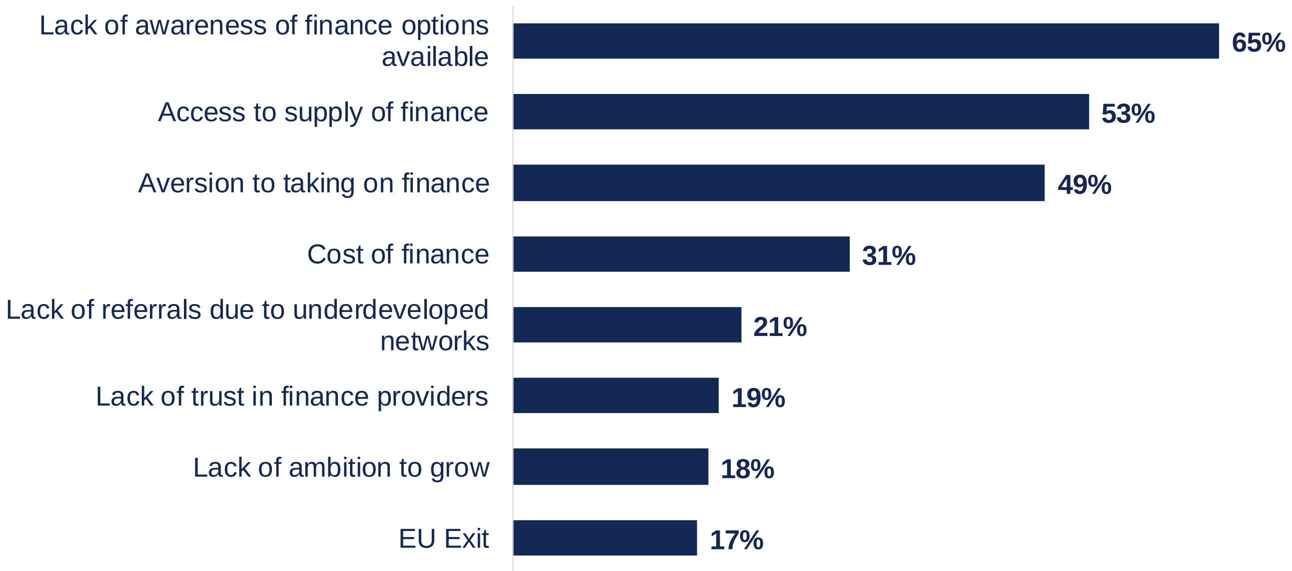
[3] Business services include information technology and communications; financial and insurance services; real estate activities; professional, scientific and technical services; and administrative and support services.

Barriers and enablers to demand and supply

Lack of awareness of the range of finance options available was a key theme in both the qualitative and quantitative research.

Survey respondents thought that **the top three barriers to demand for finance** since March 2020 (aside from the Covid-19 pandemic) were **lack of awareness of options available** (mentioned by 65%), **access to supply of finance** (53%) and **aversion to taking on finance** (49%). This is shown in Figure 2.

Figure 2. Biggest barriers to demand for finance since March 2020 aside from the Covid-19 pandemic (top three mentions)



Base: All respondents (n=511)

In the qualitative research, respondents noted that many SMEs lacked awareness of the available options, and tended to be focused on debt finance options and traditional lenders. In particular, earlier stage or smaller SMEs were considered unlikely to have the relevant financial expertise in-house or unlikely to be able to afford to get relevant financial advice.

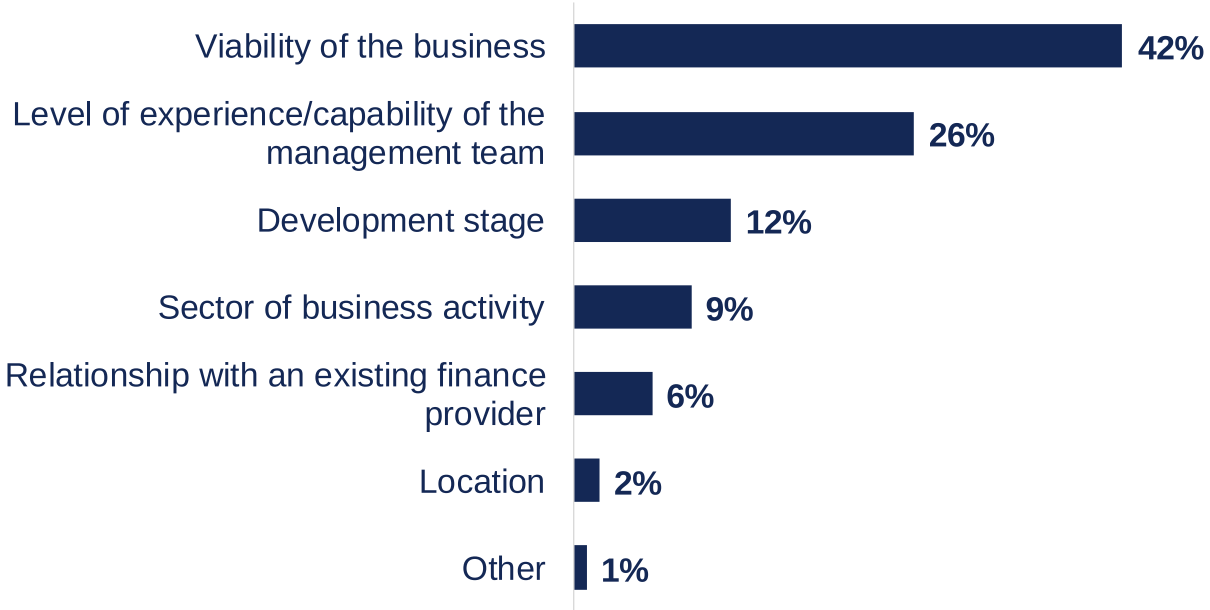
"[There is] a lack of knowledge, outside of banks, in terms of where to go for second stage funding … It is phenomenally time-consuming to go through second stage funding processes. If you have to wait four or five months for money, it's too late. Those businesses will stagnate."
Financial advice respondent

Respondents in the qualitative interviews also reported **these factors interacted in complex ways**. For example, one respondent described a 'chicken and egg' problem, where a (real or perceived) lack of supply of finance means there is not much demand for finance among SMEs, which in turn does not attract further supply to the region or nation.

In **some regions, survey respondents felt demand for finance among start-ups was significantly weaker than the UK average**, with 31% of West Midlands respondents saying demand was weak, followed by Wales (25%), the North West (21%) and the South East (21%) (versus 11% for the UK overall). This could contribute to weaker demand in the long-term from these regions if there is a reduction in the start-ups turned scale-ups within the ecosystem.

Survey respondents said that **the main factors influencing SMEs' success in obtaining finance** were **the viability of the business** (42%) and **the level of experience or capability of the management team** (26%). These factors were seen as more important than the development stage (12%), the sector (9%), their relationship with an existing finance provider (6%) and their location (2%).

Figure 3. Most important factors that may influence SMEs' success in obtaining finance



Base: All respondents (core survey) (n=303)

However, as respondents in the qualitative interviews noted, **business viability and the level of experience or capability of the management team would probably depend to some extent on factors like development stage, sector and location**, for example, earlier stage SMEs in high risk sectors like tourism in rural or tourist hotspots.

"If you're at an early stage, you are struggling to get debt because you have no trading history … Debt-wise, once you're trading it's not too bad. If you're trading and you're trading reasonably well, you should get [debt] funding."
Financial advice respondent

From this perspective, it is interesting to note that survey respondents in the South West were more likely than average to say the development stage was an important success factor (24%), while those in London and the South East were more likely than average to see business sector as important (18%).

The issues with obtaining finance mentioned above were felt to be **particularly difficult for start-ups**, who were considered more likely to be unable to demonstrate viability or experience, or who might need more time to establish themselves.

"Start-up businesses need to be able to click into gear very quickly and need to be making margin probably within a three-year period. [Without business start-up loans] we will find that SMEs who have taken a risk will struggle and ultimately go under."
Financial advice respondent

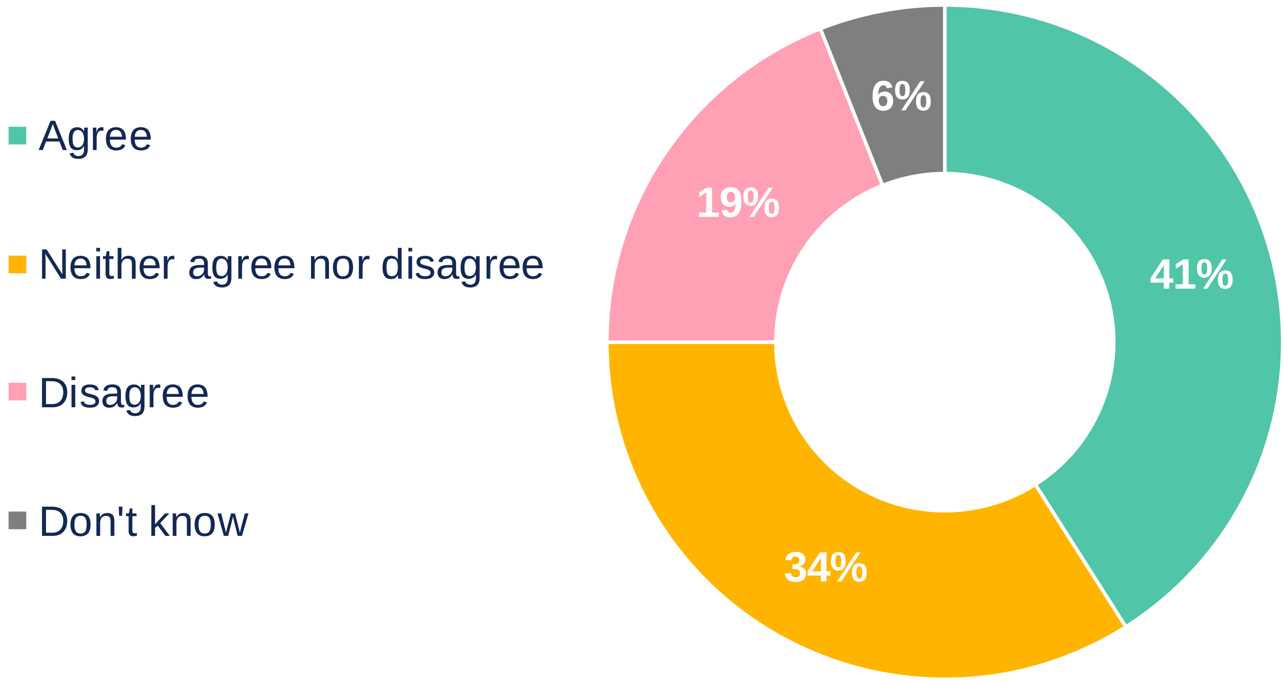
Evolving financial landscape

This section describes respondents' views of the evolving landscape for SME finance in their region or nation at the time of the research.[4] The section covers respondents' expectations about the supply of and access to different types of finance in the next 12 to 18 months. This is set against the background of SMEs taking on record levels of debt using the Government-backed loan schemes.

Impact of Government-backed loan schemes on the future financial landscape

There was a strong consensus that **SMEs were reliant on the Government-backed finance schemes** introduced in response to the Covid-19 pandemic. This had led to concern among respondents about the amount of debt taken on by SMEs. Around four in ten respondents (41%) thought **SMEs had taken on too much debt due to the Covid-19 pandemic**, while only 19% disagreed (see Figure 4).

Figure 4. SMEs in respondents' region or nation have taken on too much debt due to the Covid-19 pandemic



Base: All respondents (core survey) (n=303)

Two in three respondents (67%) agreed that **SMEs who had taken on finance due to the Covid-19 pandemic were aware of the impact of additional repayments on their business**, while 23% disagreed. However, **only 25% of respondents thought SMEs in their region or nation were well-**

[4] Interviews took place from 23rd February - 21st March 2021.

equipped to reduce their debt burden over the next 12 to 18 months. The majority (69%) said they were not well-equipped. This might reflect the challenges facing SMEs coming out of the pandemic.

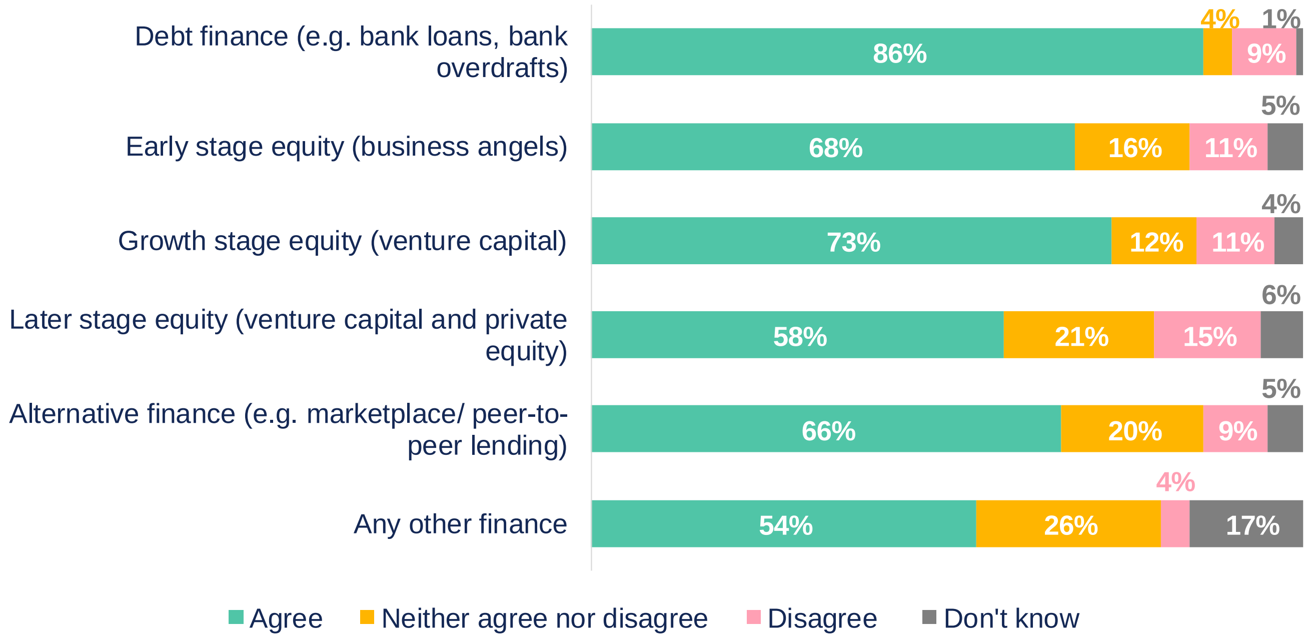
"[Once the Government schemes come to an end] there's going to be a short, sharp and sudden shock. We will see a sudden loss of what I call 'zombie' companies, because they will not be able to raise loans under normal circumstances. Therefore, there will be a lot of business closures."
Financial advice respondent

SMEs themselves seemed somewhat more optimistic: according to the SME Finance Survey 2020, **only 25% of SMEs said they were concerned about their ability to make full repayments when these become due** (compared to 67% who said they were not concerned)[5].

Expectations for demand for finance

As a result of the pandemic, respondents felt that **SMEs' demand for additional finance would remain high during the next 12 to 18 months**. Almost nine in ten respondents (86%) agreed that **SMEs would require additional debt finance** during this period, while 73% said **there would be a need for more growth stage equity**, and 68% said **there would be a need for more early stage equity** (see Figure 5). **Respondents in Scotland were more likely to expect additional demand for early stage equity (81%), compared to the UK average.**

Figure 5. Proportion of respondents who agree/disagree that SMEs in general will require additional finance due to the Covid-19 pandemic during the next 12 to 18 months



Base: All respondents (n=511)

Respondents in the qualitative interviews drew a **distinction between SMEs that had struggled during the pandemic, and those that had not**. For the SMEs that had struggled, for example, early

[5] The difference in views may be impacted by fieldwork timings.

stage SMEs who failed to get Government-backed loans because they could not demonstrate loss of earnings or SMEs in hard-hit sectors like tourism and hospitality, respondents expected there to be strong demand for finance in the future as these SMEs try to restart their businesses. In such cases, demand would be driven by the **transition from survival to recovery**. There was also an expectation among respondents that increased unemployment due to the pandemic would continue to drive an increase in new start-ups and consequently in demand for start-up funding (as seen in the chapter 'Current landscape').

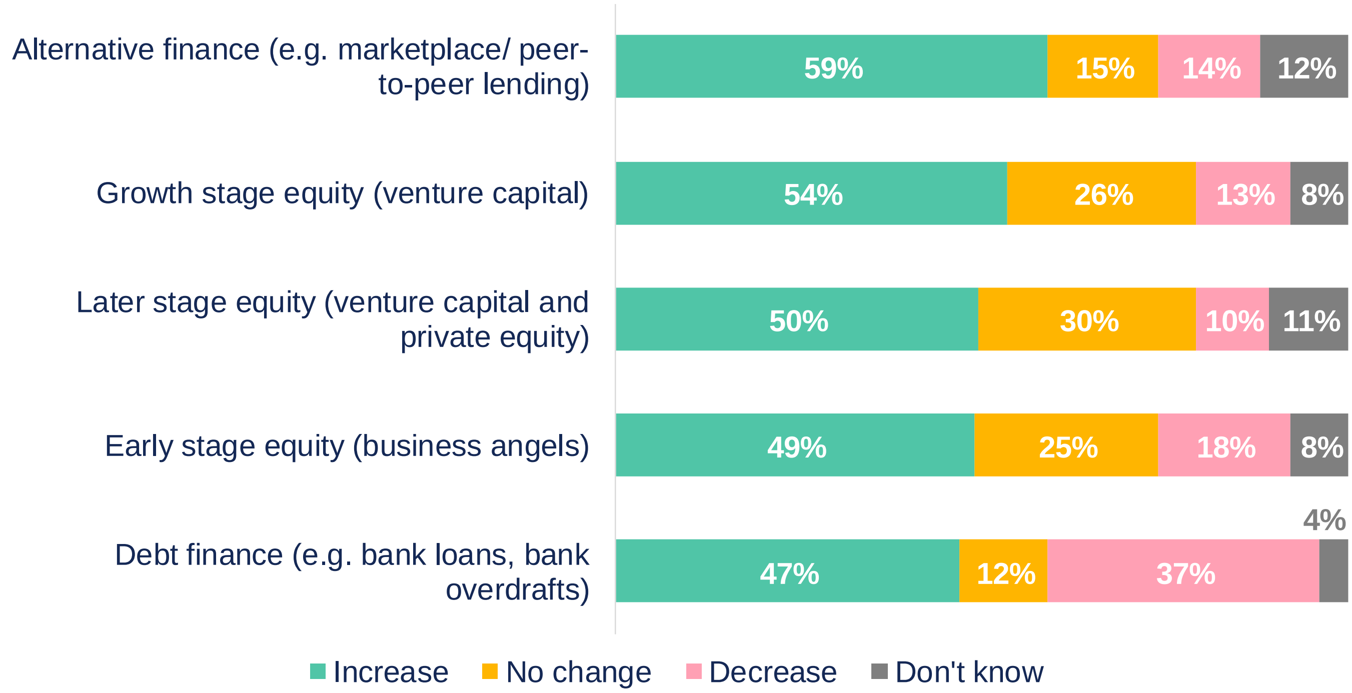
"Over the past year, there has been significant growth in start-up loans, driven by people being made unemployed, anticipating unemployment, or using time to reassess what they want to do … Whenever there is a sharp downturn, demand goes up."
Finance provision respondent

However, for the SMEs that had survived well during the pandemic, respondents expected **demand to be driven more by growth**, for example, using debt finance for capital investment or growth stage equity to develop new products or services, which would typically require larger amounts of funding over longer periods of time. Respondents also noted that many SMEs had taken government-backed loans as a precaution but had ultimately not used them. These SMEs were felt to be in a good position to pay off these loans and think about growth.

Expectations for supply of finance

Overall, respondents tended to be optimistic about the supply of finance increasing. They thought that most forms of **private sector SME finance supply were more likely to increase than decrease over the next 12 to 18 months**. This was most pronounced for alternative finance (59% increase and 14% decrease) but was also seen for early stage equity (49%, 18%), growth stage equity (54% and 13%), and later stage equity (50% and 10%). This is shown in Figure 6.

Figure 6. Expectations of change to private sector SME finance supply over the next 12 to 18 months



Base: All respondents (n=511)

"Come to the end of the Government-backed schemes, they will all have to be repaid … so I think there will be a pick-up [in demand] and organisations will experience a reasonable supply. I don't see supply from financial organisations drying up."
Financial advice respondent

However, **there were respondents in the qualitative interviews who expected delays in the supply of finance** as a result of the ongoing effects of the pandemic. They felt this would impact on cashflow for surviving SMEs and would inhibit the growth of scale-ups. However, **it appeared that EU Exit was not having a noticeable negative effect on the supply of finance**, according to respondents.

Respondents were not as optimistic about **debt finance since a relatively large proportion expected supply to decrease in the next 12 to 18 months** (47% increase versus 37% decrease). As we have seen, 49% of respondents thought there was already a gap in the supply of debt finance and 86% thought SMEs would require additional debt finance during the next 12 to 18 months. This suggests that gaps in supply for this form of finance may grow.

This was echoed among respondents in the qualitative interviews, where **there was a view that SMEs would have difficulty obtaining debt finance in the next 12 to 18 months** due to the recent increases in debt finance from the government Covid-19 loans schemes, the risk aversion of banks, and the high levels of economic uncertainty created by the pandemic.

"The lack of ability to raise debt finance on the back of having over-borrowed during the pandemic means there will be an increasing requirement for equity finance."
Finance provision respondent

Respondents tended to be optimistic about the supply of equity and alternative finance increasing. They felt that the expected **difficulty in obtaining debt finance and need to reduce debt burden might encourage SMEs to seek other sources of finance**. This might explain why 59% of respondents expected demand for alternative finance to increase.

"We may well see further growth from businesses who can't get funding from the larger lenders … There will be significant shifts between lenders – traditional will be risk averse, and alternative or additional lenders will see a growth in demand and an appetite to grow."
Finance provision respondent

As mentioned in the chapter 'Current landscape', respondents felt banks were less willing to supply finance to SMEs even before the pandemic, which might explain the perceived increase in available finance options. **There was an expectation in the qualitative research that banks would become increasingly risk averse in the future**. This was thought to be a key driver of change in the financial landscape.

"I think in terms of where you can go for funding, there are probably more choices now."
Financial advice respondent

There were some regional differences in expectations concerning supply of finance, likely to result from varying provision and SME finance ecosystems across regions. Respondents were more likely to expect debt finance supply to increase in the West Midlands (67%), East (62%) and South West (60%), while those in the North West were more likely than average to expect an increase in the supply of early stage equity (71%), growth stage equity (68%) and later stage equity (69%). Respondents in Yorkshire and Humber were also more likely than average to expect the supply of early stage equity to increase (67%). By contrast, respondents in Northern Ireland were more likely than average to expect a decrease in the supply of growth stage equity (34%) and later stage equity (21%).

Expectations also varied by type of provider. Organisations providing finance advice were more likely than average to expect an increase in early stage equity (53%) and growth stage equity (59%), while those in the finance provision category were more likely than average to expect a decrease in debt finance supply (47%), early stage equity (23%) and growth stage equity (17%).

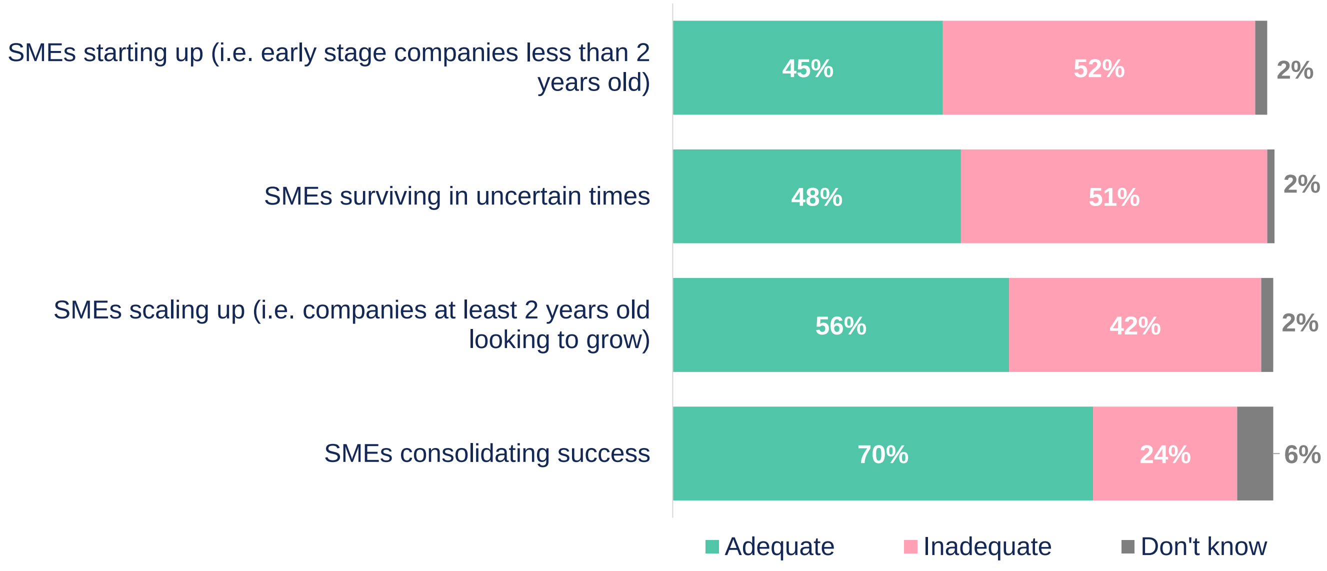
Enhancing the ecosystem

This section covers respondents' views of the state of the SME finance ecosystem[6]. It summarises perceptions of the adequacy of the ecosystem to meet SMEs' needs, and of SMEs' ability at various development stages when it comes to navigating the ecosystem. In addition, it looks at the impact of Covid-19 on the ecosystem, and respondents' expectations of changes to the ecosystem over the next 12 to 18 months.

Adequacy of the finance ecosystem for SMEs

In both the quantitative and qualitative research, respondents' **views were mixed on the adequacy of the finance ecosystem to support SMEs at various development stages**. Respondents were divided on whether the ecosystem was adequate to support SMEs starting up (45% said it was adequate and 52% inadequate), SMEs surviving in uncertain times (48% and 51%) and SMEs scaling up (56% and 42%). Respondents were more likely to be positive about the adequacy of ecosystems to support SMEs consolidating success, with seven in ten (70%) saying it was adequate, compared to a quarter (24%) who said it was inadequate. This is shown in Figure 7.

Figure 7. Perceptions of the adequacy of the finance ecosystem in region/nation to support SMEs



Base: All respondents (n=511)

Across the UK nations and regions, respondents in Scotland were more optimistic than the UK overall on the adequacy of the ecosystem for SMEs starting up (63%) and surviving in uncertain times (65%), while those in the Midlands, across both East and West, were more likely than the UK average to say the ecosystem was adequate for SMEs surviving in uncertain times (55%). Respondents in the South

[6] This was defined as the range of actors that are involved in the finance journey for businesses, including lenders, funders, advisors, entrepreneurs and business networks.

West were more likely than average to say the finance ecosystem was adequate for SMEs consolidating success (85%).

"Broadly speaking, the financial ecosystem in Scotland is pretty good. it goes back to the quality of those involved. There are lots of competitions and grants. The networks are reasonably well integrated."
Financial advice respondent

Mixed opinions about the adequacy of the system across the UK were echoed in the qualitative interviews. While most respondents were generally satisfied with the number and variety of actors in their local ecosystems, **concerns were often raised over how accessible and well-suited the system was to support SMEs at each development stage**. As a result, respondents often described their local finance ecosystem as 'patchy', **particularly when it came to its adequacy to support start-ups and scale ups**.

"It can be difficult for businesses who are looking to finance the next stage after start-up, because whoever is lending money will put a lot more emphasis on the firm's finances than they did at the first stage."
Finance provision respondent

The need for more educational support and sound, impartial advice for SMEs was frequently cited during discussions about the fitness of the ecosystem.

Furthermore, whilst they were positive overall about the way their local referral networks worked, it was frequently mentioned that these may be less accessible for businesses in remote areas. These **rural and urban differences** were frequently noted during the interviews, with respondents often mentioning a tendency among lenders to prioritise building relationships with businesses in urban areas. For example, respondents in Yorkshire, Humber and the Tees Valley were **more likely to identify a lack of referrals due to underdeveloped networks** as a barrier to SME demand for finance, than in the UK overall (33% versus 21%, respectively). These networks were felt to be worse outside of the main cities such as Leeds and Sheffield.

"Ecosystems are most effective where they get to a critical mass and people are naturally drawn to it. […] That is where you start to suffer when you go out further. […] As you go out from the centre you tend not to have as powerful an ecosystem."
Finance provision respondent

Four in ten respondents (40%) felt that adequate access to finance support was available for those looking to start their own business in their region or nation. Around half (52%) thought that access to this type of support was not adequate, and the remainder (9%) did not know. **The accessibility of the ecosystem for start-ups was often questioned during the qualitative interviews**, although respondents suggested that as businesses mature, their knowledge and networking ability tends to rapidly expand.

"If they are a relatively small company and haven't had the necessary experience, that's where the lack of understanding is or lack of access is."
Financial advice respondent

SMEs' ability to navigate the ecosystem

Lack of awareness and the need to educate businesses also emerged during discussions about SMEs' ability to navigate their local ecosystem. This was a frequently cited barrier when it came to the level of understanding of referral systems for example.

"Businesses don't know which lenders to go to. [...] They wouldn't know how to go about it [referrals] even if the banks informed the business that they can be referred to X. […] That is a promotion, education, information issue more than anything else."
Financial advice respondent

A particular concern that emerged both in the quantitative and qualitative research **was the lack of awareness of appropriate finance options and providers available** to businesses. Only around one in five respondents (18%) agreed that SMEs in their region or nation were confident in their knowledge of where to obtain information on the types of finance and specific providers available. The majority (64%) disagreed that SMEs were confident in this area.

In terms of knowledge of specific finance options, the majority of respondents (70%) said that SMEs were well informed about debt finance, but they were less likely to say SMEs were well informed about early stage equity (18%), growth stage equity (22%), later stage equity (30%) and alternative finance (29%) (see Figure 8).

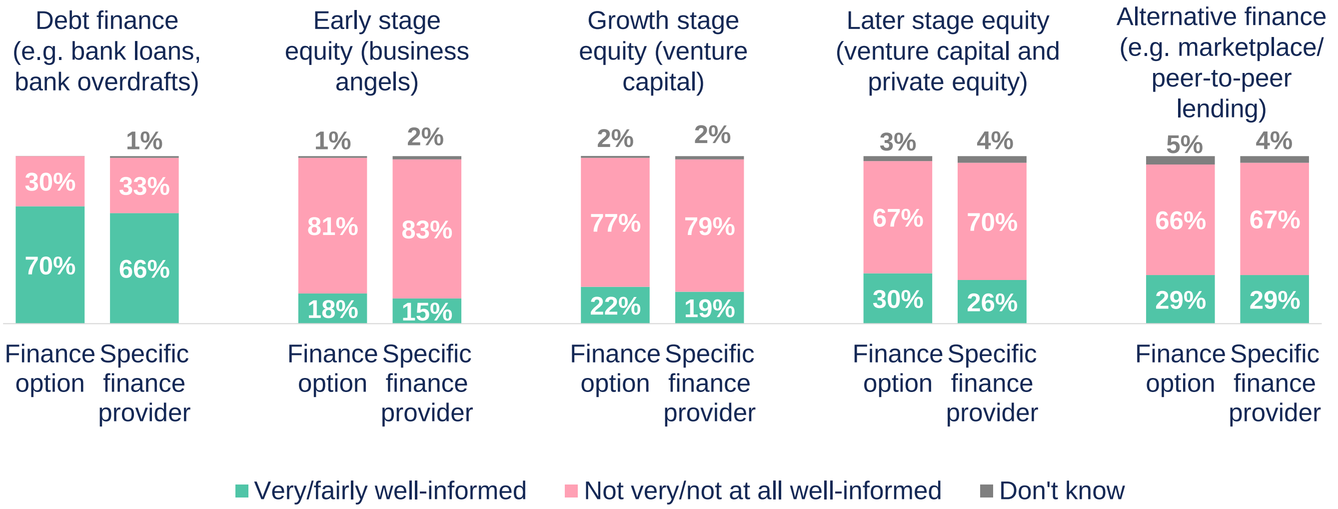
"[SMEs' knowledge of their finance options is] limited. On a scale of 1-10 somewhere between a 3 and 4 one average."
Financial advice respondent

Perceived knowledge of finance providers followed a similar pattern. Respondents thought that SMEs were well informed about specific finance providers to approach for debt finance (66%), but considered them less well informed about the providers to approach for early stage equity (15%), growth stage equity (19%) later stage equity (26%) and alternative finance (29%) (see Figure 8). This was in line with findings from the SME Finance Survey where, only 16% of SMEs who were aware of equity finance said they know of specific suppliers, and 15% of those who were aware of marketplace lending[7] said they know of specific suppliers.

"Most business owners and business leaders know relatively little about the range of financing products available to them and find it hard to calibrate which product is the right one for the stage or growth of the business."
Finance provision respondent

[7] Marketplace lending (also known as peer to peer lending) was used as an example for alternative finance in the SME intermediaries survey.

Figure 8. Perceived level of knowledge among SMEs of finance options/specific finance providers available



Base: All respondents (core survey) (n=303)

The lack of understanding of finance options and providers is further reinforced by **SMEs' reluctance to seek professional advice**, which, as a result, poses further barriers to access appropriate finance. Only 33% of respondents thought that SMEs in their region or nation would take paid advice when considering finance choices and options. When asked which information sources they thought were the most important when SMEs considered their finance choices and options, respondents were most likely to specify professional advisors (44%), existing finance providers (18%) and business mentors or friends and family (12%).

Accountants and banks were commonly mentioned as the traditional first port of call for SMEs seeking advice, due to their strong relationships and knowledge of businesses. Notably, respondents raised some concerns about not having traditional, well-established relationships when it comes to financial advice.

"Networking is poor. Everything is a sales pitch these days rather than an educational platform."
Financial advice respondent

Echoing findings from the quantitative research, unpaid advice through informal networks and word-of-mouth advice were also seen as playing an important role. However, the quality of this advice, particularly for start-ups, was often questioned due to the time businesses need to build-up trusted relationships.

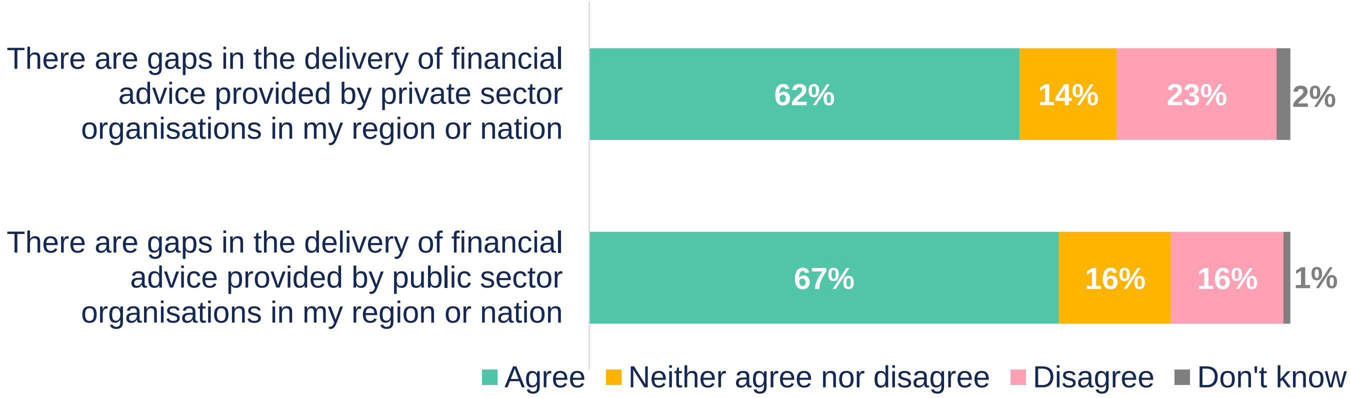
"SMEs tend to rely on their own network of who they know for advice or support. A good SME would have built up a fairly reliable network. However, a new SME has got to go through that process of trial and error of who you trust and listen to."
Financial advice respondent

Developing the ecosystem for the benefit of SMEs

Respondents understood the importance of the finance ecosystem to support SMEs in accessing finance that is right for them. In the qualitative interviews, respondents emphasised the **need for the ecosystem to better fulfil this role**.

The majority of respondents agreed that there were gaps in the delivery of financial advice provided by public sector organisations in their region or nation (67%), while slightly fewer agreed that there were equivalent gaps in the private sector (62%) (see Figure 9).

Figure 9. Level of agreement/ disagreement of gaps in the delivery of financial advice



Base: All respondents (core survey) (n=303)

This was further reinforced by findings from the qualitative interviews, where respondents expressed a need for more readily available, free and impartial advice for SMEs. Respondents thought that whilst some businesses were able to tap into the available ecosystem in order to access appropriate and reliable advice and guidance, other businesses found it less easy to do so. For these businesses, respondents thought that additional support would be helpful to enable them to identify trustworthy, neutral sources of advice, and to avoid the pitfalls of poor or inappropriate advice.

When it came to discussing what would enable this change, respondents often referred to the role of government or other public bodies as either a direct source or a funder of impartial and perhaps free business advice.

"I would love to see a single, neutral, respected third-party source of information."
Financial advice respondent

"I'd say people are more trusting where it's not direct from a funder, I'd prefer to a seminar from [a] City Council, not from [a high street bank]. People know banks have something to gain, the more independent the better – industry bodies, local government, networking platform etc."
Financial advice respondent

While respondents often saw the Covid-19 pandemic as a barrier to the availability of resources and businesses growth, the qualitative interviews identified some positive impacts on the connectedness of the ecosystem. According to some respondents, **the move to virtual communications during the pandemic made networking and information sessions more accessible for SMEs** and often helped to break down existing local silos, therefore incentivising a more linked and efficient ecosystem. Additionally, some respondents also noticed an increased interest among SMEs in finance options and providers as a result of the pandemic.

Respondents saw an opportunity in keeping up this momentum of increased connectedness and interest. The government's and other public bodies' role in acknowledging and addressing the current education gap, and facilitating better signposting of information sources, was also seen as a crucial enabler of change for a more efficient functioning ecosystem.

"There needs to be better signposting and a more joined up approach."
Financial advice respondent

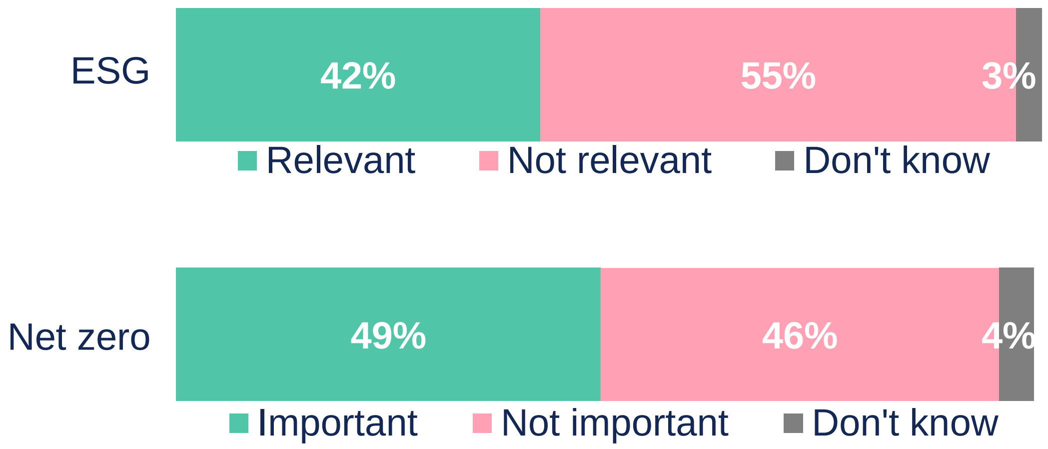
ESG and net zero

This section looks at respondents' perceptions of how relevant ESG and net zero considerations are for SMEs, the potential barriers and drivers of greener thinking, and the availability of support and finance for SMEs to take action.

Perceived importance of ESG and net zero

Respondents were split on the importance of ESG and net zero to SMEs. Less than half of respondents (42%) thought that SMEs in their region or nation saw ESG as relevant to their business, while 55% said it was not very or not at all relevant. Additionally, around half of respondents (49%) thought that the UK government's net zero target was important for SMEs in their region or nation. This is shown in Figure 10.

Figure 10. Perceived relevance/ importance of ESG/ net zero for SMEs



Base: All respondents (n=511)

Respondents were asked about the business benefits that SMEs see as being linked to ESG and net zero. **Gaining a reputational advantage, maximising new business opportunities and being able to respond to policy changes** were seen as the main reasons explaining the relevance or importance of ESG and net zero to SMEs. Meanwhile, ESG and net zero were seen as less relevant for expanding into new markets, or for reducing costs.

In the qualitative interviews, respondents across the UK suggested that ESG and net zero considerations are in their infancy among SMEs, with many not understanding the meaning behind them and how such considerations could bring new business opportunities. As a result, respondents commonly suggested that businesses more often see these as a costly burden both in terms of finances and personal time, rather than as a source of opportunities. This was particularly highlighted in the context of the Covid-19 pandemic, with businesses not having enough headspace and resource to prioritise green transformation. To incentivise a shift in mindsets, a need to educate businesses about the meaning and practicalities of ESG and net zero were frequently mentioned during interviews.

“An SME doesn't deal with ESG unless they're a FTSE 100 company. They don't understand what net zero means for them. If you say reducing ‘your global impact, or your carbon footprint’, they need interpretation. […] They need a bit of subtext to get on board with it.”
Financial advice respondent

One respondent described level of concern for ESG and net zero among SMEs as an **‘inverse bell curve’**, it’s either seen as an innate part of business' operations or not factored in at all.

“It's like an inverse bell curve. It's either incredibly important as their business is built on an ESG driver, or it’s just not at all important!"
Finance provision respondent

Among those interested, any concern for these was most likely to be seen as driven by **sector interest**. Additionally, some respondents highlighted **generational differences** between business leaders, with younger entrepreneurs seen as more aware and interested in ESG and net zero than their older counterparts.

“It is ingrained in the younger generation to create a firm that both makes money and does good, whereas previous generations were only concerned about making money.”
Financial advice respondent

Respondents were also split on how likely it was that SMEs in their region or nation would take various actions in response to government policy changes on net zero. Around half (52%) thought it likely that SMEs would develop new products or ways of working to reduce emissions, while 39% thought they would reduce emissions without taking on finance, 34% thought they would research net zero and understand their business’s environmental impact, and 26% thought they would take on finance to invest in reducing the emissions of their business.

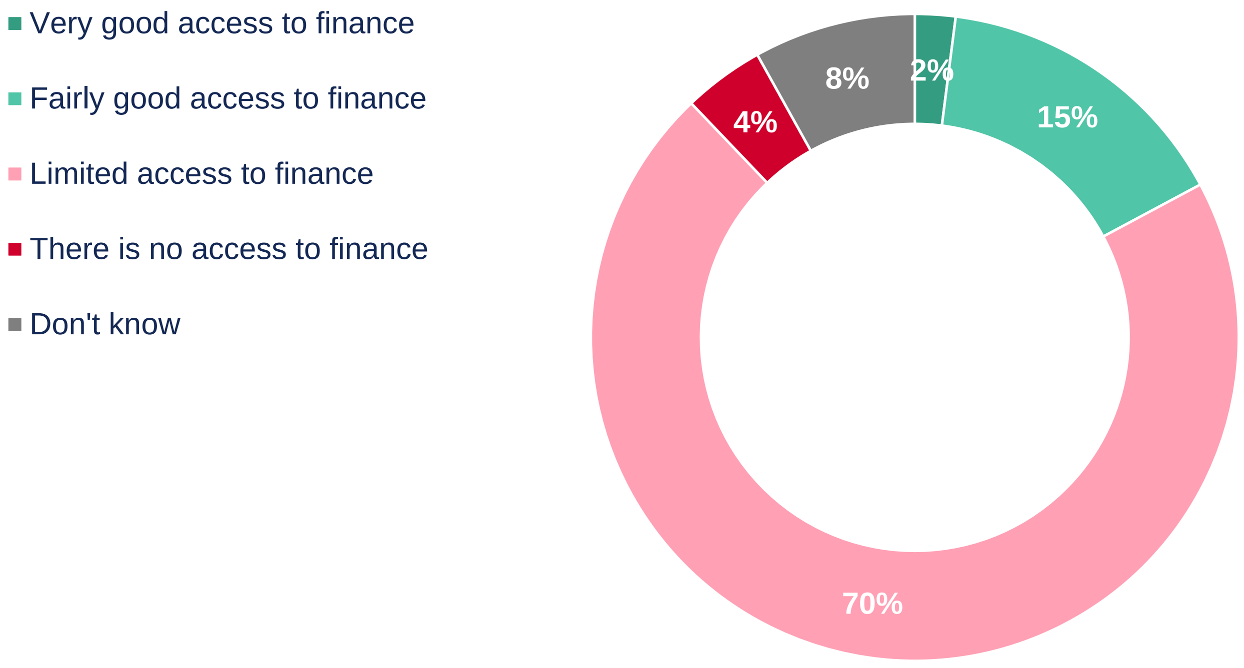
A reluctance to taking action was also echoed in the qualitative interviews. Respondents identified a **tendency among SMEs to see ESG and net zero-related targets as an obligation imposed on them by government without any clear incentives to act on them**.

"My idea is that government is going to have to invest public funds in enabling businesses to decarbon, and that's not yet sufficiently evident. However, it is inevitable if the UK is going to hit its climate change targets, the government is going to have to help businesses develop low carbon branches to their business processes."
Finance provision respondent

Access to finance for ESG and net zero goals

Respondents thought that access to the specific finance that SMEs needed to realise their ESG and/or net zero goals was likely to be limited. Just one in six (17%) said SMEs had very or fairly good access to this type of finance, while 75%[8] thought there was limited access or none at all (see Figure 11).

Figure 11. Extent to which respondents think SMEs in their region or nation have access to the specific finance that they need to realise their ESG and/or net zero goals



Base: Respondents who think SMEs see ESG and/or net zero as relevant/important to their business (core survey) (n=178)

When respondents were asked why they thought SMEs in their region or nation didn't have good access to the specific finance needed to realise their ESG or net zero goals, the main reason given was that **SMEs were unaware of where to find the information about their finance options** (65%). Other reasons were given by around half of respondents: the lack of suitable products among existing finance providers (55%), referrals being limited by a lack of understanding of the ecosystem among advisors (50%) and the complexity and confusing nature of routes to specific finance options. In addition, some respondents thought there was limited access to the specific finance required (44%) and limited access to specialised financial providers (41%).

Lack of awareness of specific providers of funding to realise ESG or net zero goals was also raised during the qualitative interviews. This was closely linked with a lack of understanding of these issues as a whole. **Respondents suggested that ESG and net zero were rarely discussed and that talking about them would be a first step towards filling the finance gap**. As a result, respondents

[8] Including 70% who said limited access to finance and 4% who said that there is no access to finance; These figures add up to 75% due to rounding.

suggested that finance providers need to offer both initial engagement and products for SMEs to realise these goals.

"I don't think there are gaps [in the finance available] […] I think all sides [finance providers, businesses, government] have to collaborate to identify if there are gaps in the market place, and if there are gaps, how to fill those gaps as quickly as they possibly can within a managed programme of mechanisms."
Financial advice respondent

Most respondents agreed during the qualitative interviews that the British Business Bank and other public bodies should have a role in supporting SMEs to achieve their environmental targets. This role was often seen in helping to fill the existing knowledge gap of ESG and net zero among SMEs and signposting businesses to available funding.

"One of the things that the British Business Bank does very well is that raising awareness, so yes anything around raising awareness of what you might be able to do almost for free, then looking at what people might want to do in terms of purchasing electric vehicles rather than diesel vans .It has a role to play both in raising awareness of the issues and then delivering potential products."
Research respondent

Certain products that BBB could offer to incentivise more thinking such as a non-competitive green investment fund were also mentioned, as well as making existing products greener.

"[BBB] can create investment funds that could be used for those projects only. Make them available to syndicates and other things so if they invest in low carbon projects they can have some additional funding at reasonable rates. [...This product should be] non-competitive and available for all those investors investing in low-carbon projects."
Financial advice respondent

“We need to find a way of transitioning our own product suites, both the British Business Bank and our bank and the other banks and alternative funders. So each of them start to reward the behaviour and create the sustainability we want to achieve. It should be a go forward solution that rewards those milestones.”
Finance provision respondent

Respondents were also asked about their thoughts on BBB stepping in with a “guarantee” type product, priced with incentives (e.g. 80% guarantee, low interest) as a means to help SMEs achieve their environmental targets. This idea was well received in the qualitative interviews, although some respondents noted that this should be in parallel with educating businesses about these issues.

"It is proven in the last 12 months that if you give businesses an incentive to do something, they will take it. The danger is if you give them too big an incentive; [and as a result] not getting the right businesses to do it or businesses doing it for the sake of doing it. "
Finance provision respondent

Conclusions

The research amongst finance intermediaries highlighted some key areas of strength and potential challenges for the SME finance landscape, both currently, as it emerges from the pandemic, and in the future, as the market evolves.

- Over the next 12 to 18 months, respondents felt that SMEs' demand for finance would remain high, after demand increased due to the Covid-19 pandemic.
- A number of challenges were also identified, in the form of a lack of supply to meet ongoing demand, and lack of awareness and understanding amongst SMEs of types and providers of finance, and of reliable sources of advice.
- There was optimism about the supply of finance increasing, with respondents thinking most forms of private sector SME finance were more likely to increase than decrease over the next 12 to 18 months. However, respondents were less optimistic about the supply of debt finance over the next 12 to 18 months.
- The research highlighted the continued importance of traditional lenders for SMEs, but it suggested that SMEs‘ continued focus on debt finance from the larger lenders may be a concern, as respondents thought high street banks were likely to be increasingly risk-averse, and SMEs lack awareness of other sources of finance, or alternative sources of trusted advice.
- Respondents overall had mixed views on the adequacy of their local ecosystem to support SMEs. The provision of educational support, better signposting of available resources and impartial advice provided by government or other public sector bodies for SMEs was often seen as a way of strengthening ecosystems where they were described as 'patchy'.
- The need to educate SMEs was a key theme when it comes to ESG and net zero considerations. Respondents overall suggested that SMEs had a limited knowledge of the meaning and implications of these, which also correlates with a lack of awareness of finance options available for realising green objectives.

Annex: Methodology

Overview

British Business Bank (BBB) commissioned Ipsos MORI, an independent market research organisation, to conduct research among SME intermediaries who have been previously in contact with BBB's UK Network (UKN). In addition, the survey aimed to include the wider intermediary population by engaging with national stakeholders that represent intermediaries across the UK. Intermediaries were broadly defined as those who serve and support SMEs in their finance needs (e.g. accountants, banks, legal professionals). The research involved an online survey of 511 SME intermediaries, and 36 follow-up qualitative interviews with survey respondents. The research took place between 23rd February and 30th March 2021.

The research findings were shared at a series of UKN-hosted regional round-table events during April and May 2021, providing an opportunity for intermediaries to discuss and respond to the findings from their region or nation.

Online Survey

Ipsos MORI undertook an online survey of 511 SME intermediaries (referred to as respondents throughout the report). Of these:

- 303 were UKN stakeholders and received a targeted email invitation to participate in the survey. These respondents completed a longer version of the survey (core survey).
- 208 were part of the wider intermediary population who completed a shorter survey via an open access survey link. The open access survey link was accessible via LinkedIn posts, targeted LinkedIn mailouts and in third party organisations' newsletters.

Fieldwork took place between 23rd February and 21st March 2021. The full breakdown of survey completes by region or nation can be found in the table below.

Regions or nations the SMEs operate in that the respondents engage with	All respondents (UKN stakeholders and wider intermediary population)
West Midlands	49
East Midlands	106
East of England	52
North East England	45
Yorkshire & Humber	58
North West England	62
South West England	68
London	41
South East England (excl. London)	48
Wales	36

Scotland	43
Northern Ireland	47
All of the UK	73
Outside of the UK	29
TOTAL	511

The data have not been weighted. The survey results are subject to margins of error, which vary with the size of the sample and the percentage figure concerned. For all percentage results, subgroup differences by region have been highlighted throughout the report only where statistically significant (at the 95% level of confidence).

In-depth interviews

Ipsos MORI also carried out 36 in-depth follow-up interviews via phone to gain further qualitative insights from UKN survey respondents. Fieldwork for the qualitative interviews took place between 10th March and 30th March 2021. A breakdown of in-depth interview respondents by region or nation and by role can be found below.

Regions or nations the SMEs operate in that the respondents engage with	Intermediary category			Total interviews
	Finance Provision	Financial Advice	Research	
West Midlands	0	3	0	3
East Midlands	1	2	0	3
East of England	1	2	0	3
North East England	0	2	1	3
Yorkshire & Humber	0	3	0	3
North West England	1	2	0	3
South West England	1	1	1	3
London	0	3	0	3
South East England (excl. London)	1	2	0	3
Wales	2	1	0	3
Scotland	1	2	0	3
Northern Ireland	1	2	0	3
TOTAL	9	25	2	36

The qualitative research provided depth and more nuanced insights into SME intermediaries' views on the issues covered in the research. The findings reported here represent common themes emerging across multiple interviews. Examples and direct quotes are provided to illustrate the findings. However, as with any qualitative findings, these are intended to provide depth of insight rather than to be statistically representative.

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