

SME Access to Finance Report 2014

Office of the Chief Economic Adviser

Headline messages

- **Accessing finance has become a less important issue for SMEs**
- **Demand for finance remains subdued, falling over last two years with continuing evidence of discouraged and reluctant borrowers**
- **Supply of finance improved with more SMEs obtaining all finance sought, although there is some evidence of issues with SMEs obtaining finance from the first provider approached**

Access to finance in context

SMEs in Context

- SMEs are vital to Scottish economy and contribute to economic growth
- In 2014, there were around 103,000 SMEs with employees in Scotland
- They accounted for 42% of jobs and 34% of turnover

Lending conditions in context

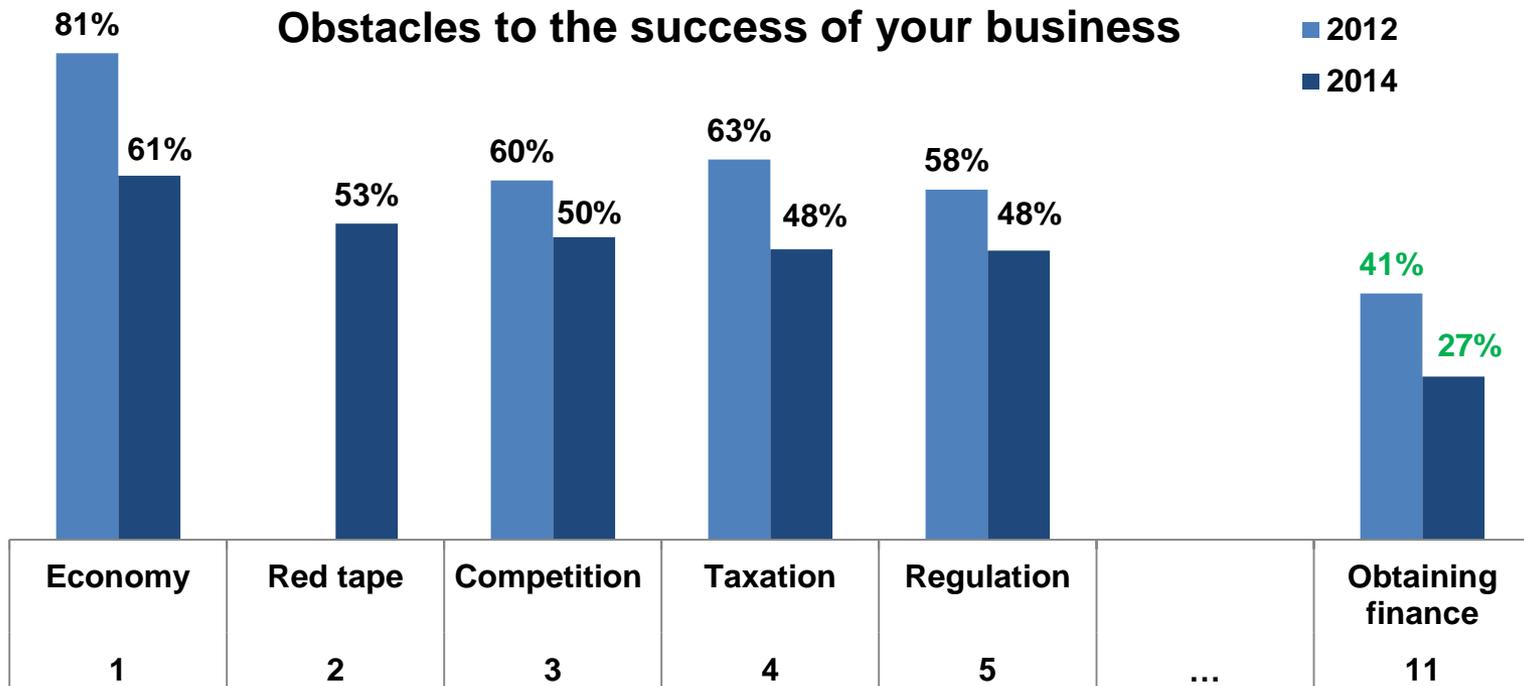
Since the last Scottish Government access to finance report, many aspects of the Scottish economy have returned to pre-recession levels

- Continued growth in output, strengthening labour market and upbeat business and consumer confidence
- Business investment has recovered to above its pre-recession peak

Lending to Businesses

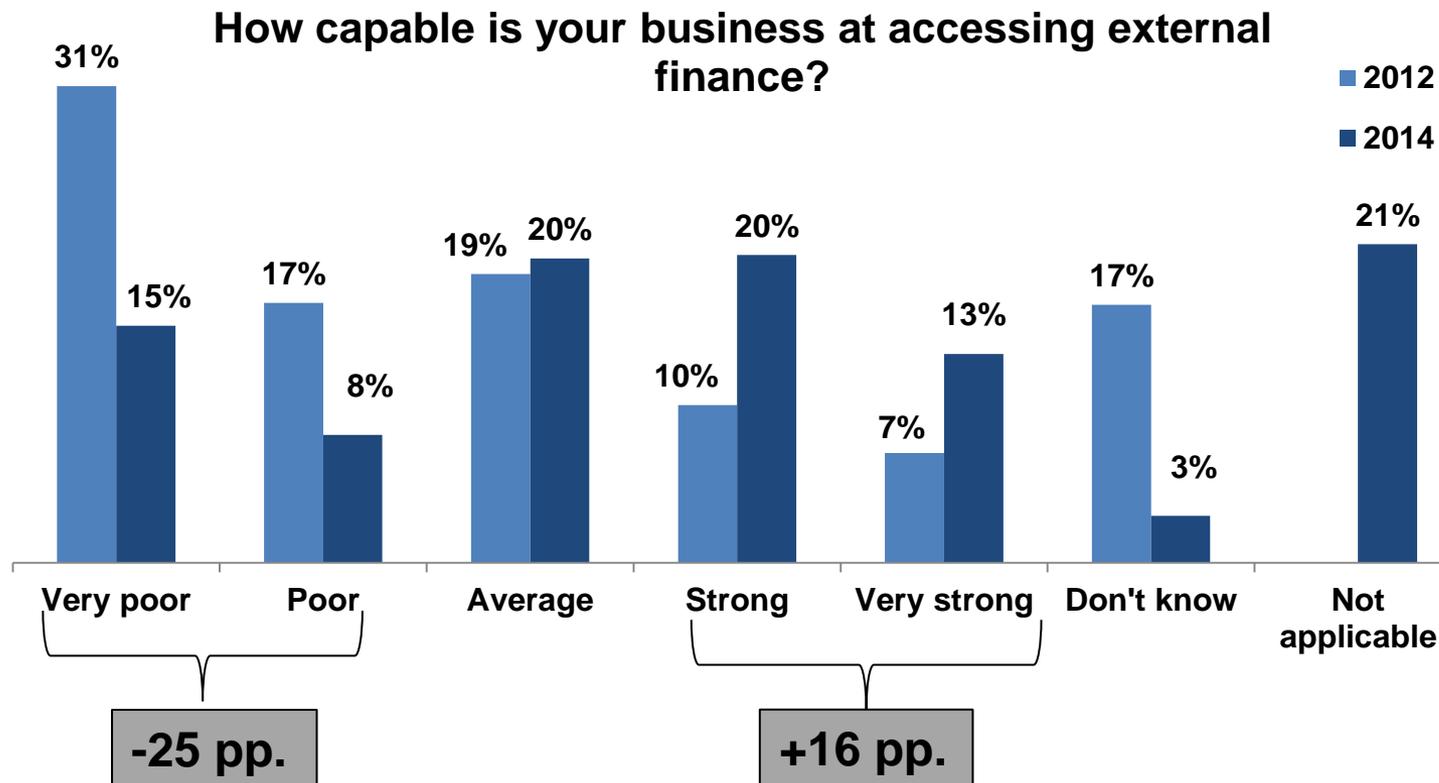
- Bank of England data shows that lending to non-financial companies in the UK has remained negative throughout 2013 and 2014
- The growth rate in lending to SMEs has been negative since the series began in 2012
- The British Bankers Association data on lending to SMEs in Scotland shows that negative net lending can be explained by businesses making loan repayments in excess of new lending

Over the last 2 years, access to finance has become a less important issue for SMEs



Base minimum; 2012 835 Note, Red Tape is a new category in 2014

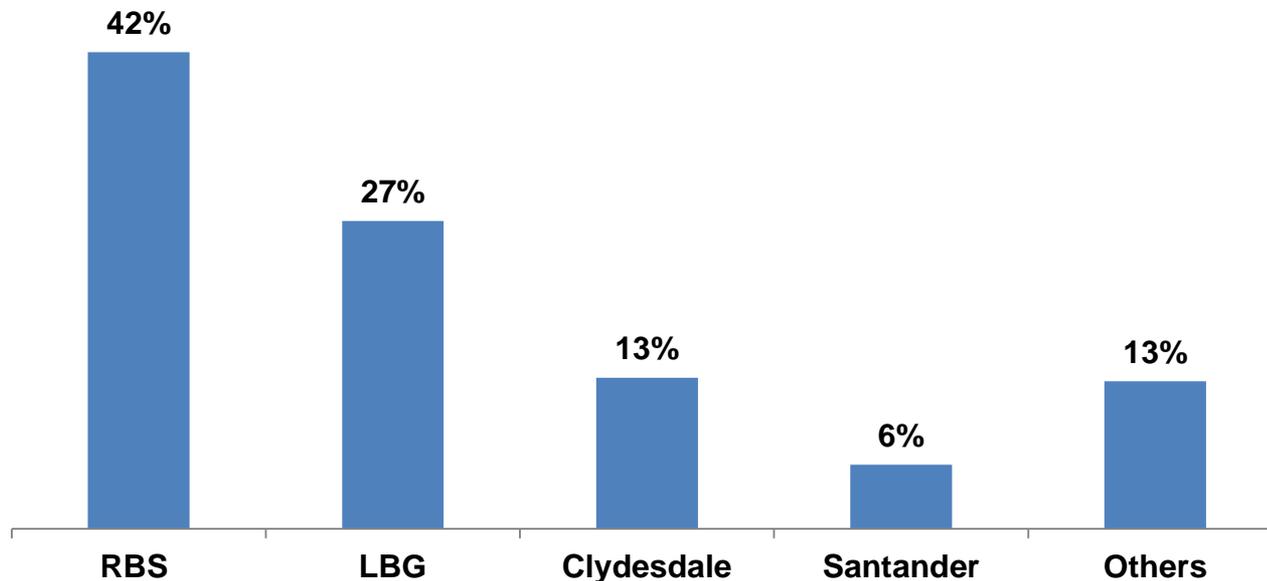
SMEs feel they have a greater capability to access finance



SME Banking

The SME banking sector in Scotland is heavily concentrated with two banks accounting for around 70 per cent of the market – also highlighted by the CMA

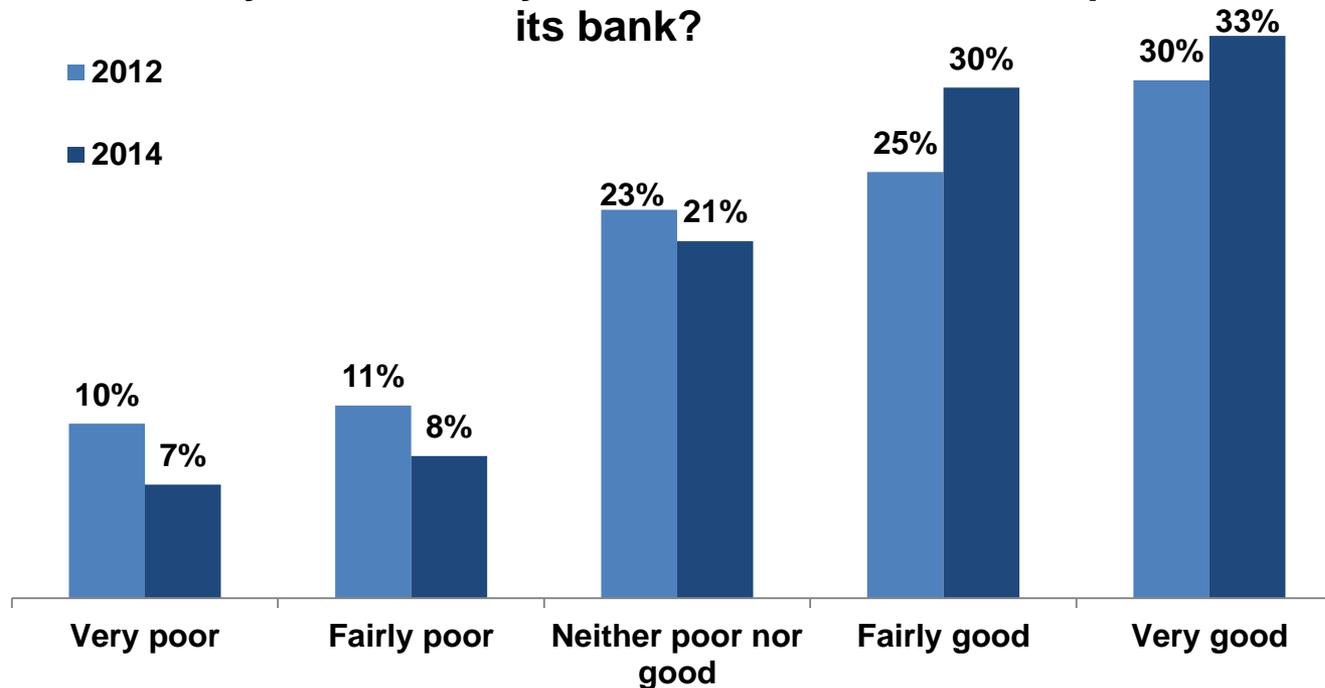
Main bank used by SMEs with employees



Base minimum; 766

SMEs relationships with their bank have improved - 63% fairly or very good in 2014 compared with 55% in 2012

How would you describe your businesses relationship with its bank?

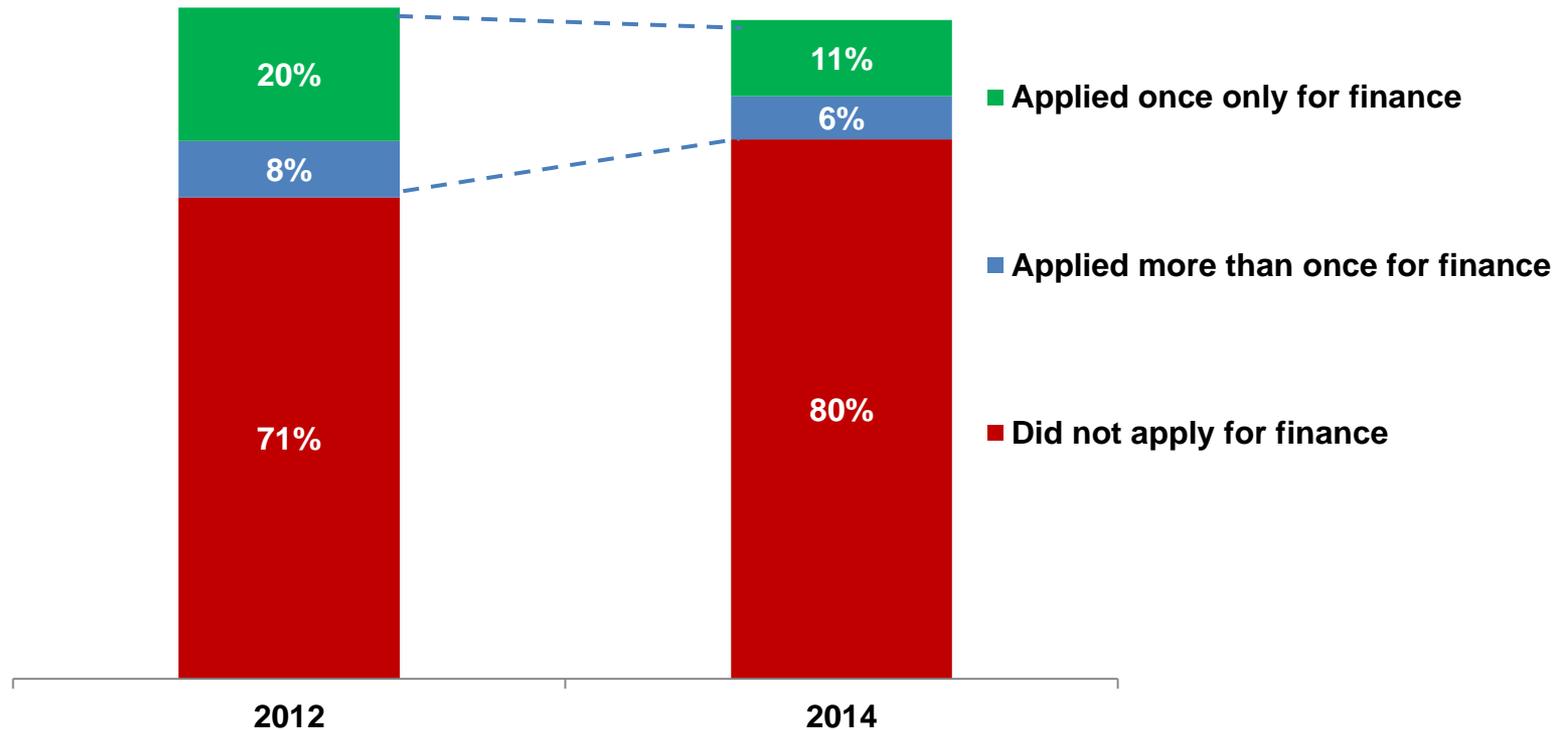


Base minimum; 853

Demand for finance

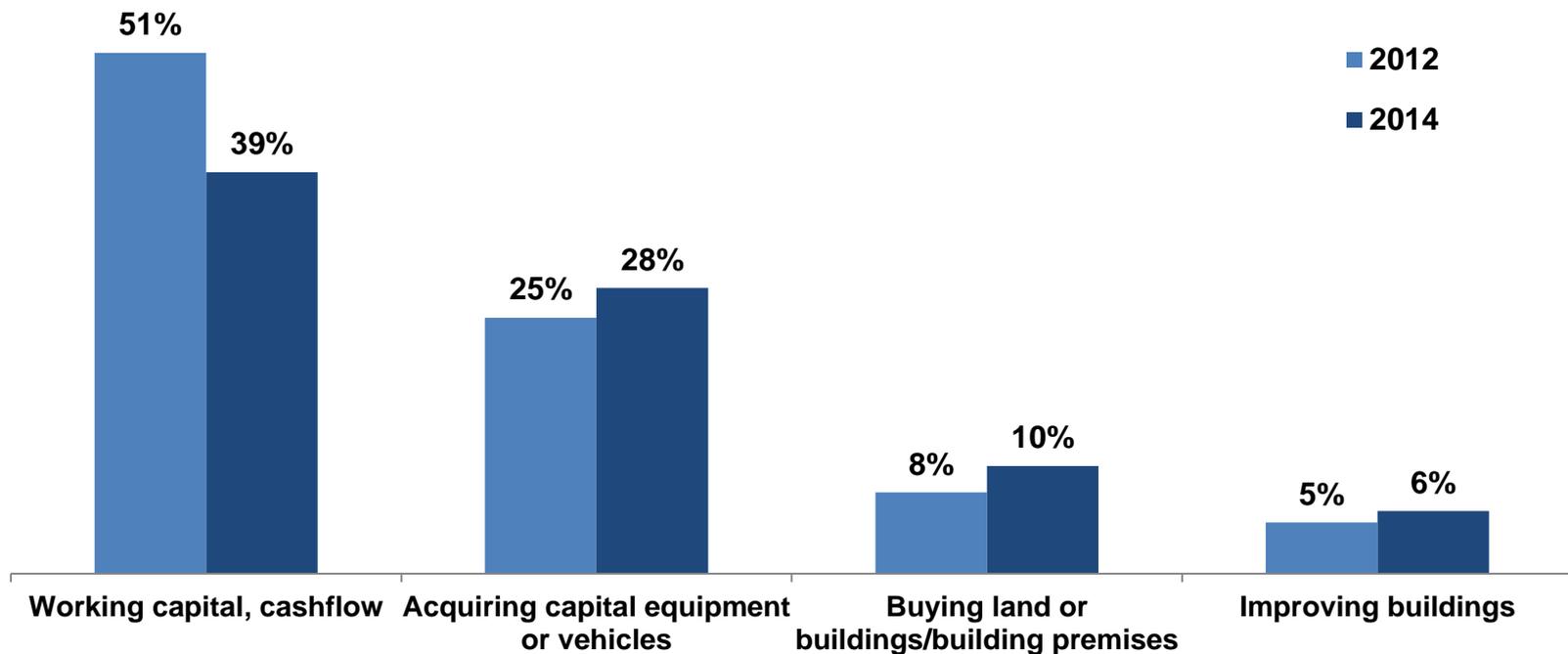
- British Business Bank finds 54% of SMEs did not use any external finance in last 3 years, up from 44% in 2012
- Small Business Survey finds only 31% of SMEs in Scotland applied for finance in the last 3 years
- SME Finance Monitor: 21% of SMEs considered “debt averse”
- Small Business Survey reports that 60% of firms planning on growing are not likely to use external finance to fund growth

Demand for finance has fallen with 18% of SMEs seeking finance in 2014 compared with 28% in 2012

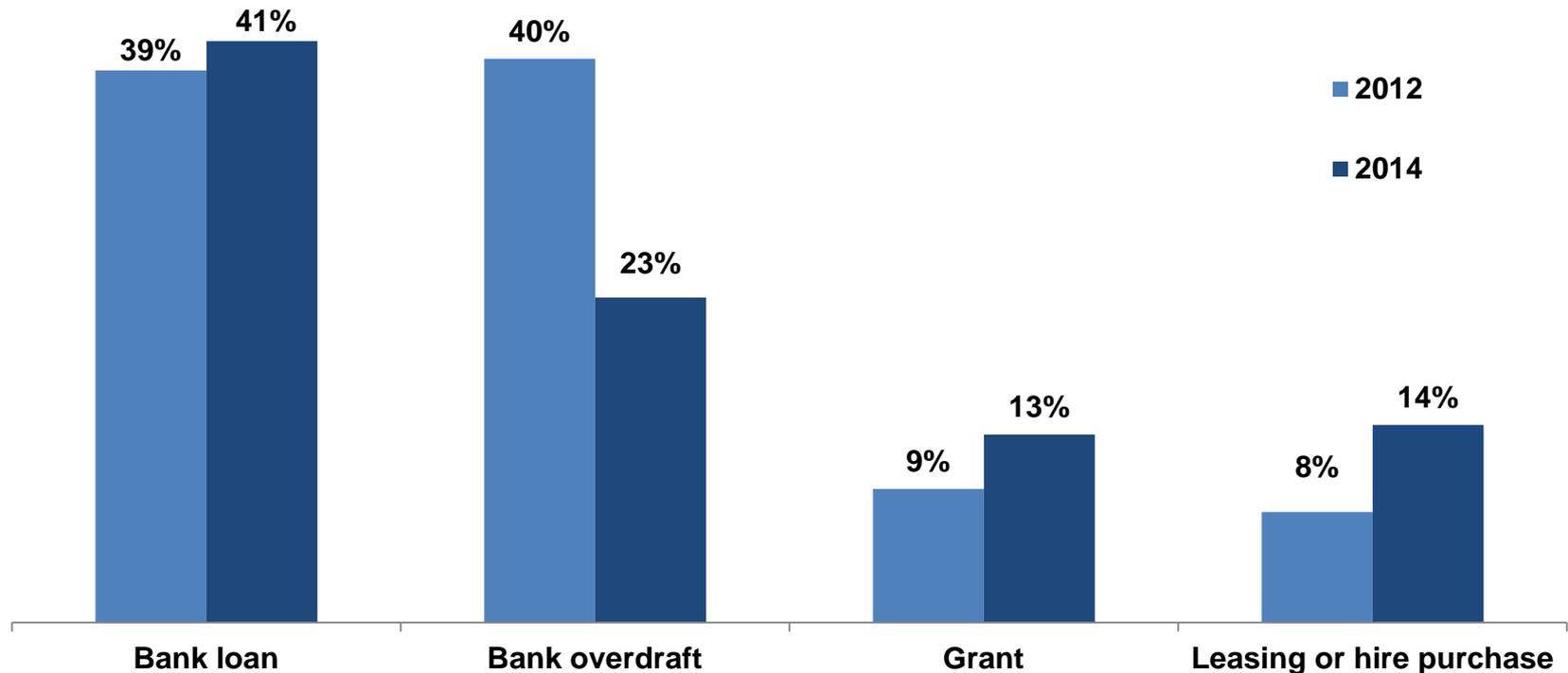


Base minimum; 2014, 197

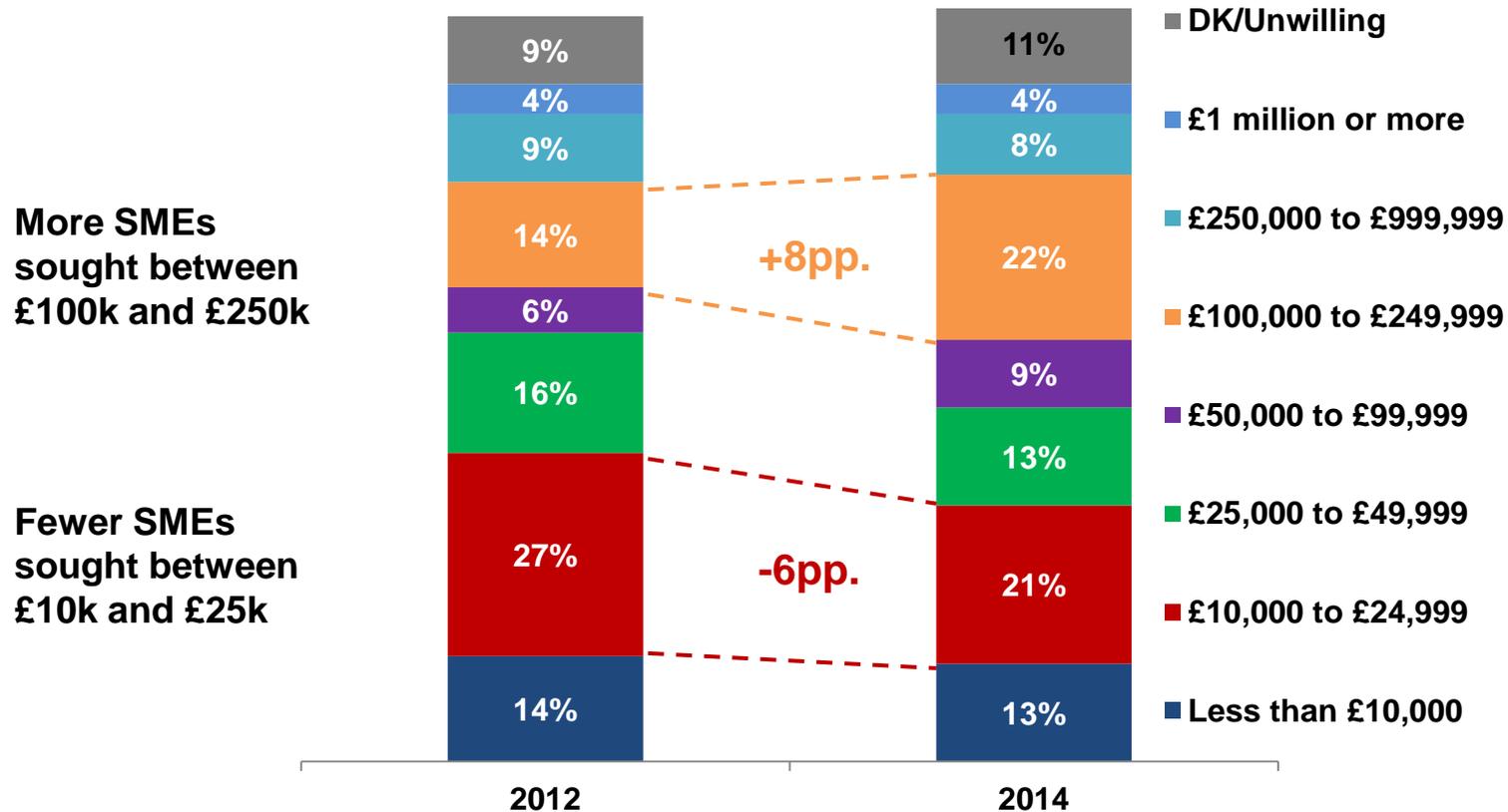
Cashflow remains most common reason for seeking finance -
Some evidence of a shift towards seeking finance for
investment in capital equipment and buildings



Bank loans are now the most common type of finance applied for, with the proportion of firms applying for overdrafts significantly lower than in 2012



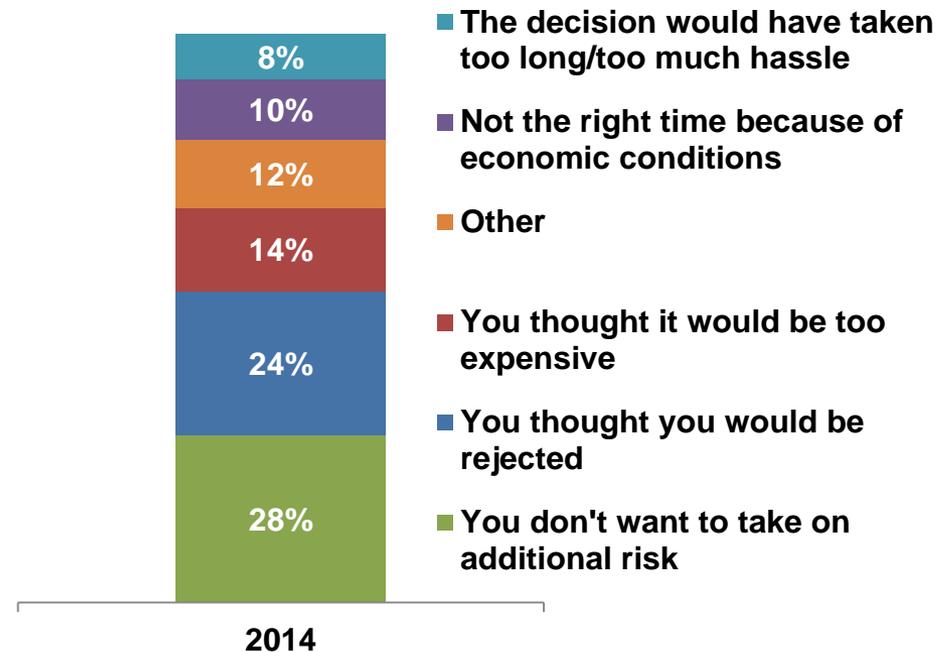
How much finance did you seek?



Base minimum: 2014, 197

Some SMES remain discouraged from applying for finance

- 13% of SMEs that did not apply for finance needed it
- 12% of SMEs that applied for finance **needed more** that they did not apply for

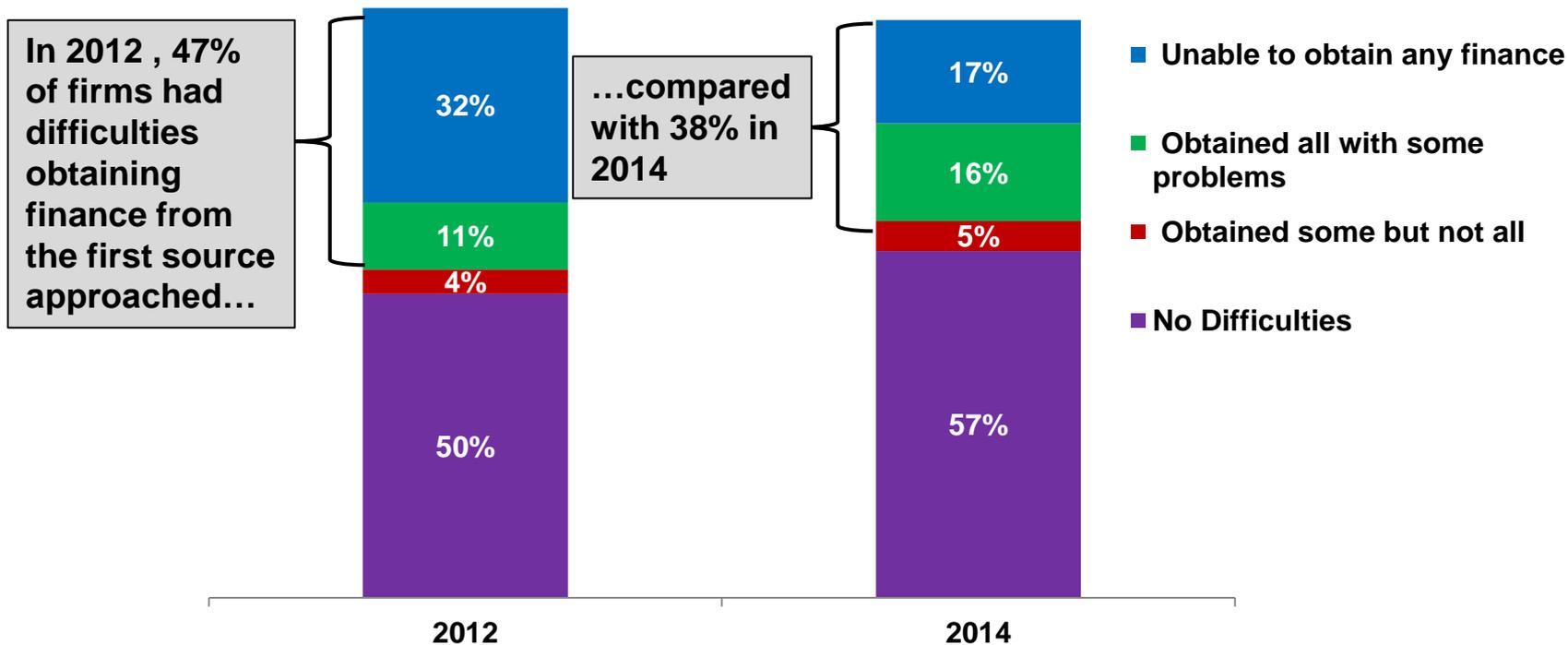


Supply of finance

Two measures of supply of SME finance:

- the proportion of firms able to access all of the finance needed from the first source approached
- the final outcome for finance applications from all sources approached

Fewer firms are encountering difficulties in obtaining finance from the *first source approached*



Base minimum; 2014, 197

In 2014, 80 per cent of those applying for finance obtained all they needed from ***all sources approached*** compared with 69 per cent in 2012

	2012 (%)	2014 (%)
Obtained all needed	69	80
<i>-From first source</i>	61	72
<i>-From another source</i>	8	8
Obtained some but not all	6	1
Obtained None	23	13

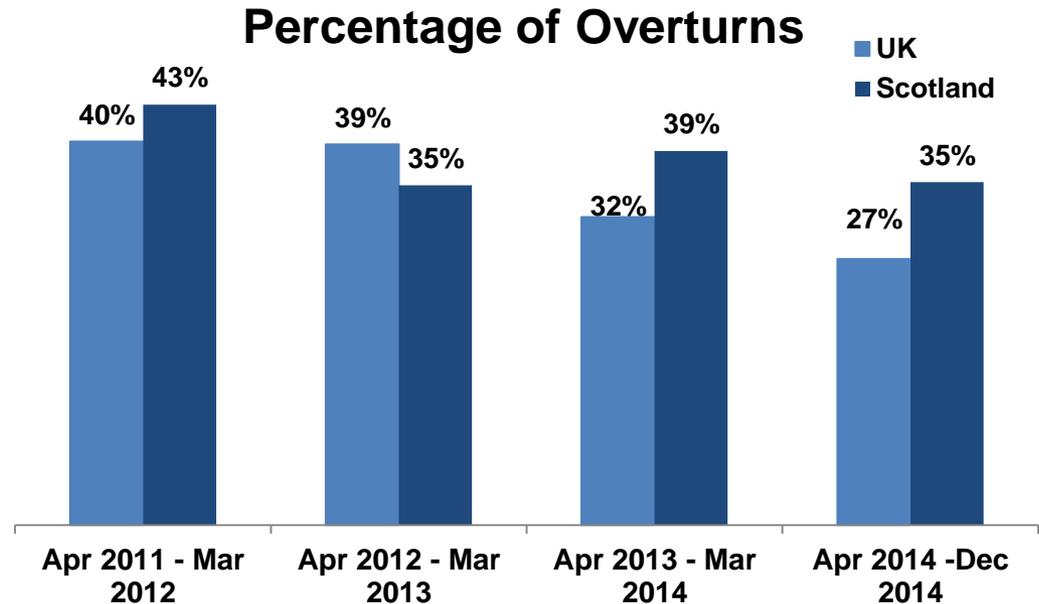
Compared with the UK, whilst the level of demand is similar, success rates for obtaining finance are higher in Scotland

	Sco (%)	UK (%)
Demand	18	19
Supply (eventual outcome)		
Obtained all needed	80	71
<i>-From first source</i>	72	64
<i>-From another source</i>	8	7
Obtained some but not all	1	4
Obtained None	13	21

Independent Appeals Apr. 2011-2014:

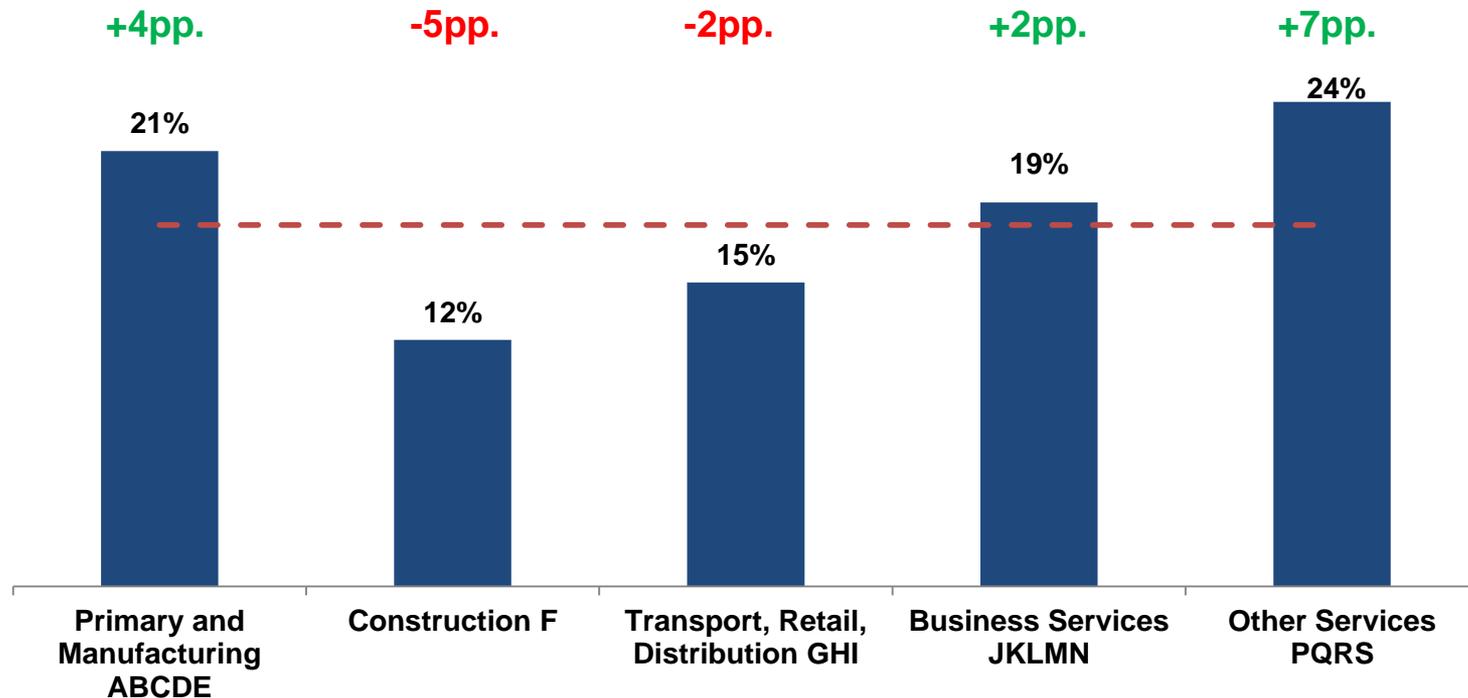
- **368 appeals** in Scotland and **139 overturns** with a value of **£3.2m**

- **Overturn rate** reduced from 43% to **35%** - this is higher than the rate in the UK as a whole (27%)



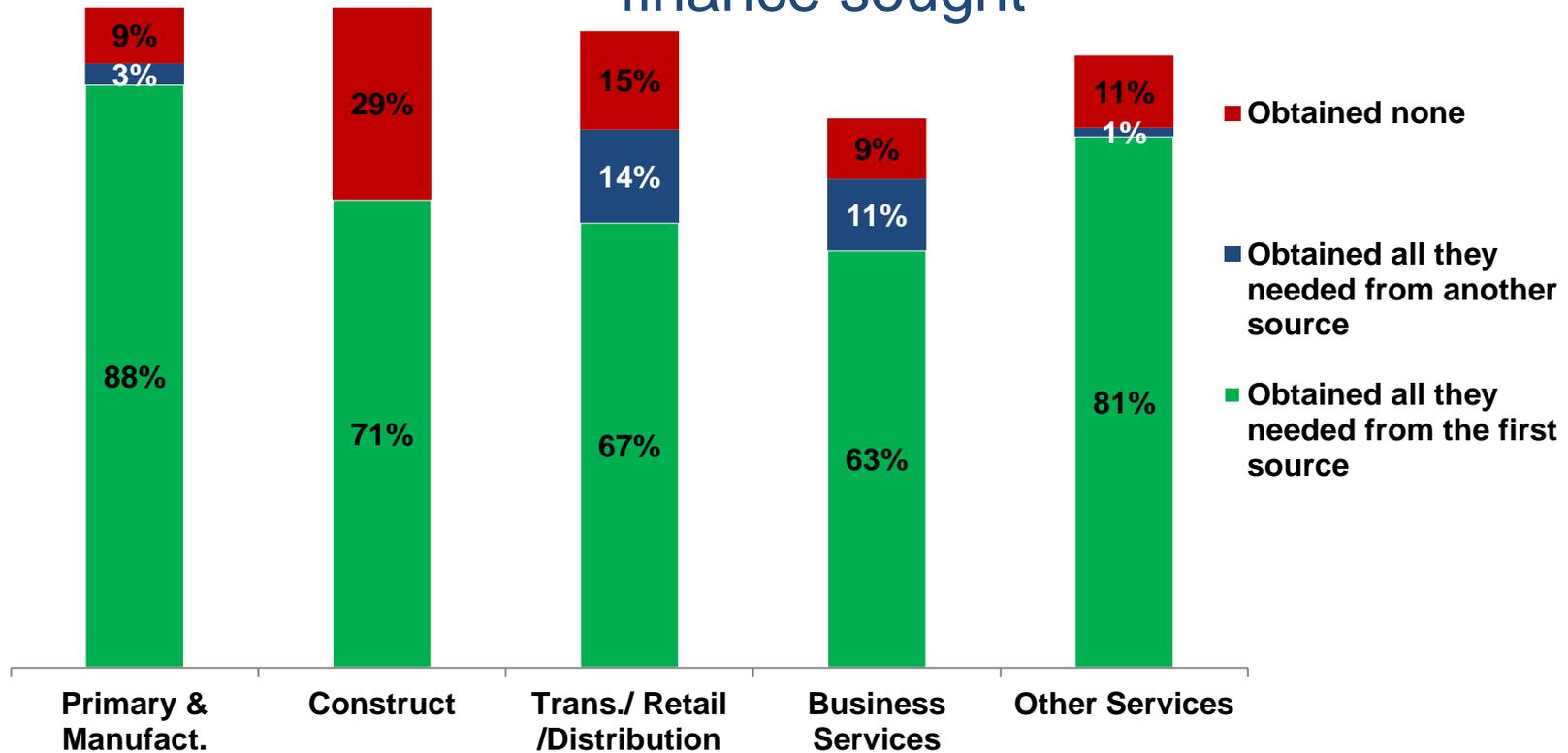
Sub-Scotland analysis

SMEs in the *Other services* sector were most likely to apply for finance, while those in the *Construction* sector were least likely to apply...

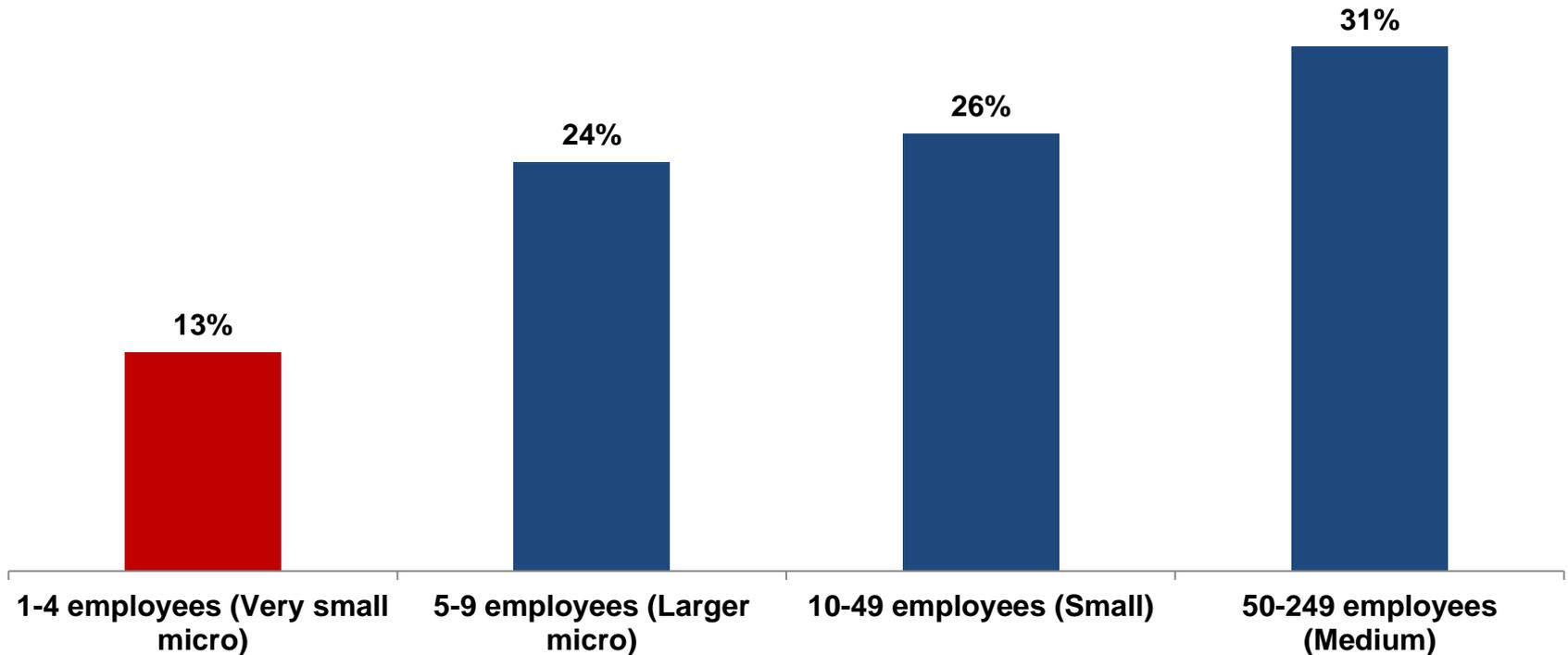


Base minimum; construction sector, 78

...and were most likely to report obtaining none of the finance sought

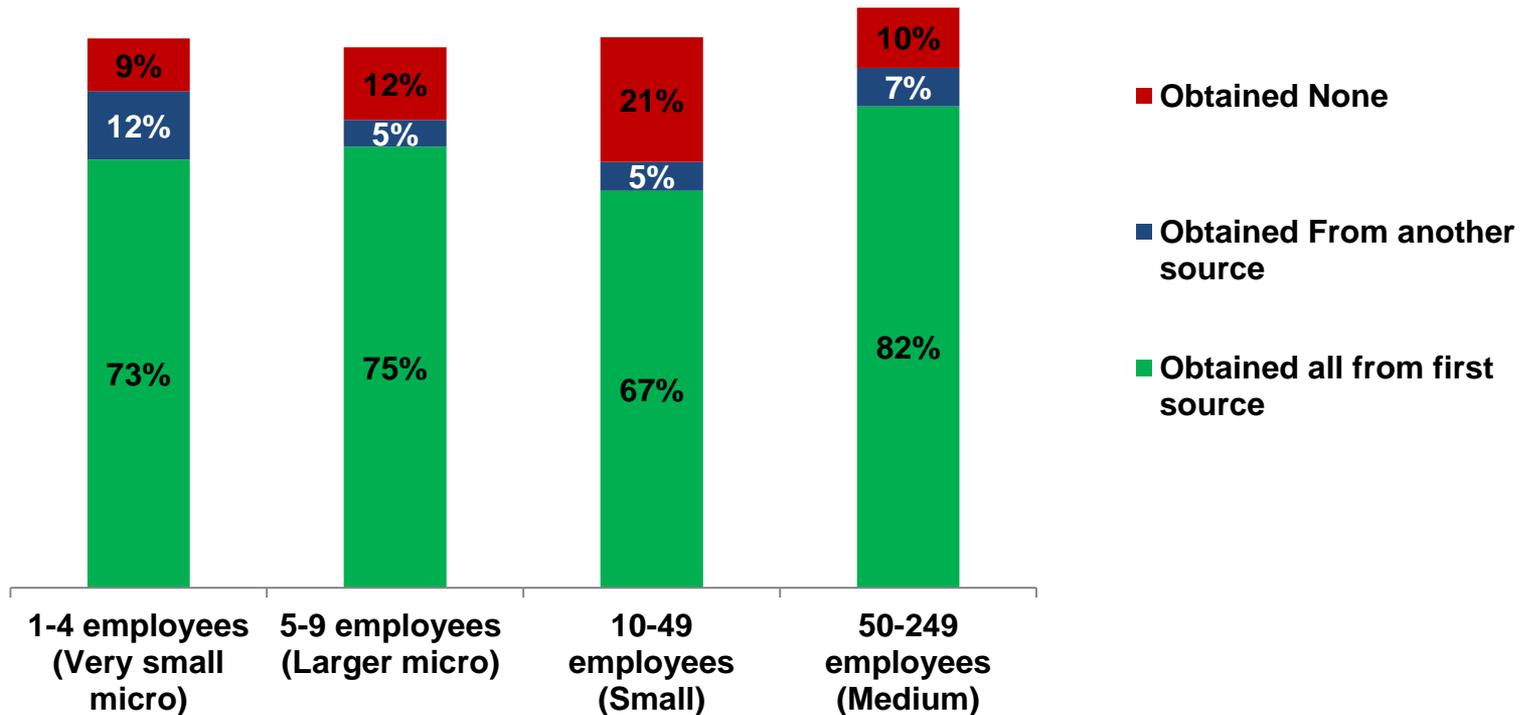


Very small firms were less likely to apply for finance...



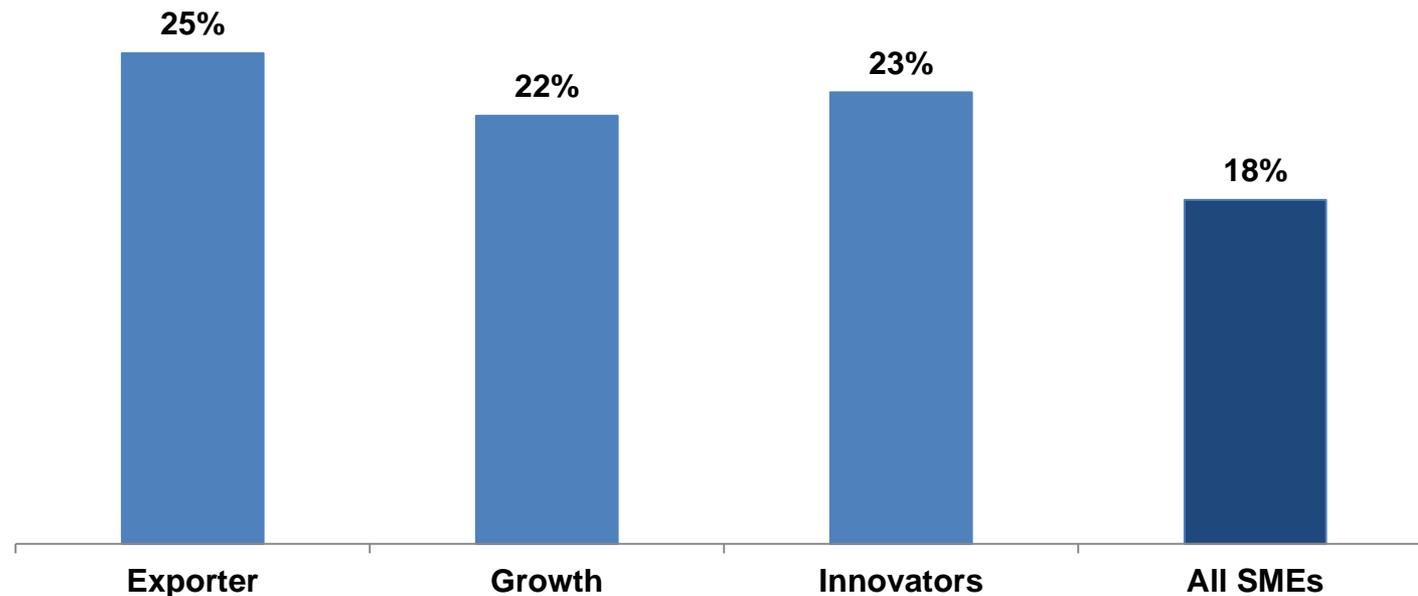
Base minimum; larger micro, 149

... but small firms were most likely to report not obtaining any of the finance they sought



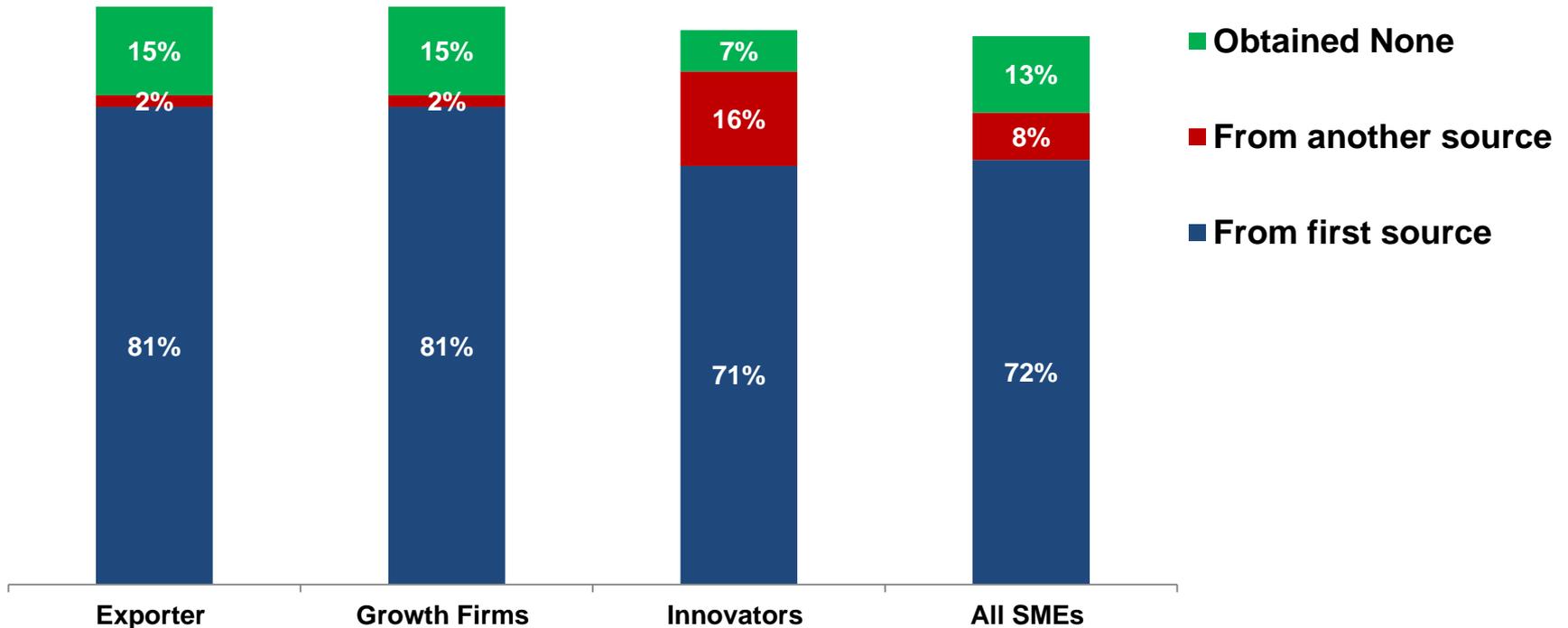
Base minimum: 1-4 employees applying for finance, 25

Exporting firms, growth firms and innovators were all more likely to apply for finance than all SMEs...



Base minimum: Exporters that sought finance, 36

...and as likely to be successful obtaining finance



Base minimum: Exporters, 141

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