

# SME Access to Finance Report 2014

Office of the Chief Economic Adviser

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# 1 Summary and Key Points

- 1.1 This publication gives an overview of access to finance conditions for small and medium-sized enterprises (SMEs) in Scotland. The main data source used is the 2014 Small Business Survey, part of a UK-wide survey commissioned by the Department of Business Innovation and Skills carried out in late 2014. The Scottish Government boosted the sample in Scotland so that around 850 SME employers were surveyed, allowing for more robust analysis of the results. These results are supplemented by evidence from other sources to give a fuller picture of the evidence in this area.

## Context

- 1.2 Since the last Scottish Government Access to Finance report in 2012, economic conditions have improved with continued growth in output and employment and an increase in business and consumer confidence. Business investment – a key contributor to economic growth – fell following the financial crisis and has now surpassed its pre-recession peak.
- 1.3 SMEs are also less concerned about accessing finance than they were two years previously. Around a quarter (27 per cent) of Scottish SMEs feel that accessing external finance is an obstacle to the success of their business, behind the economy, taxation and competition. This is lower than the proportion stating that this was an issue in 2012.

## SME Banking

- 1.4 The SME banking sector in Scotland continues to be dominated by two large banks with Royal Bank of Scotland and Lloyds Banking Group accounting for over 70 per cent of the sector. The recent Competition and Market Authority report into SME banking also found Scotland's SME banking sector to be dominated by a small number of banks and has been for a number of years.
- 1.5 Data from the British Banking Insight Initiative suggested that businesses are more satisfied with smaller “challenger” banks. However, the Small Business Survey found that 62 per cent of SMEs reported a fairly good or very good relationship with their bank, an improvement from the previous survey.

## Demand for finance

- 1.6 The latest evidence on whether SMEs are seeking finance suggests that demand remains subdued with a fall in the number of SMEs looking to access external finance compared with two years ago.
- 1.7 Many SMEs do not use any form of external finance. Evidence from the British Business Bank found that just over half (54 per cent) of all SMEs in

the UK had used external finance in the last three years, a lower proportion than in 2012. Similarly, the BDRC SME Finance Monitor found that only four in ten SMEs in Scotland were currently using any external finance in 2013.

- 1.8 Looking at the demand for finance over the last three years, the Small Business Survey reports that just under a third (31 per cent) of Scottish SMEs applied for finance. This is lower than 45 per cent of SMEs that had sought finance in the Scottish Government's 2012 Access to Finance Survey. Over the last 12 months, the use of external finance has been relatively low with only 18 per cent of Scottish SMEs applying for finance. This is lower proportion than in 2012, a trend which is mirrored in the findings of the (UK wide) SME Finance Monitor and the UK results from the Small Business Survey.
- 1.9 There is some evidence that even firms that plan on growing in the future are reluctant to use finance, with 60 per cent of firms responding that it was unlikely they would approach external finance providers to fund growth. The SME Finance Monitor also finds that only half of UK SMEs are happy to use external finance to help them grow. However, since 70 per cent state they want to pay down debt and remain debt free, this suggests that SMEs are prepared to use external finance in the right circumstances.
- 1.10 Of those firms that sought finance, it was mainly bank loans or overdrafts that were applied for. However, fewer firms reported applying for overdrafts than in the previous survey and more are sought leasing or hire purchase arrangements.
- 1.11 There is some evidence showing that larger amounts of funding are being sought and less funding is being sought for day to day cashflow with more being invested in acquiring capital equipment or buildings. Together these suggest that SMEs may be beginning to use external finance to invest and grow which is also suggested in the official business investment statistics.
- 1.12 Evidence also suggests that a number of SMEs do not currently borrow, even if they have a need for external finance, and are considered to be discouraged or reluctant borrowers.

### **Supply of finance**

- 1.13 Whilst demand remains subdued, supply of finance has improved for SMEs with Scottish SMEs faring better than those in the UK as a whole.
- 1.14 More SMEs are managing to obtain all the finance they need from the first source approached and fewer are obtaining none of the finance they applied for. Evidence from the SME Finance Monitor supports this and shows that outcomes for Scottish SMEs are generally more favourable than for those in other parts of the UK.

1.15 The number of independent appeals that overturn banks' decisions to reject lending has decreased in recent quarters, suggesting that banks are communicating more effectively with businesses and businesses are approaching banks better prepared with the necessary information.

#### **Access to finance conditions at a sub-Scotland level**

1.16 As would be expected, access to finance conditions at a sub-Scotland level – broken down by sector, size, type of SMEs and geographical location – are more variable.

1.17 Sub-sector analysis suggests that firms in Primary and manufacturing and Other services sectors are more likely to seek finance and also are the most successful in eventually obtaining all the finance they require.

1.18 The Small Business Survey evidence shows that demand for finance increases with firm size, with almost of third (31 per cent) of medium Scottish SMEs seeking finance in 2014. Medium SMEs were also the most successful at obtaining all the finance they sought (88 per cent).

1.19 SMEs that are exporters, innovators and/or have growth ambitions were more likely to seek finance and had more success in obtaining all the finance sought from all sources approached than all SMEs.

1.20 Although there was little differences between demand for and supply of finance for women-led SMEs, there were differences in relation to the type of finance sought - with women-led SMEs more likely to apply for bank loans and grants - and the amount of finance applied for - with women-led SMEs more polarised in the amounts of finance sought.

## 2 Background

### *History of Scottish Government Access to Finance Reports*

- 2.1 The onset of the financial crisis at the end of 2008 resulted in increased debate around the levels of lending to the corporate sector and the importance of access to finance as a driver of economic growth. The Scottish Government commissioned an SME Access to Finance Survey in 2009 to provide an assessment of the demand and supply of finance to the SME sector in Scotland at that time<sup>1</sup>. The results showed that while demand for finance had increased, approval rates for applications had fallen. Many SMEs also perceived the costs of credit to have risen.
- 2.2 A short follow-up report was conducted in November 2009 which provided an update on credit conditions six months on from the 2009 report. A more comprehensive survey was undertaken in 2010. This study found evidence of a further decline in lending to Scottish SMEs, reflecting a combination of weak demand and constraints in supply.
- 2.3 A further survey was undertaken in February 2012 and was designed to provide consistent comparisons with the previous survey results. This survey found that although both the demand and supply for finance remained broadly stable since the survey in 2010, there was some evidence of an easing in supply constraints.
- 2.4 On 12 March 2014, the Economy, Energy and Tourism (EET) Committee published a report on *Access to Finance and Alternative Financing Models*<sup>2</sup>. Within this report was a specific recommendation on the continuation of the provision of access to finance evidence by the Scottish Government. In response, the Scottish Government reiterated its commitment to closely monitoring access to finance conditions for SMEs and stated that future reports would encompass a wider overview of the available evidence. In addition, the Scottish Government has funded a boost to the UK-wide Small Business Survey as the main survey mechanism to track Scottish SMEs access to finance experiences.

### *SMEs in Context*

- 2.5 SMEs are a vital component of the Scottish economy and contribute to economic growth. As at March 2014<sup>3</sup>, there were 332,720 SMEs in Scotland of which those with employees represent 31 per cent or just over

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<sup>1</sup> <http://www.gov.scot/Topics/Economy/access-finance>

<sup>2</sup> <http://www.scottish.parliament.uk/parliamentarybusiness/CurrentCommittees/74286.aspx>

<sup>3</sup> Businesses in Scotland 2014: <http://www.scotland.gov.uk/Resource/0046/00462532.pdf>

103,000 firms. SME employers account for 42 per cent of all private sector jobs and 34 per cent of private sector turnover.

- 2.6 In 2014, Scotland had a business stock rate of 742 enterprises per 10,000 adults, compared to 1,007 enterprises per 10,000 adults in the UK as a whole. However, when making comparisons with the UK, it is important to note that Scotland has a different business stock make-up. Scotland has a higher number of medium and large enterprises per 10,000 population than the UK as a whole, and a lower number of small enterprises per 10,000.
- 2.7 The ability for SMEs to access finance is important for funding business investment, ensuring businesses meet their full growth potential and encouraging business start-ups. However, being unable to access finance can limit cash flows and hamper business survival prospects<sup>4</sup>. Lack of access to finance for SMEs will be a constraint on the growth and rebalancing of the Scottish economy.
- 2.8 Since the financial crisis, there has been a significant fall in lending to SMEs. Part of this reflects a decrease in demand. Evidence from the British Business Bank<sup>5</sup> finds that 54 per cent of UK SMEs did not use any form of external finance in the last 3 years, an increase from 44 per cent in 2012.
- 2.9 In addition the British Business Bank evidence finds that only 23 per cent of UK SMEs applied for finance in the last three years<sup>6</sup>. This figure is lower than that found in the Small Business Survey 2014, which reports that 31 per cent of Scottish SMEs had applied for finance in the last three years, although this represents a decrease from the 45 per cent of SMEs that had sought finance in the Scottish Government's 2012 Access to Finance Survey.
- 2.10 There is also evidence of market failure with viable firms often unable to secure funds at affordable rates as it is challenging for lenders to distinguish between high-risk and low-risk companies<sup>7</sup>.

### **Macro Context**

- 2.11 Since the last Access to Finance Report was published in 2012, many aspects of the economy in Scotland have surpassed pre-recession levels, with continued growth in output and a strengthening labour market characterised by rising employment and falling unemployment and

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<sup>4</sup> Department for Business, Innovation, and Skills (January 2012), SME Access to External Finance. BIS Economics Paper 16.

[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/32263/12-539-sme-access-external-finance.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/32263/12-539-sme-access-external-finance.pdf)

<sup>5</sup> <http://british-business-bank.co.uk/wp-content/uploads/2014/12/Final-BMG-SME-Journey-Research-Report.pdf>

<sup>6</sup> *ibid*

<sup>7</sup> [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/32263/12-539-sme-access-external-finance.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/32263/12-539-sme-access-external-finance.pdf)

economic inactivity. Business and consumer confidence are upbeat, boosted on the consumer side by a recovery in house prices to pre-recession levels<sup>8</sup>.

- 2.12 Evidence on rebalancing within the economy remains mixed, with an improving picture on investment in 2014 offset to some extent by more difficult trading conditions for exporters. Household confidence and spending are buoyant helped partly by improving credit conditions but also by rising confidence in light of better employment prospects, rising house prices and some indications that real wages are starting to rise after an unprecedented period of weakness.
- 2.13 Looking ahead to the rest of 2015, notwithstanding headwinds from the external environment, further headway in the recovery is anticipated and the economy is expected to stabilise at a pace of growth in line with historical trends.
- 2.14 Investment is a key component of economic growth - both in the short-term (by increasing demand in the economy) and in the long-term (through its effect on productivity). Provisional UK data for Q4 2014<sup>9</sup> show that business investment decreased by an estimated 1.4 per cent compared with the previous quarter. However, business investment increased 2.1 per cent compared with the same quarter one year ago and is now £2.2 billion higher than its pre-recession peak.

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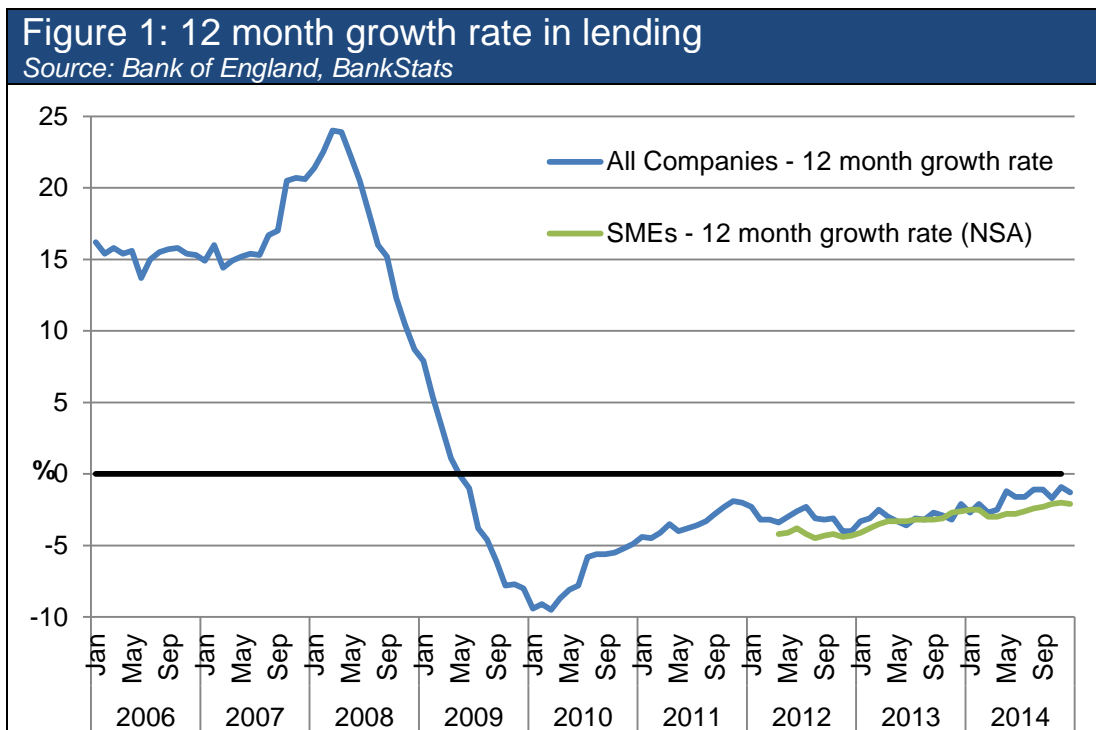
<sup>8</sup> See <http://www.scotland.gov.uk/Topics/Economy/state-economy/latestSofE>

<sup>9</sup> ONS Business Investment: <http://www.ons.gov.uk/ons/rel/bus-invest/business-investment/q4-2014-provisional-results/index.html>



### Lending to UK Businesses

- 2.15 Evidence from the Bank of England shows the seasonally adjusted 12 month growth rate of lending (loans and overdrafts) by financial institutions to non-financial companies in the UK has remained negative throughout 2013 and 2014 (Figure 1). This is in stark contrast to the pre-recession 12 month growth-rate in lending which averaged over 15 per cent<sup>10</sup>, and peaked at 24 per cent in March 2008.
- 2.16 In addition, the 12 month growth rate of lending to non-financial small and medium sized businesses (loans and overdrafts) has been negative since the series began in 2012, although it has continuously become less negative over the period.



- 2.17 To encourage banks to lend to businesses, the Bank of England and HM Treasury introduced the Funding for Lending Scheme (FLS) in 2012. This scheme provided funding to banks and building societies at cheaper than market rates for an extended period, with both the price and quantity of funding linked to their lending performance.
- 2.18 The FLS contributed to a substantial fall in bank funding costs feeding through into a significant improvement in credit conditions for households. A lesser effect was seen on SMEs, so in 2013, the scheme was extended for a year with incentives aimed towards boosting lending to businesses rather than households. Another 12 month extension to the scheme was

<sup>10</sup> Jan 2005-Jan 2008

announced in December 2014 with further tapering the scheme to focus on SMEs (rather than larger businesses).

2.19 In the initial phase of the FLS to Q4 2013, net lending to UK households and non-financial businesses had increased by 0.7 per cent. However, despite further phases of the scheme aimed at increasing lending to SMEs, there was a fall in lending during 2014 (Figure 2).

**Figure 2: Lending to SMEs 2014<sup>11</sup>, total and selected banking institutions**

*Source: Bank of England*

	Q1	Q2	Q3	Q4	Cumulative	Change relative to base stock of loans
Clydesdale	-450	-439	-272	-476	<b>-1,637</b>	-16.0%
Lloyds Banking Group	536	384	304	2	<b>1,226</b>	4.2%
RBS Group	-737	-360	-165	-567	<b>-1,829</b>	-4.3%
Santander	179	99	107	82	<b>467</b>	5.4%
<b>Total</b> (All participating banks)	<b>-730</b>	<b>-345</b>	<b>-100</b>	<b>-810</b>	<b>-1,985</b>	<b>-1.8%</b>

### ***Lending to Scottish SMEs***

2.20 The British Bankers Association (BBA) collates headline lending statistics for seven large banks broken down at regional level. These statistics show that for Scotland, while net lending to medium firms has been largely positive since late 2011 to the most recent quarter (Q4 2014), it has been negative for small businesses<sup>12</sup>(Figure 3). The data also shows that negative net lending statistics can be explained by firms making loan repayments in excess of new borrowing.

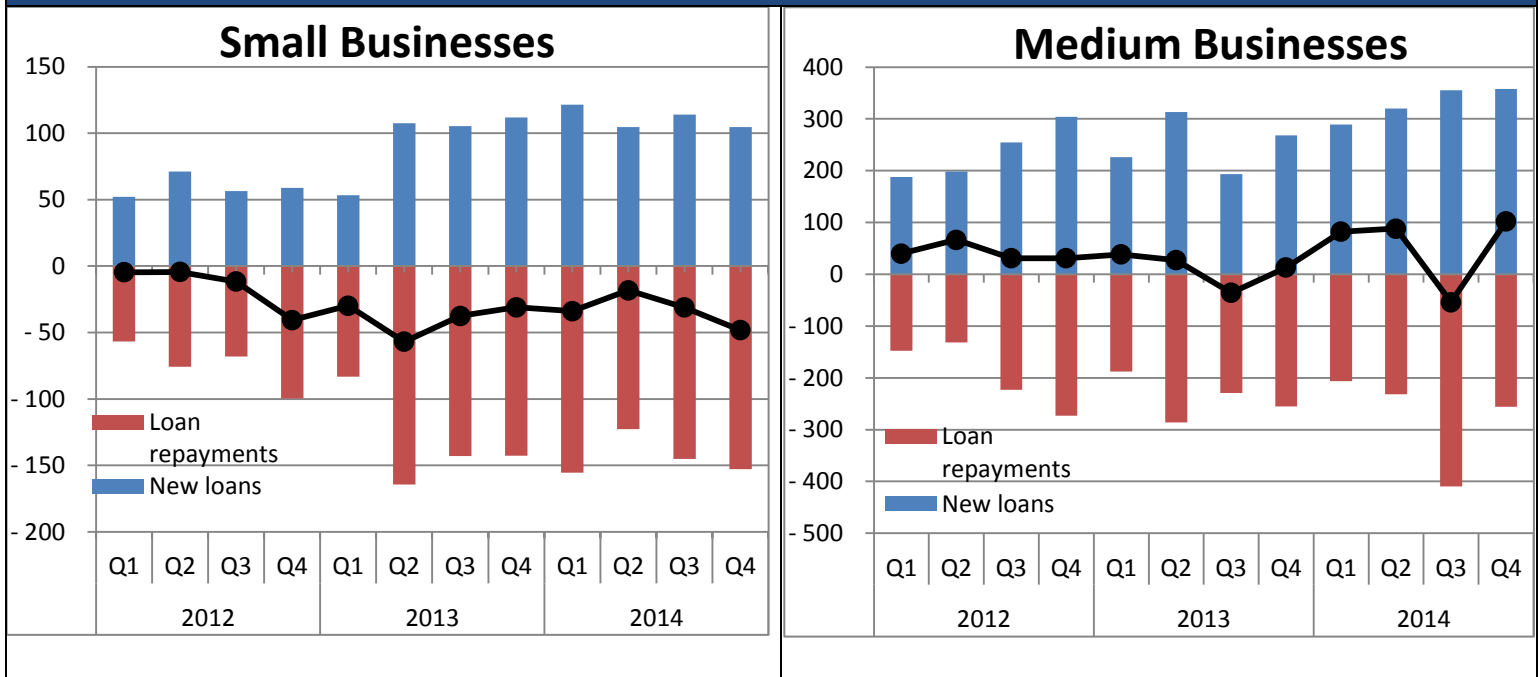
2.21 In addition, the value of overdrawn balances has decreased (particularly for small businesses) and the quarterly number of new overdraft facilities approved in 2014 is 28 per cent lower than the number approved over the same period in 2013.

<sup>11</sup> Selected banks. Barclays and HSBC do not participate.

<sup>12</sup> Defined as turnover less than £1 million annually

Figure 3: Lending to Scottish SMEs

Source: British Bankers Association



2.22 Six of the UK's major banks publish details of lending at postcode sector level. These banks account for 60 per cent of lending to SMEs in the UK. Figure 4 compares postcode lending and SME turnover within each postcode sector in Scotland.

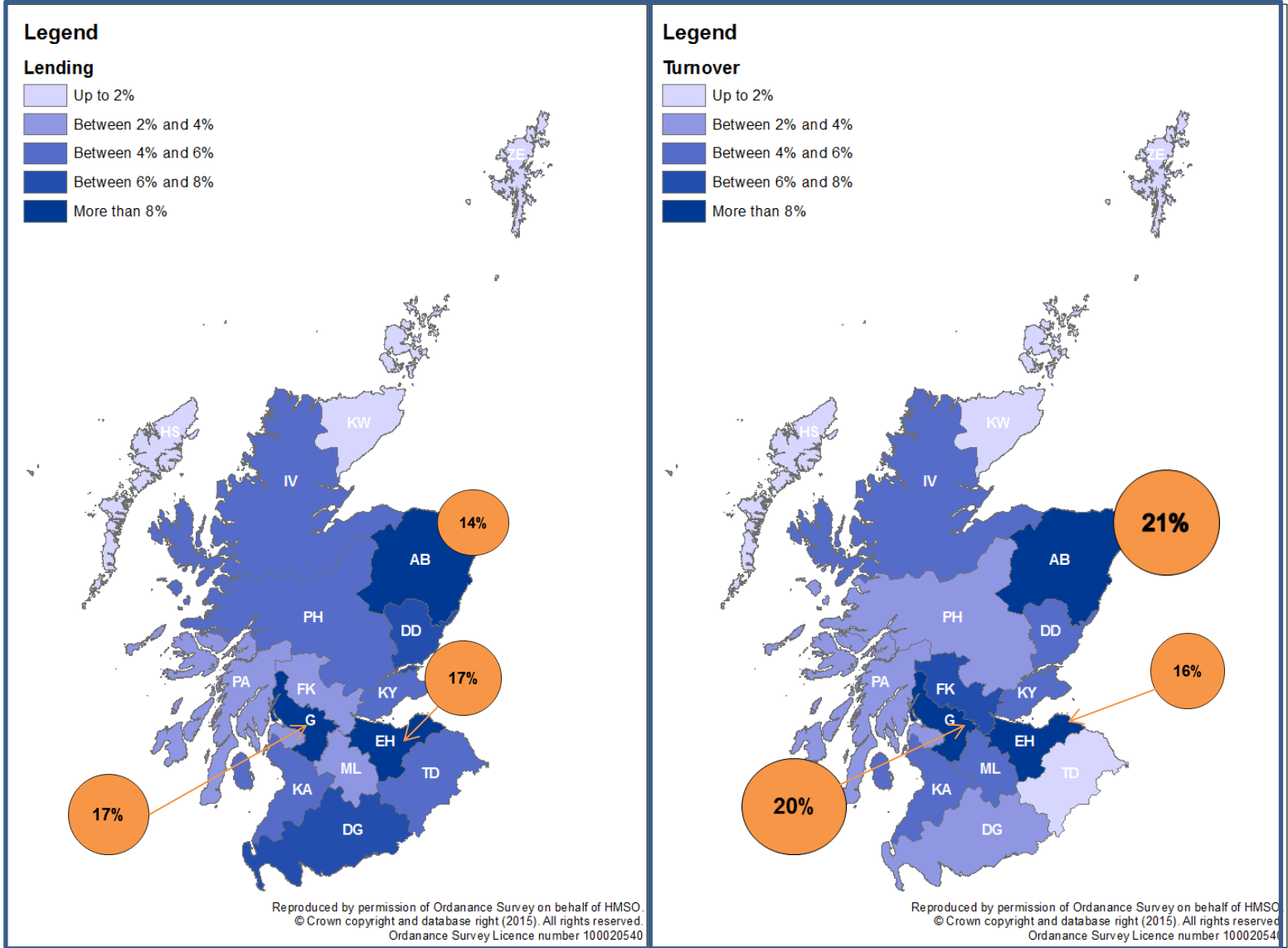
2.23 The largest shares of enterprises and turnover by SMEs are found within Scotland's largest urban areas; Aberdeen, Edinburgh and Glasgow. SMEs in these three postcode sectors account for almost half (49 per cent) of all SMEs in Scotland and over half (57 per cent) of turnover generated by SMEs.

2.24 Figure 4 shows that the proportion of lending is distributed largely in line with turnover and therefore that lending is reaching all parts of Scotland. In fact, some areas have a higher proportion of lending than turnover, including; Dundee, Dumfries and Galloway and Perth. Areas which have a lower proportion of lending than their share of turnover include; Aberdeen<sup>13</sup>, Glasgow and Falkirk.

<sup>13</sup> The influence of the oil and gas industry in Aberdeen is a potential reason for the high share of turnover figure relative to lending

Figure 4: Percentage of Lending and Percentage of Turnover by Postcode Area

Source: IDBR, BBA



## 3 Overview of SME Access to Finance Conditions in Scotland

### *Small Business Survey: Background and methodology*

- 3.1 The structure of this report is to present the latest findings from the 2014 Small Business Survey alongside evidence from other sources to provide a comprehensive picture of access to finance for SMEs.
- 3.2 The Small Business Survey is a UK-wide survey commissioned by the Department for Business, Innovation and Skills. In 2012 and 2014, the Scottish Government boosted the sample to allow more robust analysis of the responses of Scottish businesses.
- 3.3 In the 2014 survey, additional questions were added to allow increased analysis of access to finance conditions for Scottish SMEs to be undertaken.
- 3.4 Within Scotland, the survey sample was stratified according to business size and sector. The achieved sample is given in Figure 5 below:

**Figure 5: Sample Breakdown, Small Business Survey**  
 Source: Small Business Survey 2014

	1-4 employees (Very small micro)	5-9 employees (Larger micro)	10-49 employees (Small)	50-249 employees (Medium)	Total
<b>Primary and Manufacturing ABCDE</b>	35	21	61	30	<b>147</b>
<b>Construction F</b>	17	15	35	11	<b>78</b>
<b>Transport/Retail/Distribution GHI</b>	68	56	122	53	<b>299</b>
<b>Business Services JKLMN</b>	42	36	63	46	<b>187</b>
<b>Other Services PQRS</b>	29	21	67	25	<b>142</b>
<b>Total</b>	<b>191</b>	<b>149</b>	<b>348</b>	<b>165</b>	<b>853</b>

- 3.5 Throughout this analysis, weightings have been applied to the data by size and sector to ensure that the results are representative of the overall Scottish SME population.
- 3.6 It should be noted that the Small Business Survey results presented in this report relate to those SMEs **with employees** only – enterprises with no employees have been excluded from the dataset on which this report was based. Previous Scottish Government Access to Finance surveys included

all SMEs. Where possible, comparisons with the results from the 2012 Small Business Survey have been provided.

- 3.7 While interviews were carried out with sole-traders, the weighting process used to make the results representative of the whole population of sole-traders is different to that used for SME employees, meaning that the two datasets cannot be combined. However, some analysis for sole-traders is provided in the sub-sector analysis, to give an indication of access to finance conditions for these businesses.

### **Access to Finance in context for SMEs**

- 3.8 Evidence from the Small Business Survey suggests that over the past two years, access to finance has become a less important issue for SMEs.
- 3.9 Obtaining finance was cited by 27 per cent of SMEs as an obstacle to the success of their business. This was lower than in 2012, when 41 per cent of SMEs highlighted it as an obstacle. As in 2012, the obstacle cited by most SMEs was the economy, although the proportion decreased from 81 per cent to 61 per cent (Figure 6).

**Figure 6: Obstacles to the success of the business**

Source: Small Business Survey 2012, 2014

Base minimum; 2012 All firms, 835.

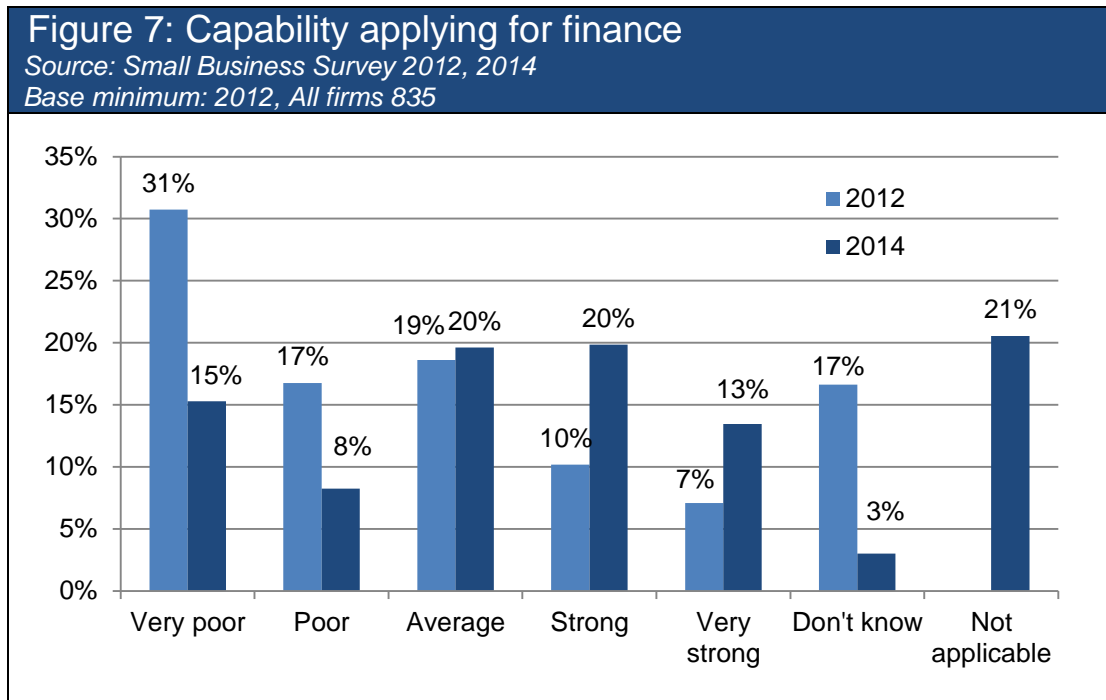
Note red tape, not being able to increase prices and late payment were new categories in 2014

	<b>2012 (%)</b>	<b>2014 (%)</b>
<b>The economy</b>	81	61
<b>Red tape</b>	-	53
<b>Competition in the market</b>	60	50
<b>Taxation, VAT, PAYE, National Insurance, business rates</b>	63	48
<b>Regulations</b>	58	48
<b>Not being able to increase prices/fees</b>	-	45
<b>Cash flow</b>	51	38
<b>Late payment</b>	-	36
<b>Shortage of skills generally</b>	34	31
<b>Recruiting staff</b>	31	30
<b>Obtaining finance</b>	41	27
<b>Availability/cost of suitable premises</b>	22	23
<b>Pensions</b>	23	22
<b>Shortage of managerial skills/expertise</b>	20	16
<b>No obstacles</b>	3	8
<b>Any other obstacles</b>	11	6

- 3.10 In addition, only 4 per cent of SMEs cited obtaining finance as the **main** obstacle to success, down from six per cent in 2012 and lower than the

proportion citing the economy (13 per cent), taxation (11 per cent) or competition (10 per cent).

- 3.11 When SMEs were asked how capable they were at accessing external finance, 15 per cent responded that they had very poor capability; a smaller proportion than in 2012 (Figure 7). A greater proportion responded that they had strong or very strong capability in this area.



### Banking

- 3.12 The vast majority (96 per cent) of SMEs in Scotland use a business bank account as their main bank account with only a small proportion stating that they use a personal current account.

- 3.13 The SME banking market is heavily concentrated. Evidence gathered as part of the Competition and Markets Authority (CMA) investigation into the supply of banking services to SMEs found that three banks (RBS, Lloyds Banking Group and Clydesdale) in Scotland have accounted for over 80 per cent of the main banking relationships for SMEs since 1999, with the largest two providers accounting for around 70 per cent<sup>14</sup>.

- 3.14 The Small Business Survey also confirms that the banking sector in Scotland is heavily concentrated among a small number of banks. Excluding those businesses that refused to answer or did not know, 42 per

<sup>14</sup> CMA and FCA Market Study: Banking Services to SMEs: [https://assets.digital.cabinet-office.gov.uk/media/53eb6b73ed915d188800000c/SME-report\\_final.pdf](https://assets.digital.cabinet-office.gov.uk/media/53eb6b73ed915d188800000c/SME-report_final.pdf)

cent of those SMEs with employees banked with Royal Bank of Scotland and 27 per cent held an account with Lloyds Banking Group<sup>15</sup> (Figure 8).

**Figure 8: Main bank used by Scottish SMEs with employees (%)<sup>16</sup>**

*Source: Small Business Survey 2014*

*Base: All firms excluding refused and don't know, 766*

RBS (RBS, NatWest)	42
Lloyds Banking Group (HBOS, Halifax, Lloyds)	27
Clydesdale	13
Santander	6
Others	13

3.15 Over half of SMEs reported that they have a fairly good or very good relationship with their bank (62 per cent) with 15 per cent reporting that they have a fairly or very poor relationship (Figure 9). This is an improvement in relationships since 2012, when 21 per cent reported a poor or very poor relationship and 55 per cent reported a fairly good or very good relationship.

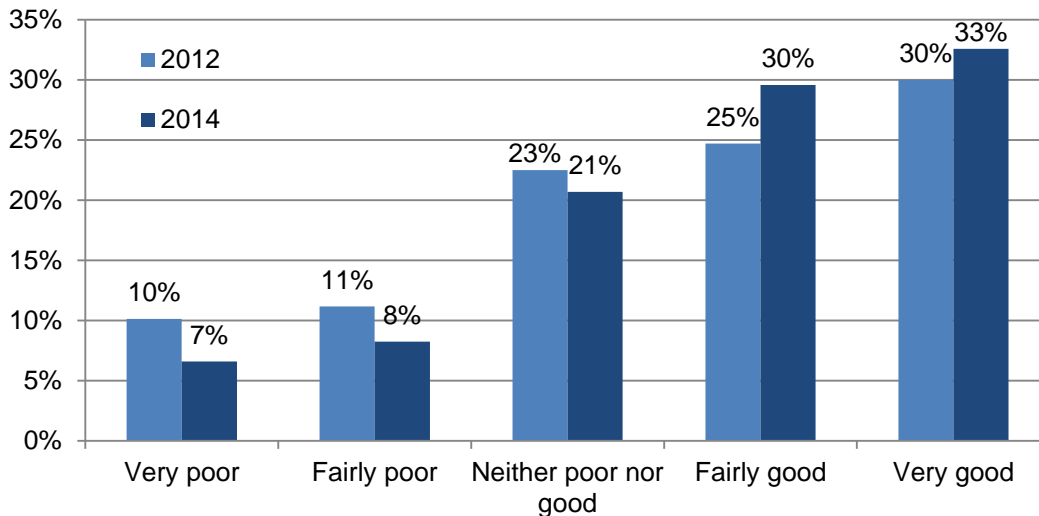
<sup>15</sup> It should be noted that whilst the previous SG Access to Finance report included a similar question on the main banking institutions used by SMEs, the results presented here are not directly comparable due to the exclusion of sole traders from the Small Business Survey. In addition, a number of Scottish SMEs chose not to answer this question which is likely to have an impact on the respective market shares.

<sup>16</sup> Figure 8 was updated on 26/03/15 to remove SMEs with TSB as a main bank from the Lloyds Banking Group figure.



**Figure 9: Relationship with bank**Source: *Small Business Survey 2012, 2014*

Base minimum: 2012 all firms, 835



3.16 The CMA<sup>17</sup> notes that banks with lower customer satisfaction levels tend to have high market shares, while those with the highest customer satisfaction levels are smaller and also find it difficult to expand. This is for a number of reasons, but one which is highlighted is the fact that SMEs tend to value access to local branches suggesting that it is necessary to have a branch network to be a significant competitor in the sector.

3.17 Similarly, analysis of the Business Banking Insight survey data shows that businesses are more satisfied with banks with lower market shares<sup>18</sup>. For example, in Scotland, businesses with 1-9 employees rated Santander and Co-operative Bank over 75 per cent and TSB and Clydesdale lowest. This suggests that a highly concentrated banking market may be an issue for concern.

### ***Demand for Finance***

3.18 The ability for SMEs to access finance is important for funding business investment, ensuring businesses meet their growth potential and encouraging business start-ups. However, many SMEs do not use or seek external or formal sources of finance.

<sup>17</sup> CMA and FCA Market Study: Banking Services to SMEs [https://assets.digital.cabinet-office.gov.uk/media/53eb6b73ed915d188800000c/SME-report\\_final.pdf](https://assets.digital.cabinet-office.gov.uk/media/53eb6b73ed915d188800000c/SME-report_final.pdf) (page 5)

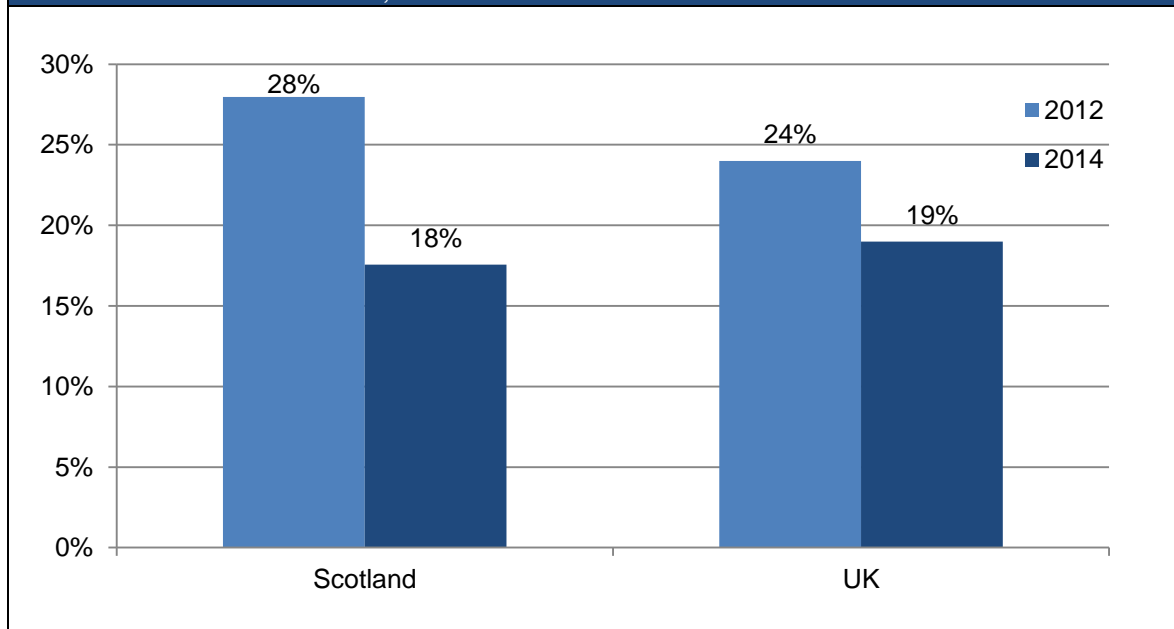
<sup>18</sup> Scottish Government Analysis of BBI Survey data: <http://www.businessbankinginsight.co.uk/>

- 3.19 The BDRC SME Finance Monitor Annual Report for 2013<sup>19</sup> found that 41 per cent of SMEs in Scotland were currently using external finance of any form, a decrease from 48 per cent in 2011. 78 per cent were classified as “happy non-seekers” of finance – they had not applied for finance in the last 12 months and nothing had stopped them from doing so.
- 3.20 In addition, the latest quarterly SME Finance Monitor<sup>20</sup> finds that (UK wide) 7 in 10 businesses aim to pay down debt and remain debt free if possible and 21 per cent of SMEs with employees could be described as “debt averse”.
- 3.21 The latest Small Business Survey supports these results finding that only 18 per cent of SMEs had applied for finance in the last 12 months, with six per cent applying more than once (Figure 10). This is similar to the proportion of SMEs seeking finance in the UK as a whole<sup>21</sup> (19 per cent) and lower than in 2012 when 28 per cent of Scottish SMEs applied for finance. A comparable reduction in the proportion of firms applying for finance was also reported in the SME Finance monitor, which found that 17 per cent of firms had applied for finance in the last 12 months, down from 22 per cent a year previously.

Figure 10: Proportion of SMEs seeking finance, Scotland and UK

Source: *Small Business Survey; 2012, 2014*

Base: *Scotland All SMEs 2012, 835*



<sup>19</sup> BDRC SME Finance Monitor Annual Report 2013: <http://bdrc-continental.com/wp-content/uploads/2014/11/Annual-Report-2013-SME-Finance-Monitor.pdf>

<sup>20</sup> BDRC SME Finance Monitor Q4 2014: <http://bdrc-continental.com/products/sme-finance-monitor/> (page 85)

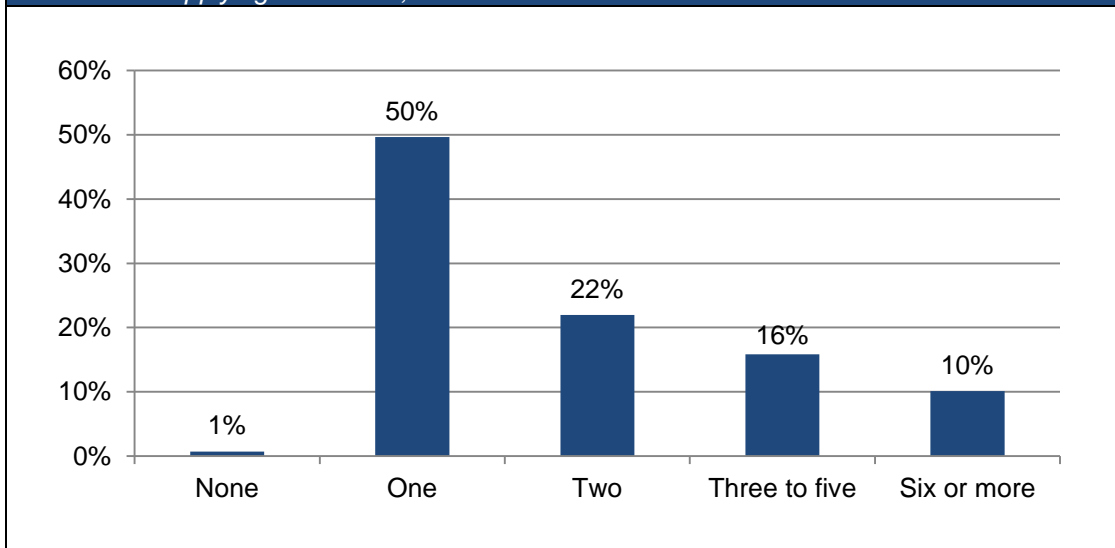
<sup>21</sup> See <https://www.gov.uk/government/publications/small-business-survey-2014-businesses-with-employees>

- 3.22 The Small Business Survey asks if SMEs plan on growing their business over the next 2-3 years, and if so whether they will approach external finance providers to help fund this growth. 60 per cent of firms responded that it was not very or not at all likely that they would approach external finance providers to fund the growth, suggesting an aversion to external finance even for growth purposes. This reluctance to use external finance to fund growth is also found by the British Business Bank's "SME Journey Towards Raising Finance"<sup>22</sup> study, with 74 per cent of firms planning on growing stating that they will use internal cashflow/funds only.
- 3.23 While the Q4 SME Finance Monitor also finds that only 50 per cent of SMEs with employees agreed that they were happy to use external finance to help their business grow, this proportion is higher than expected given that around 70 per cent say they want to pay down debt and remain debt free if possible. This suggests that while SMEs would like to remain debt free, they are prepared to use external finance in the right circumstances.
- 3.24 In the Small Business Survey, half of those SMEs that sought finance approached one provider of finance, although 10 per cent reported that they had approached more than six providers (Figure 11).

**Figure 11: Number of providers approached**

Source: Small Business Survey 2014

Base: Firms applying for finance, 197



<sup>22</sup> <http://british-business-bank.co.uk/wp-content/uploads/2014/12/Final-BMG-SME-Journey-Research-Report.pdf>

3.25 This is supported by the findings of the CMA Banking Inquiry<sup>23</sup> which finds that around 70 per cent of SMEs seeking loans approach only one provider, without considering alternatives; almost 90 per cent then take out that loan with their main bank. A similar proportion of SMEs is found to approach their own bank if they need finance by the British Business Bank evidence and 62 per cent state that this is because they know them or have a relationship with them.

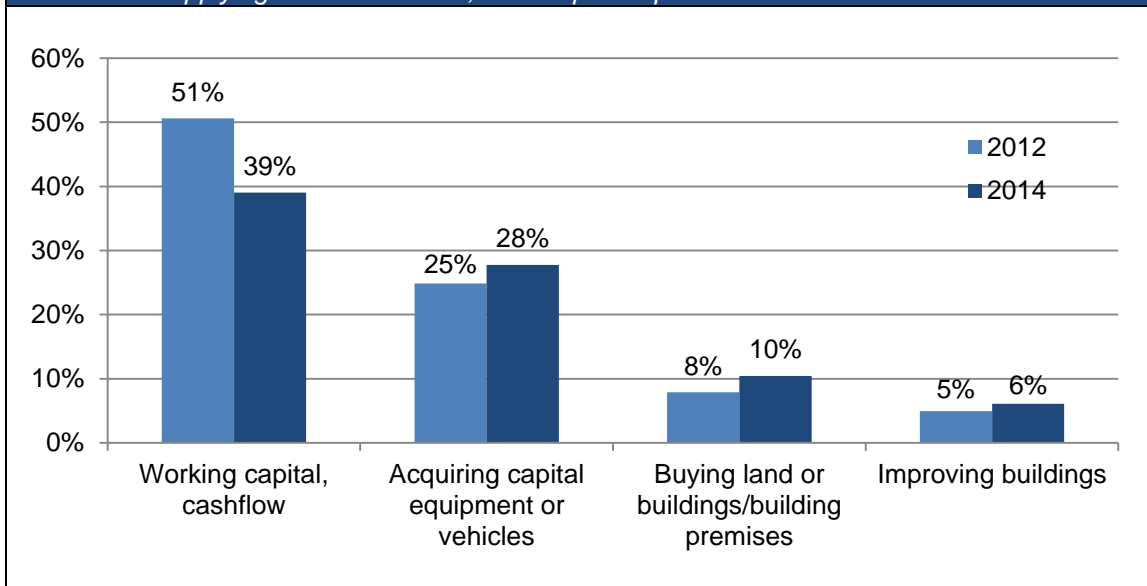
3.26 As Figure 12 shows the most common reason for trying to obtain finance was for working capital/cashflow (39 per cent), followed by acquiring capital equipment or vehicles (28 per cent). Compared with 2012, less funding was sought for working capital/cashflow and more money was sought to invest in acquiring capital equipment or buildings.

3.27 This move away from seeking finance to fund working capital towards investment in capital equipment is also reported by the British Business Bank<sup>24</sup>.

**Figure 12: Reason for applying for finance – Top 4 responses**

Source: Small Business Survey 2012, 2014

Base: Firms applying for finance 2014, 197. Top 4 responses



3.28 Evidence from other surveys confirms that the majority of SMEs seeking finance do so for working capital. Results from the Federation of Small Businesses' 2014 Member Survey in Scotland<sup>25</sup> also finds that the most

<sup>23</sup> [https://assets.digital.cabinet-office.gov.uk/media/53eb6b73ed915d188800000c/SME-report\\_final.pdf](https://assets.digital.cabinet-office.gov.uk/media/53eb6b73ed915d188800000c/SME-report_final.pdf)

<sup>24</sup> <http://british-business-bank.co.uk/wp-content/uploads/2014/12/Chapter-1-Demand-the-transition-to-growth-finance.pdf>

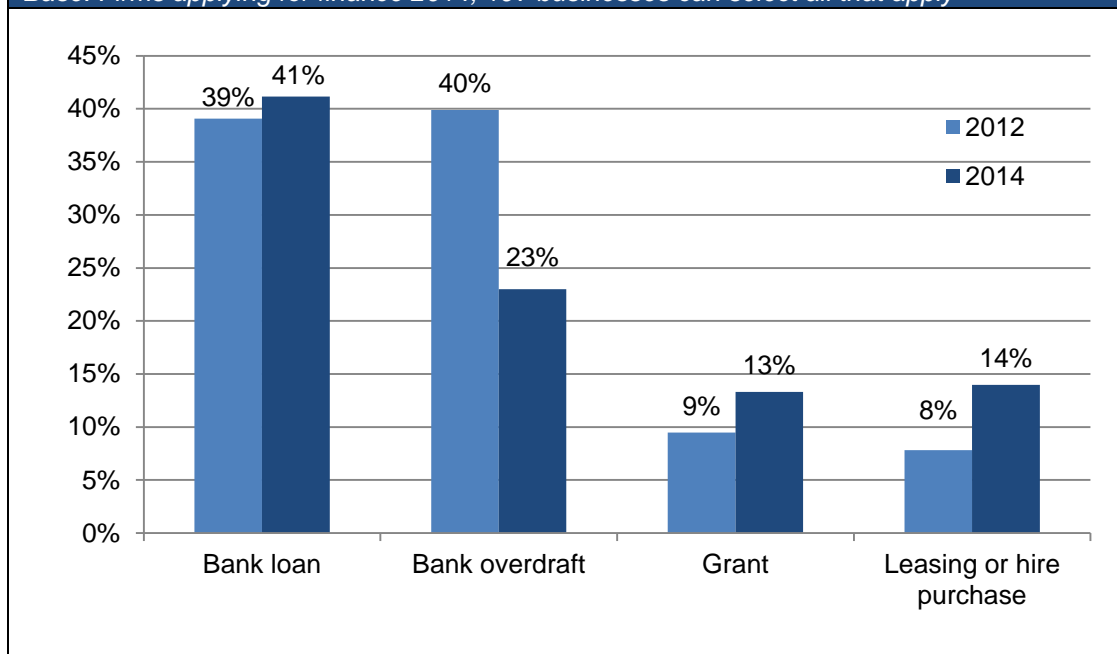
<sup>25</sup> [http://www.fsb.org.uk/policy/rpu/scotland/assets/surveys/publi\\_survey\\_scotland\\_2014.pdf](http://www.fsb.org.uk/policy/rpu/scotland/assets/surveys/publi_survey_scotland_2014.pdf)

common reason for firms to seek finance is to ensure cash flow. However, this survey also found a greater proportion of firms borrowing to invest in machinery or equipment (36 per cent).

- 3.29 The SME Journey Towards Raising Finance study reported that of those SMEs seeking working capital, 53 per cent did so to cover a short-term gap, 32 per cent as a safety net and 27 per cent to fund general growth.
- 3.30 The Small Business Survey shows that the main type of finance applied for was bank loans (41 per cent) followed by overdrafts (23 per cent). Compared with 2012, overdraft applications have become less common, while grants and leasing/hire purchase have become more common (Figure 13).
- 3.31 These findings differ from UK-wide evidence for the British Business Bank, which finds that (over the past 3 years) the most common type of finance applied for is overdrafts and credit card finance, with bank loans/mortgages the third most common. However, this data includes sole-traders.
- 3.32 The Bank of England<sup>26</sup> and others note an increasing diversification in the sources of finance used. However, there is little evidence of this in the results from the Small Business Survey, with no firms mentioning crowdfunding or loans from peer to peer networks, and equity investment from all sources (e.g. shareholders, business angels) only being reported by a small proportion of businesses (7% overall).

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<sup>26</sup> See e.g. Bank of England's Agent Summary of Business Conditions

**Figure 13: Type of finance applied for – Top 4 responses***Source: Small Business Survey 2012, 2014**Base: Firms applying for finance 2014, 197 businesses can select all that apply*

3.33 The most common amount of finance requested by SMEs in 2014 was £100,000 - 249,999 (22 per cent) followed by £10,000 - 24,999 (21 per cent). Compared with 2012, higher amounts of finance are being requested by a greater number of firms (Figure 14).

**Figure 14: Amount of finance sought***Source: Small Business Survey 2012, 2014**Base: Firms applying for finance 2014, 197*

	2012 (%)	2014 (%)
<b>Less than £10,000</b>	14	13
<b>£10,000 to £24,999</b>	27	21
<b>£25,000 to £49,999</b>	16	13
<b>£50,000 to £99,999</b>	6	9
<b>£100,000 to £249,999</b>	14	22
<b>£250,000 to £999,999</b>	9	8
<b>£1 million or more</b>	4	4
<b>DK/Unwilling</b>	9	11

### Discouraged Borrowers

Discouraged borrowers are businesses that would like to borrow but do not apply for bank finance because they either believe that they will be turned down (indirectly discouraged) or they began informal discussions but do not proceed because the bank seemed reluctant to lend (directly discouraged). It is estimated that 173,000 businesses in the UK can be classified as discouraged borrowers according to an Enterprise Research Centre report from March 2014<sup>27</sup>.

The SME Finance Monitor<sup>28</sup> found in qualitative research amongst “discouraged would be seekers” that a number of SMEs felt discouraged due to a previous bank decline, which might have happened a number of years ago. In Q4, six per cent of UK SMEs reported that they had ever been declined for a banking facility and of those that had, 75 per cent said that this had made them more reluctant to apply for bank finance subsequently.

The 2014 Small Business Survey found that of those SMEs that did not apply for any finance, 13 per cent had a need for finance in the previous 12 months. In addition, of those SMEs that did apply for finance, 12 per cent had need for additional finance which they did not apply for.

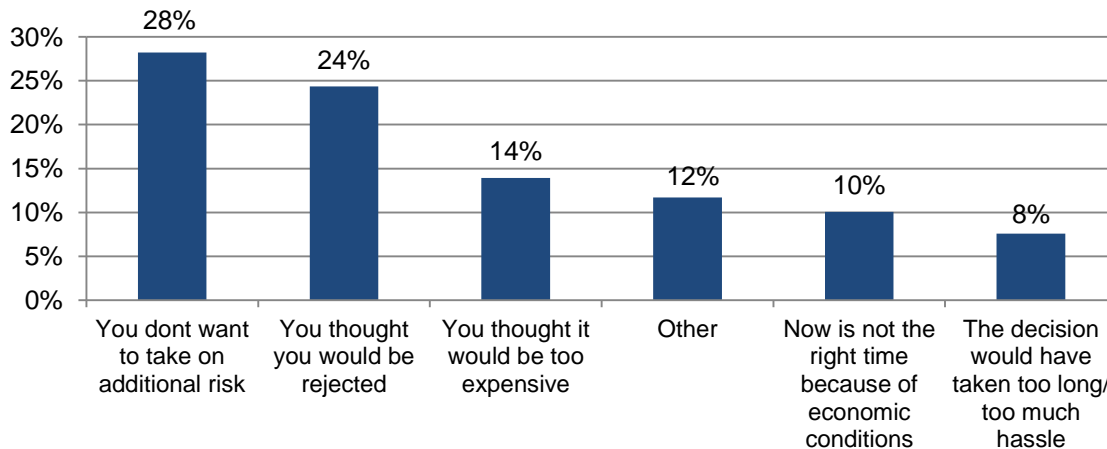
Within these two groups, 24 per cent did not apply for finance because they thought that they would be rejected (Figure 15). However, the main reason that SMEs needing finance did not apply was because they didn’t want to take on additional risk (28 per cent).

Around a quarter (26 per cent) of these SMEs spoke to their bank about an application for finance before they decided not to continue, suggesting that most of them were indirectly discouraged.

#### Figure 15: Reasons for not applying for finance

Source: Small Business Survey 2014

Base: Discouraged borrowers, 91



<sup>27</sup> <http://enterpriseresearch.ac.uk/wp-content/uploads/2014/03/ERC-White-Paper-8-Discouragement-Stuart-Fraser-Full-March-2014.pdf>

<sup>28</sup> <http://bdcrc-continental.com/products/sme-finance-monitor/> (page 217)

### Supply of Finance

- 3.34 Supply of finance is measured in two ways in the Small Business Survey – through the proportion of SMEs able to access all of the finance needed from the first source approached and the final outcome for finance applications from all sources approached.
- 3.35 Over half of SMEs had no problems applying for finance from the **first source they approached** in 2014 (57 per cent). However, 17 per cent of firms could not obtain any finance from the first source and 16 per cent of firms obtained all of the finance but with some problems. This is similar to the UK as a whole, where 58 per cent of SMEs had no difficulties seeking finance from the first source approached.
- 3.36 Compared with 2012, the number of firms obtaining finance from the first source with no difficulties is higher and the number of firms unable to obtain any finance from the first source is lower (Figure 16).

**Figure 16: Difficulties seeking finance - first source approached**

Source: Small Business Survey 2012, 2014

Base minimum: Firms applying for finance 2014, 197

	2012 (%)	2014 (%)
<b>Any Difficulties</b>	<b>48</b>	<b>38</b>
-Unable to obtain any finance	32	17
-Obtained some but not all	4	5
-Obtained all with some problems	11	16
<b>No Difficulties</b>	<b>50</b>	<b>57</b>

- 3.37 Turning to the final outcome of applications **from all sources approached**, compared with 2012, fewer SMEs ended up obtaining no finance at all whilst a higher proportion obtained all they needed from the first source (Figure 17). There are some differences with SMEs in the UK as a whole, with 71 per cent of SMEs obtaining all the finance required and 21 per cent obtaining none<sup>29</sup>.

<sup>29</sup> See <https://www.gov.uk/government/publications/small-business-survey-2014-businesses-with-employees>



<b>Figure 17: Final outcome of application- all sources approached</b>		
<i>Source: Small Business Survey 2012, 2014</i>		
<i>Base: Firms that applied for finance 2014, 197. Omits still pending/don't know</i>		
	<b>2012 (%)</b>	<b>2014 (%)</b>
<b>Obtained all needed</b>	<b>69</b>	<b>80</b>
-From first source	61	72
-From another source	8	8
<b>Obtained some but not all</b>	<b>6</b>	<b>1</b>
<b>Obtained None</b>	<b>23</b>	<b>13</b>

- 3.38 These results are very similar to the findings of the SME Finance Monitor<sup>30</sup>. This found that 82 per cent of loan applications by Scottish SMEs were successful; the highest level across the UK regions and nations and higher than the UK as a whole (56 per cent). This is almost double the success rate of the worst performing regions (North East England and Yorkshire and the Humber - both 43 per cent).
- 3.39 The SME Finance Monitor also found that 13 per cent of applicants in Scotland ended up with no facility at all compared with 35 per cent across the UK as a whole.
- 3.40 SMEs whose final outcome was not obtaining any finance at all were asked if this was because their application was turned down or because they rejected the terms that were offered to them by lenders. On a small base of 31, 34 per cent of firms responded that they had rejected the terms and conditions that were offered to them. Of those that responded that they had rejected the terms and conditions offered to them, (on a small base of 13 respondents), the most common reason cited for doing so was that too much security was asked for by the lender.
- 3.41 The Better Business Finance Initiative was set up by five of the biggest banks and is managed by the British Bankers Association<sup>31</sup>. Businesses that have had their application for finance turned down can appeal against the decision, with the system independently reviewed by Professor Russell Griggs.
- 3.42 Since the process began in April 2011 until December 2014, 368 appeals were lodged in Scotland, accounting for 6.5 per cent of total appeals. In 139 of the cases, the original decision was overturned with a total value of £3.2 million.

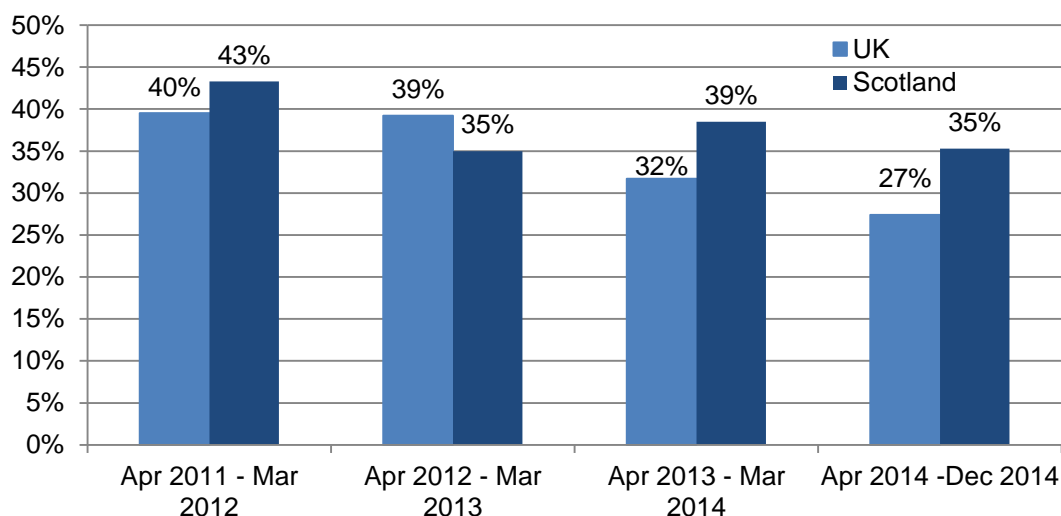
<sup>30</sup> <http://bdrc-continental.com/wp-content/uploads/2014/11/Annual-Report-2013-SME-Finance-Monitor.pdf>

<sup>31</sup> [http://www.betterbusinessfinance.co.uk/bbf/about\\_us](http://www.betterbusinessfinance.co.uk/bbf/about_us)

3.43 The most recent data shows that the overturn rate in Scotland was 35 per cent (Figure 18). This is lower than in the first year of the process when the rate was 43 per cent. However, the overturn rate in the UK as a whole is lower (27 per cent). Although this is based on a small number of appeals, it suggests that viable firms in Scotland may be more likely to have their applications rejected than those in the UK as a whole.

**Figure 18: Percentage of appeals overturned**

Source: Better Business Finance Taskforce – Lending Appeals



3.44 The majority of appeals related to requests for overdrafts (43 per cent) followed by unsecured loans (23 per cent) and secured loans (16 per cent).

3.45 Most appeals are lodged by firms with a turnover less than £100,000 (64 per cent) and relate to requests for lending of less than £10,000 (Figure 19).

**Figure 19: Appeals and overturns by amount of finance requested**

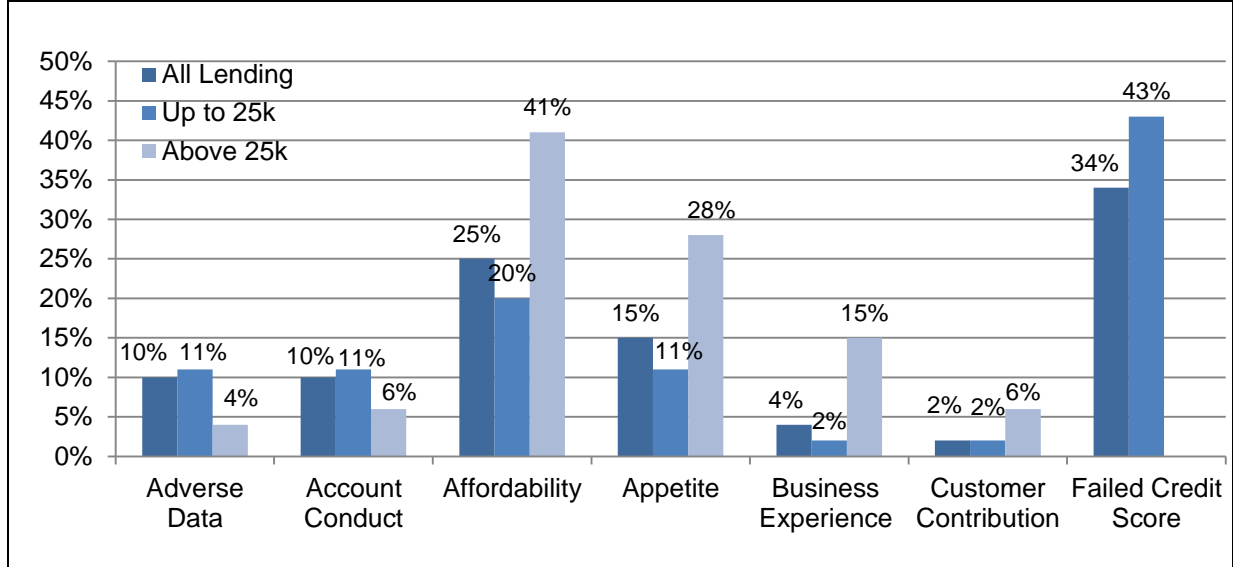
Source: Better Business Finance Taskforce – Lending Appeals

	Appeals (%)	Overturns (%)
<b>Less than £10,000</b>	61	70
<b>£10,000 to £24,999</b>	17	18
<b>£25,000 to £49,999</b>	4	3
<b>£50,000 to £99,999</b>	7	4
<b>£100,000 to £249,000</b>	6	4
<b>£250,000 to £999,999</b>	6	1
<b>Over 1 million</b>	1	0

3.46 For requests of less than £25,000, the main reason firms are turned down by banks is related to their credit score (43 per cent, figure 20). For lending over £25,000 then main reason for decline is affordability (41 per cent) although bank's appetite for lending was reported by 28 per cent of firms.

**Figure 20: Reasons for rejection by amount sought**

Source: Better Business Finance Taskforce – Lending Appeals

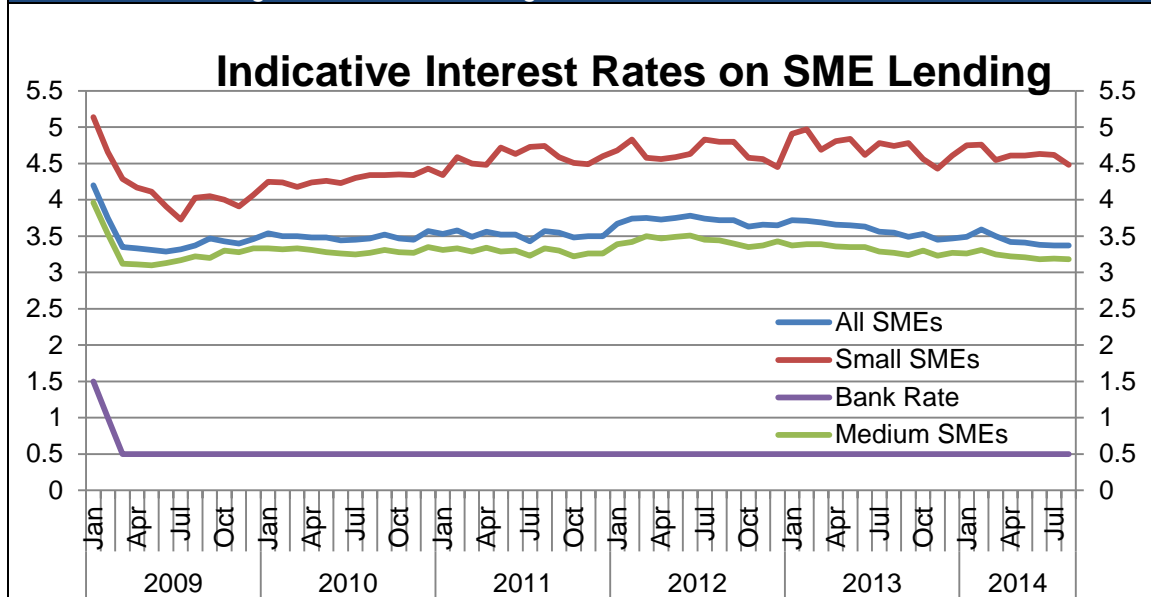


## Costs of Finance

Firms' access to finance is determined not only by the quantity of credit that banks are willing to supply, but also the cost of credit. According to the latest Bank of England Trends in Lending publication, interest rates have recently drifted down slightly (Figure 21). This is especially the case for medium SMEs, while rates for small SMEs remain higher than in 2009. This is despite the base rate remaining at an historic low level.

**Figure 21: Indicative interest rates on SME lending**

*Source: Bank of England Trends in Lending/ BIS*



There is some survey evidence suggesting that this is the reason for weak demand from SMEs, with 41 per cent of firms surveyed by the British Business Bank<sup>32</sup> that needed credit but didn't apply for it citing this as a reason. However, only 17 per cent of responded that this was the main reason for not applying.

<sup>32</sup> <http://british-business-bank.co.uk/wp-content/uploads/2014/12/Final-BMG-SME-Journey-Research-Report.pdf>

## 4 Detailed Small Business Survey Analysis

The analysis in this chapter focuses in detail on the results from the Small Business Survey. It outlines the results on demand for finance, reasons for seeking finance, amount of finance sought, type of finance sought and whether businesses had any difficulties in obtaining finance.

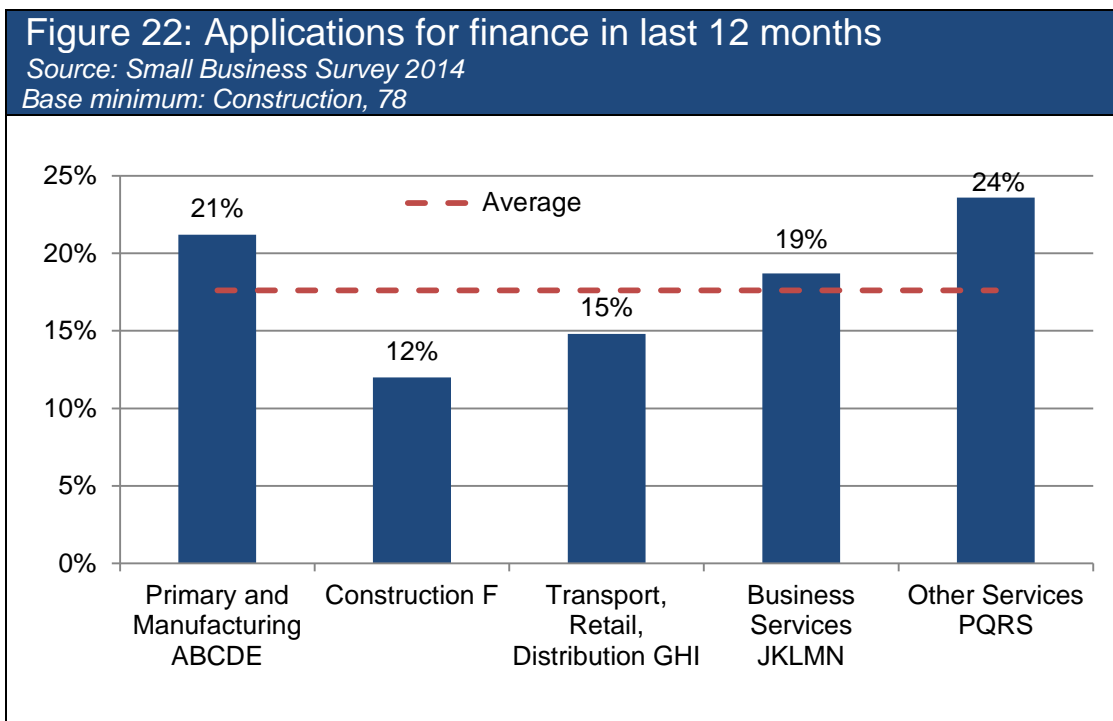
This analysis is provided for:

- Sectors
- Sizeband
- Type of SME – exporters, growth, innovators
- Women led businesses
- Urban-rural
- Sole traders

Due to small sample sizes, some of the detailed analysis may present only headline results.

### Sector Analysis

- 4.1 Sectors that were more likely to apply for finance were other services (24 per cent) and primary and manufacturing services (21 per cent). SMEs in the construction sector and transport, retail and distribution sector were less likely to apply for finance (Figure 22).
- 4.2 With a few exceptions finance was mainly sought either for working capital/cashflow or acquiring capital equipment or vehicles across the sectors. Exceptions include the primary and manufacturing sector, where it was also sought to buy land or buildings (34 per cent).
- 4.3 Across most sectors, the main type of finance sought was in the form of bank loans or overdrafts. Exceptions to this are the other services sector where two thirds of those SMEs seeking finance sought grants and the construction sector where half of SMEs applying for finance, sought leasing or hire purchase finance.



- 4.4 The construction and other services sectors were most likely to apply for less than £10,000, while the primary and manufacturing sectors were most likely to seek the highest amount of finance (Figure 23).

**Figure 23: Amount of finance sought**  
 Source: Small Business Survey 2014  
 Base minimum: Construction firms applying for finance, 17

	Primary & Manufact. (%)	Construct. (%)	Trans./ Retail/ Distribution (%)	Business Services (%)	Other Services (%)
<b>Less than £10,000</b>	13	33	-	11	27
<b>£10,000 to £24,999</b>	18	13	33	14	20
<b>£25,000 to £49,999</b>	1	18	18	16	9
<b>£50,000 to £99,999</b>	4	13	15	3	13
<b>£100,000 to £249,999</b>	40	11	19	22	14
<b>£250,000 to £999,999</b>	9	-	8	9	7
<b>£1 million or more</b>	9	-	3	4	1
<b>DK/Unwilling</b>	8	13	4	21	8

- 4.5 SMEs in the transport, retail and distribution sector were most likely to report having any problems accessing finance from the **first source approached** (Figure 24). SMEs in the primary and manufacturing sector were least likely to report difficulties (73 per cent had no difficulties).

Figure 24: Difficulties seeking finance – first source approached

Source: Small Business Survey 2014

Base minimum: Construction firms applying for finance, 17

	Primary & Manufact. (%)	Construct (%)	Trans./ Retail/ Distribution (%)	Business Services (%)	Other Services (%)
<b>Any Difficulties</b>	<b>28</b>	<b>29</b>	<b>49</b>	<b>40</b>	<b>27</b>
-Unable to obtain any finance	4	19	26	20	10
-Obtained some but not all	8	10	4	2	5
-Obtained all with some problems	16	-	20	18	12
<b>No Difficulties</b>	<b>73</b>	<b>71</b>	<b>48</b>	<b>45</b>	<b>69</b>

4.6 In terms of eventual outcome of applications for finance the primary and manufacturing sector had the highest percentage of SMEs which successfully obtained all the finance they sought from **all sources approached** (92 per cent, Figure 25). The construction sector had the highest percentage of SMEs reporting that they obtained none of the finance that they sought (29 per cent).

Figure 25: Final outcome of applications – all sources approached

Source: Small Business Survey 2014

Base minimum: Construction firms applying for finance, 17. Omits still pending/don't know

	Primary & Manufact. (%)	Construct (%)	Trans./ Retail/ Distribution (%)	Business Services (%)	Other Services (%)
<b>Obtained all needed</b>	<b>92</b>	<b>71</b>	<b>82</b>	<b>74</b>	<b>82</b>
-Obtained all they needed from the first source	88	71	67	63	81
-Obtained all they needed from another source	3	-	14	11	1
<b>Obtained some but not all</b>	-	-	-	2	-
<b>Obtained none</b>	<b>9</b>	<b>29</b>	<b>15</b>	<b>9</b>	<b>11</b>

## Section 4

**Tourism**

A sector that has been highlighted as finding it particularly difficult to access finance is the tourism sector. For example, the Federation of Small Businesses<sup>33</sup> reports that accessing finance is more likely to be a barrier for firms in the sector.

This is supported to a certain extent by the Small Business Survey results, which find that 35 per cent of SMEs in the tourism industry cite obtaining external finance as an obstacle to success compared with 27 per cent of all SMEs.

SMEs in the tourism sector were more likely to seek higher amounts of finance than those in other sectors (Figure 26). This contrasts with the FSB report, which finds that SMEs in the tourism sector, on average, borrowed £20,000 less for investment purposes than those in other sectors.

**Figure 26: Amount applied for**

Source: Small Business Survey 2014

Base minimum; firms in tourism sector that applied for finance, 26

	Tourism Sector (%)	All Sectors (%)
<b>Less than £10,000</b>	-	13
<b>£10,000 to £24,999</b>	13	21
<b>£25,000 to £49,999</b>	8	13
<b>£50,000 to £99,999</b>	21	9
<b>£100,000 to £249,999</b>	18	22
<b>£250,000 to £999,999</b>	21	8
<b>£1 million +</b>	6	4
<b>DK/ Refused</b>	13	11

However, SMEs in the tourism industry were less likely to have applied for finance in the last 12 months (11 per cent vs. an average of 18 per cent across all sectors). As such the unweighted base is small. However, SMEs in the tourism sector reported encountering difficulties from the **first source approached** more frequently than firms in other sectors (Figure 27).

**Figure 27: Difficulties seeking finance – first source**

Source: Small Business Survey 2014

Base minimum; firms in tourism sector that applied for finance, 26

	Tourism Sector (%)	All Sectors (%)
<b>Any Difficulties</b>	<b>52</b>	<b>37</b>
-Unable to obtain any finance	23	17
-Obtained some but not all	12	5
-Obtained all with some problems	18	16
<b>No Difficulties</b>	<b>37</b>	<b>57</b>

In addition, firms in the tourism sector were more likely to report being unable to obtain finance from **any** source than all firms (26 per cent vs. 13 per cent).

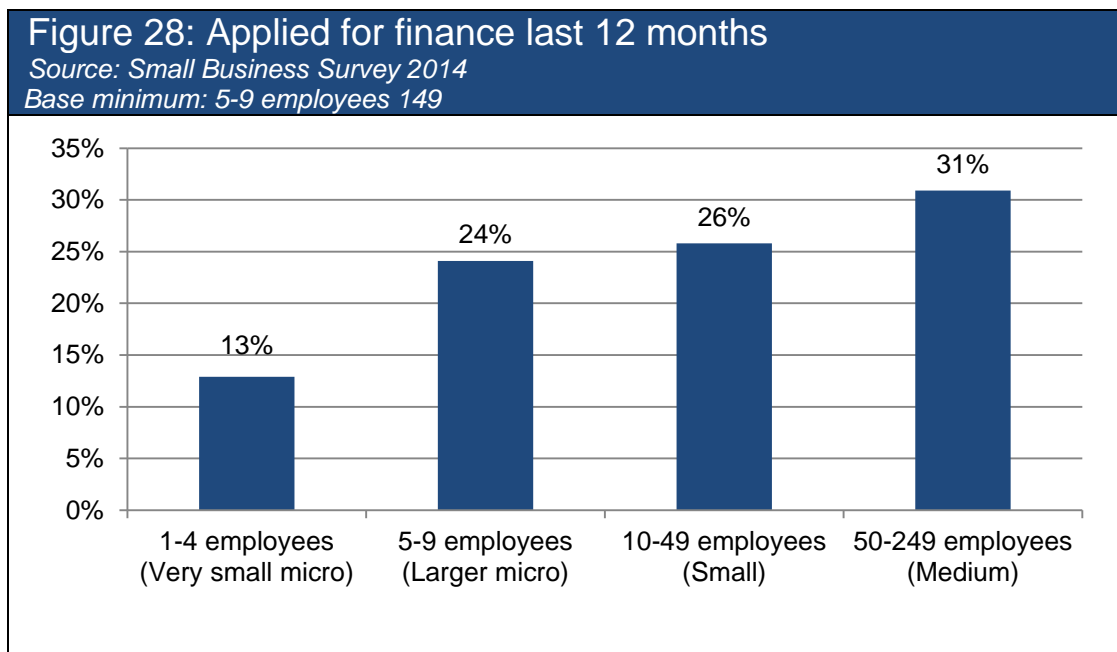
<sup>33</sup> [http://www.fsb.org.uk/policy/rpu/scotland/assets/economy-and-%20finance/economy/publi\\_spec\\_tourism\\_aug2014\\_v2.pdf](http://www.fsb.org.uk/policy/rpu/scotland/assets/economy-and-%20finance/economy/publi_spec_tourism_aug2014_v2.pdf)



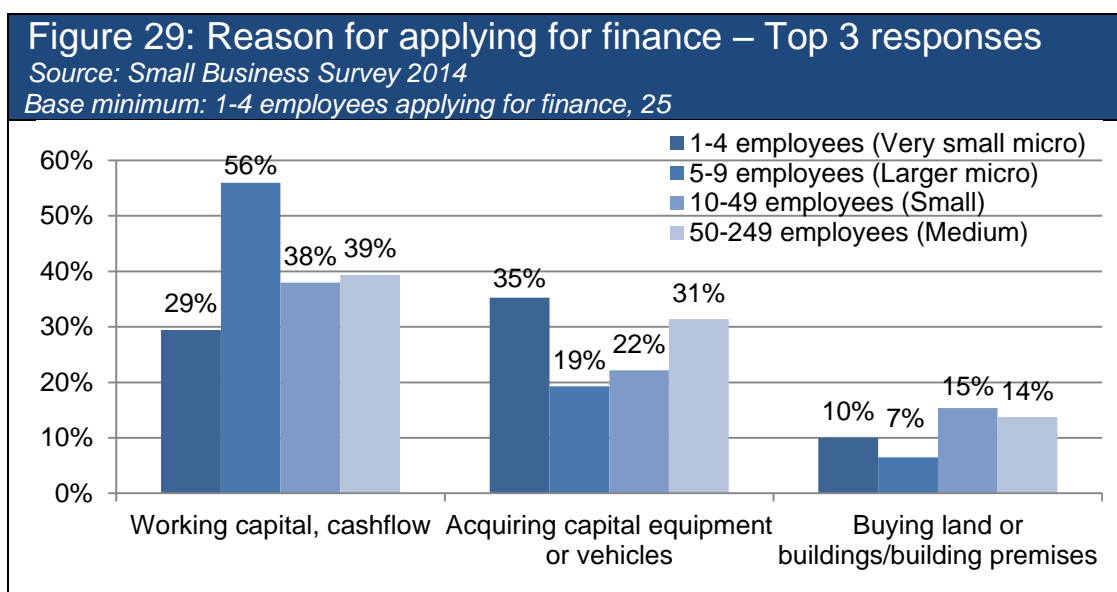
## Section 4

**Size**

- 4.7 The smallest SMEs were less likely to apply for finance than larger SMEs (Figure 28), with those with 10-49 employees twice as likely to apply for finance as SMEs with 1-4 employees.



- 4.8 Larger micro SMEs were most likely to apply for finance for working capital, while very small micros were most likely to apply for finance to buy capital equipment or vehicles (Figure 29). However, there are no major differences in the reasons for applying for finance based on the size of businesses.



## Section 4

4.9 The smallest SMEs were more likely to apply for overdrafts, reflecting the smaller amounts of credit that they seek, whereas larger SMEs were more likely to use leasing or hire purchase finance. However, bank loans were the most popular form of finance across all sizes of SMEs.

4.10 While the very smallest SMEs were most likely to apply for the lowest amount of finance, a high proportion also applied for between £100,000-£249,999 (31 per cent, Figure 30). This suggests that a large number of small SMEs may be seeking finance in order to grow their businesses.

**Figure 30: Amount of finance sought**

Source: Small Business Survey 2014

Base minimum: 1-4 employees seeking finance, 25

	1-4 employees (Very small micro) (%)	5-9 employees (Larger micro) (%)	10-49 employees (Small) (%)	50-249 employees (Medium) (%)
<b>Less than £10,000</b>	27	-	3	-
<b>£10,000 to £24,999</b>	23	27	14	6
<b>£25,000 to £49,999</b>	8	20	14	12
<b>£50,000 to £99,999</b>	-	22	13	7
<b>£100,000 to £249,999</b>	31	9	21	18
<b>£250,000 to £999,999</b>	5	2	16	25
<b>£1 million or more</b>	-	2	9	25
<i>DK/Refused</i>	7	18	11	6

4.11 The smallest firms were most likely to report encountering difficulties from the **first source of finance approached** (44 per cent, Figure 31). 80 per cent of medium sized business reported encountering no difficulties.

**Figure 31: Difficulties seeking finance – first source**

Source: Small Business Survey 2014

Base minimum: Firms with 1-4 employees seeking finance, 25

	1-4 employees (Very small micro) (%)	5-9 employees (Larger micro) (%)	10-49 employees (Small) (%)	50-249 employees (Medium) (%)
<b>Any Difficulties</b>	<b>44</b>	<b>32</b>	<b>34</b>	<b>20</b>
<i>-Unable to obtain any finance</i>	18	13	20	11
<i>-Obtained some but not all</i>	2	6	8	8
<i>-Obtained all with some problems</i>	23	13	6	2
<b>No Difficulties</b>	<b>49</b>	<b>62</b>	<b>61</b>	<b>80</b>

4.12 While the smallest SMEs had the most problems obtaining finance from the first source they approached, they were more likely to obtain all the finance they needed from **all sources approached** (Figure 32). SMEs with 10-49 employees had the lowest success rate (72 per cent).

**Figure 32: Final outcome of applications – all sources**

Source: Small Business Survey 2014

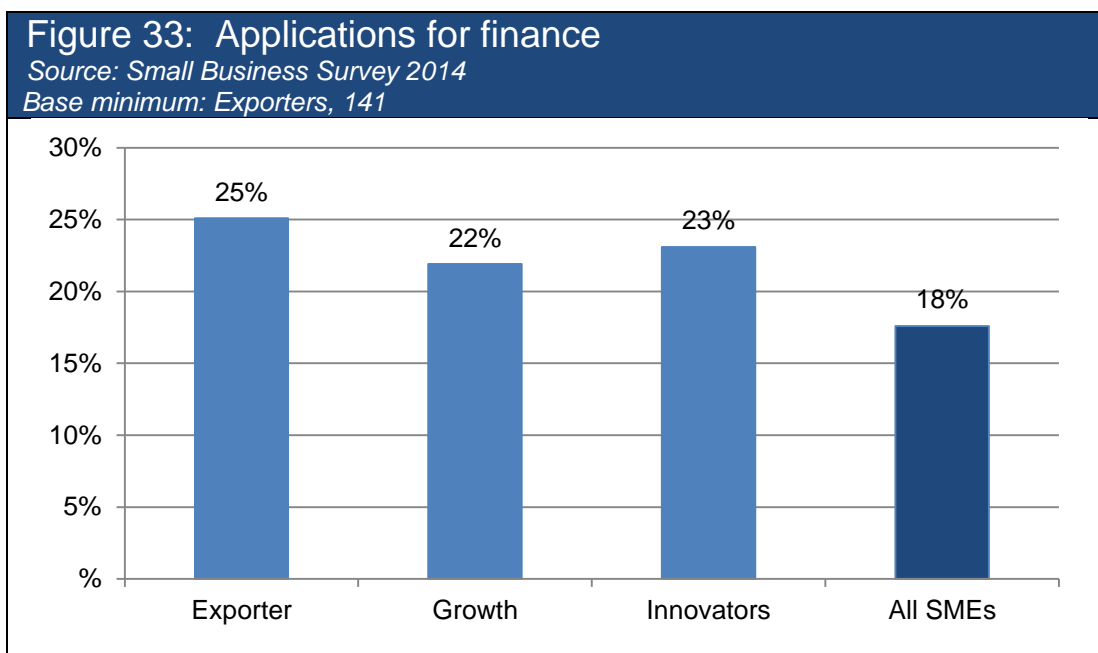
Base minimum: 1-4 employees applying for finance, 25. . Omits still pending/don't know

	<b>1-4 employees (Very small micro) (%)</b>	<b>5-9 employees (Larger micro) (%)</b>	<b>10-49 employees (Small) (%)</b>	<b>50-249 employees (Medium) (%)</b>
<b>Obtained all needed</b>	<b>84</b>	<b>79</b>	<b>72</b>	<b>88</b>
-From first source	73	75	67	82
-From another source	12	5	5	7
<b>Obtained some but not all</b>	<b>-</b>	<b>2</b>	<b>-</b>	<b>2</b>
<b>Obtained None</b>	<b>9</b>	<b>12</b>	<b>21</b>	<b>10</b>

## Section 4

**Type of SME – exporters, growth, innovators**

- 4.13 The SMEs included in this section are exporters (if businesses sell goods or services outside the UK), growth firms (if they aim to grow the business over the next 2-3 years and innovators (if they have introduced a new or significantly improved product or service in the past 12 months). These definitions are not mutually exclusive and SMEs may appear in more than one category.
- 4.14 SMEs in all three categories were more likely to apply for finance than all SMEs (Figure 33). However, this may be related to the fact that exporters and growth firms were more likely to be small or medium businesses than the average across all SMEs.



- 4.15 Across all firm types, finance was mainly sought for working capital. A large proportion of exporters also sought finance to acquire capital equipment (33 per cent).
- 4.16 Loans were the most popular type of finance applied for across the firm types. In addition, grants were sought by 22 per cent of innovative firms (compared to 13 per cent of all SMEs).
- 4.17 The proportions of exporters and growth firms applying for amounts of finance in Figure 34 were similar to the proportion of all SMEs. However, innovators were more likely to apply for higher amounts of finance, with 41 per cent applying for £100,000 - £249,999 (compared with 22 per cent of all SMEs).

## Section 4

**Figure 34: Amount of finance sought***Source: Small Business Survey 2014**Base minimum: Exporters that applied for finance, 36*

	<b>Exporters (%)</b>	<b>Growth Firms (%)</b>	<b>Innovators (%)</b>	<b>All SMEs (%)</b>
<b>Less than £10,000</b>	6	11	11	13
<b>£10,000 to £24,999</b>	22	22	21	21
<b>£25,000 to £49,999</b>	9	13	3	13
<b>£50,000 to £99,999</b>	14	10	13	9
<b>£100,000 to £249,999</b>	7	21	41	22
<b>£250,000 to £999,999</b>	11	9	3	8
<b>£1 million or more</b>	5	4	2	4
<i>DK/ Refused</i>	26	10	6	11

4.18 Exporters were more likely to report not encountering any difficulties from the **first source approached** than all SMEs (Figure 35). However, 50 per cent of innovators reported difficulties compared with 38 per cent of all SMEs.

**Figure 35: Difficulties seeking finance – first source***Source: Small Business Survey 2014**Base minimum: Exporters that applied for finance, 36*

	<b>Exporter (%)</b>	<b>Growth Firms (%)</b>	<b>Innovators (%)</b>	<b>All SMEs (%)</b>
<b>Any Difficulties</b>	<b>32</b>	<b>41</b>	<b>50</b>	<b>38</b>
-Unable to obtain any finance	17	19	20	17
-Obtained some but not all	1	4	5	5
-Obtained all with some problems	14	18	26	11
<b>No Difficulties</b>	<b>67</b>	<b>56</b>	<b>46</b>	<b>50</b>

4.19 In contrast to this, across all types of SMEs, the proportion obtaining all the finance they needed from **all sources approached** is higher than the average for all SMEs (Figure 36).

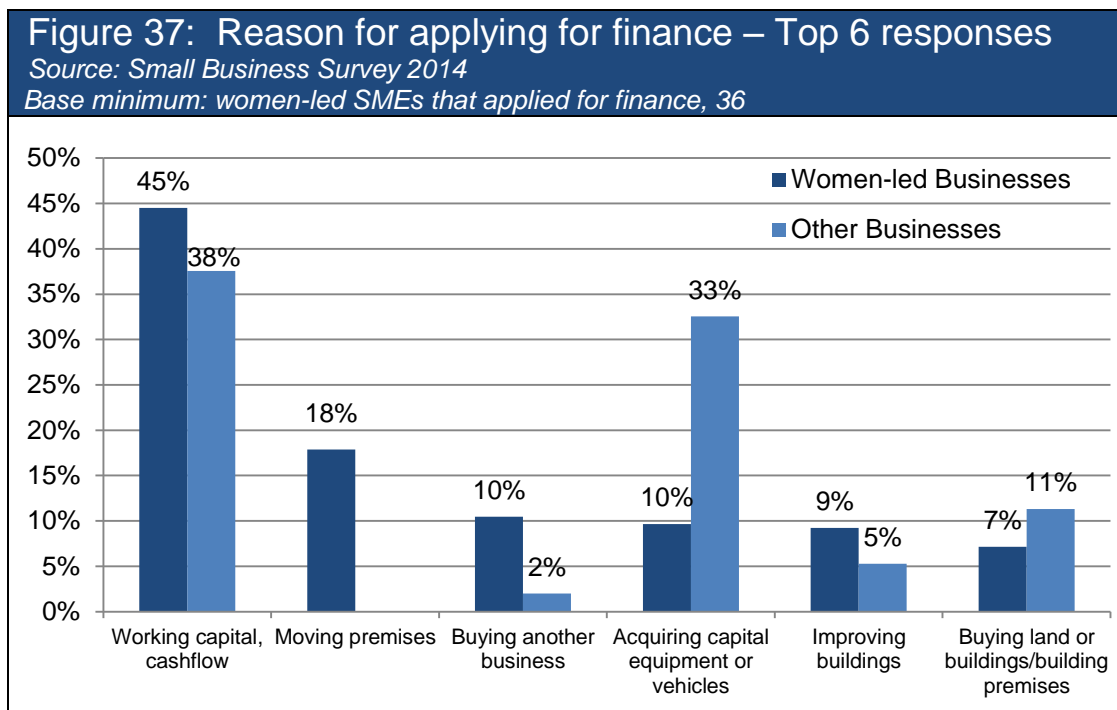
**Figure 36: Final outcome of applications – all sources***Source: Small Business Survey 2014**Base minimum: Exporters that sought finance, 36. Omits still pending/don't know*

	<b>Exporter (%)</b>	<b>Growth Firms (%)</b>	<b>Innovators (%)</b>	<b>All SMEs (%)</b>
<b>Obtained all needed</b>	<b>83</b>	<b>83</b>	<b>87</b>	<b>80</b>
-From first source	81	81	71	72
-From another source	2	2	16	8
<b>Obtained some but not all</b>	-	-	-	<b>1</b>
<b>Obtained None</b>	<b>15</b>	<b>15</b>	<b>7</b>	<b>13</b>

## Section 4

**Women-led SMEs**

- 4.20 Women-led SMEs (i.e. with at least 50 per cent female leadership) were as likely to apply for finance as other SMEs where women are in a minority or are entirely male-led (both 18 per cent).
- 4.21 Women-led SMEs were less likely to apply for finance for acquiring capital equipment or vehicles (10 per cent) - instead they sought finance for a variety of reasons (Figure 37).



- 4.22 While bank loans were the most common source of finance sought by women-led SMEs (42 per cent), grants were more commonly sought by women-led SMEs than others (29 per cent vs. 9 per cent) and overdrafts were less common (13 per cent vs. 26 per cent).
- 4.23 Women-led SMEs were more polarised in the amount of finance sought with more applying for either lower levels of finance (22 per cent less than £10,000) or high levels of finance (26 per cent £100,000-£249,999). (Figure 38)

**Figure 38: Amount of finance sought***Source: Small Business Survey 2014**Base minimum: Women-led SMEs applying for finance, 36*

	<b>Women-led SMEs (%)</b>	<b>Other SMEs (%)</b>
<b>Less than £10,000</b>	22	11
<b>£10,000 to £24,999</b>	11	24
<b>£25,000 to £49,999</b>	3	16
<b>£50,000 to £99,999</b>	9	9
<b>£100,000 to £249,999</b>	26	21
<b>£250,000 to £999,999</b>	16	5
<b>£1 million or more</b>	-	5
<i>DK/ Refused</i>	14	10

- 4.24 A greater proportion of women-led SMEs reported difficulties in applying for finance from the **first source approached** (47 per cent vs. 35 per cent). (Figure 39)

**Figure 39: Difficulties seeking finance – first source***Source: Small Business Survey 2014**Base minimum: women-led SMEs that applied for finance, 36*

	<b>Women-led SMEs (%)</b>	<b>Other SMEs (%)</b>
<b>Any Difficulties</b>	<b>47</b>	<b>35</b>
<i>-Unable to obtain any finance</i>	20	16
<i>-Obtained some but not all</i>	4	5
<i>-Obtained all with some problems</i>	23	14
<b>No Difficulties</b>	<b>42</b>	<b>61</b>

- 4.25 However, women-led SMEs were as likely to obtain all of the finance that they needed and were less likely to report unsuccessfully obtaining none on the finance they sought compared to non-women led SMEs (Figure 40).

**Figure 40: Final outcome of applications – all sources***Source: Small Business Survey 2014**Base minimum: women-led businesses that applied for finance, 36. Omits still pending/don't know*

	<b>Women-led SMEs (%)</b>	<b>Other SMEs (%)</b>
<b>Obtained all needed</b>	<b>77</b>	<b>81</b>
<i>-From first source</i>	65	74
<i>-From another source</i>	12	7
<b>Obtained some but not all</b>	-	<b>1</b>
<b>Obtained None</b>	<b>11</b>	<b>13</b>

## Section 4

**Urban/Rural Analysis**

- 4.26 Demand for finance in 2014 was the same for SMEs based in urban and rural areas (18 per cent).
- 4.27 Rural SMEs were more likely to seek finance to buy land or buildings (21 per cent vs. 5 per cent) and less likely to seek finance for working capital (25 per cent vs. 46 per cent).
- 4.28 SMEs in rural areas were less likely to seek bank loans (28 per cent vs. 47 per cent) and more likely to seek equity investments, from business angles or shareholders (18 per cent). SMEs based in urban areas were more likely to seek grants (17 per cent) than SMEs based in urban areas (6 per cent).
- 4.29 Smaller amounts of finance were sought by SMEs based in urban areas than rural areas, with 33 per cent of rural based SMEs applying for £100,000-£249,999. (Figure 41)

<b>Figure 41: Amount of finance sought</b>		
<i>Source: Small Business Survey 2014</i>		
<i>Base minimum: Rural businesses applying for finance, 57</i>		
	<b>Urban SMEs (%)</b>	<b>Rural SMEs (%)</b>
<b>Less than £10,000</b>	17	4
<b>£10,000 to £24,999</b>	23	18
<b>£25,000 to £49,999</b>	10	19
<b>£50,000 to £99,999</b>	8	11
<b>£100,000 to £249,999</b>	17	33
<b>£250,000 to £999,999</b>	8	7
<b>£1 million or more</b>	3	4
<i>DK/ Refused</i>	14	4

- 4.30 There were no differences in the overall proportion of urban and rural based SMEs reporting problems from the first source of finance approached (Figure 42). However, urban SMEs were more likely to report being unable to obtain any finance (19 per cent) while rural SMEs tended to receive all they applied for despite having difficulties.



### Figure 42: Difficulties seeking finance – first source approached

Source: Small Business Survey 2014

Base minimum: rural businesses that applied for finance, 57

	Urban SMEs (%)	Rural SMEs (%)
<b>Any Difficulties</b>	<b>37</b>	<b>38</b>
-Unable to obtain any finance	19	13
-Obtained some but not all	6	1
-Obtained all with some problems	11	24
<b>No Difficulties</b>	<b>56</b>	<b>58</b>

- 4.31 A lower proportion of urban SMEs obtained all of the finance they needed than rural SMEs and a slightly higher proportion ended up with none of the finance they sought from any source (Figure 43).

### Figure 43: Final outcome of applications – all sources

Source: Small Business Survey 2014

Base minimum: rural businesses that applied for finance, 57. . Omits still pending/don't know

	Urban SMEs (%)	Rural SMEs (%)
<b>Obtained all needed</b>	<b>79</b>	<b>82</b>
-From first source	67	82
-From another source	12	-
<b>Obtained some but not all</b>	<b>-</b>	<b>2</b>
<b>Obtained None</b>	<b>13</b>	<b>12</b>

## Section 4

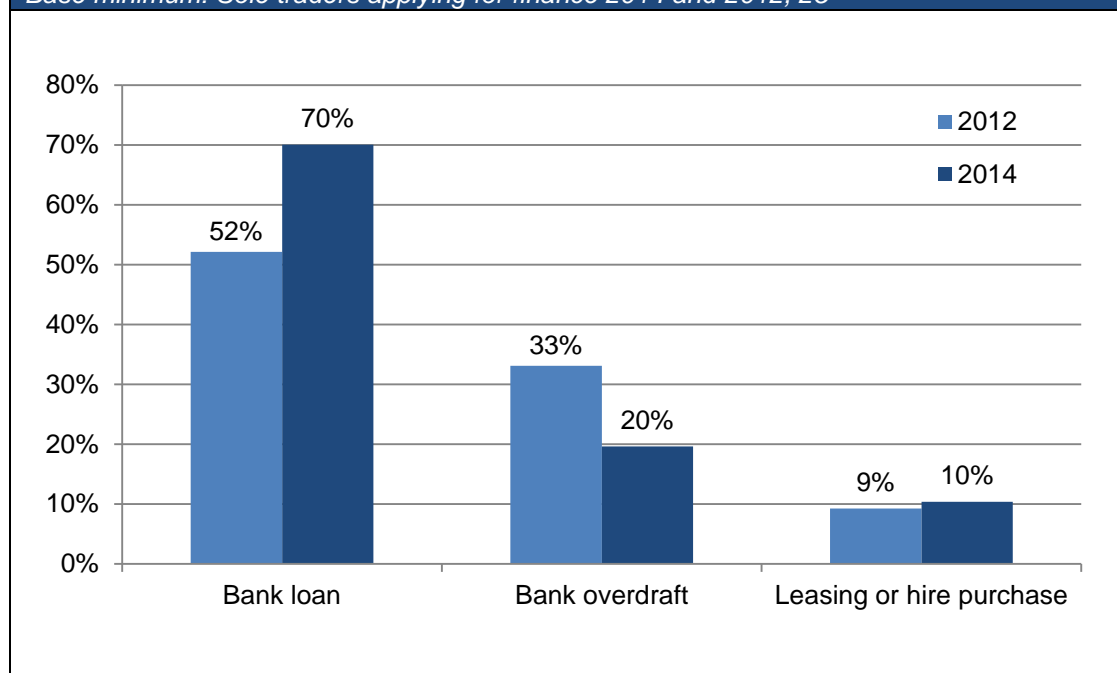
**Sole Traders**

- 4.32 In 2014, 16 per cent of sole traders applied for finance in the last 12 months. This is the same proportion that applied in 2012 but lower than the total for all businesses in 2014 (18 per cent).
- 4.33 The main reasons for seeking finance were for working capital (44 per cent) and acquiring capital equipment/ vehicles (35 per cent). The proportion seeking working capital is slightly lower than in 2012 (53 per cent), while the proportion seeking finance for capital equipment is slightly higher (30 per cent in 2012).
- 4.34 70 per cent of sole traders applying for finance in 2014 sought a bank loan, a higher proportion than in 2012 (52 per cent, Figure 44). Fewer sole traders sought a bank overdraft in 2014 than 2012, suggesting that funding is being sought for long term investment in the business rather than day to day running costs.

**Figure 44: Sources of finance sought – Top 3 responses**

Source: *Small Business Survey 2014*

Base minimum: Sole traders applying for finance 2014 and 2012, 25



- 4.35 In 2014, sole traders applied for higher amounts of finance than in 2012, with 32 per cent applying for less than £10,000 compared to 61 per cent in 2012 (Figure 45).

**Figure 45: Amount of finance sought**

Source: Small Business Survey 2014

Base minimum: sole traders that applied for finance, 2014 and 2012, 25

	2012 (%)	2014 (%)
<b>Less than £10,000</b>	61	32
<b>£10,000 to £24,999</b>	21	24
<b>£25,000 to £49,999</b>	2	12
<b>£50,000 to £99,999</b>	-	-
<b>£100,000 to £249,999</b>	-	4
<b>£250,000 to £999,999</b>	9	9
<b>£1 million or more</b>	-	3
<i>DK/ Refused</i>	7	16

4.36 Fewer sole traders had any difficulties obtaining finance from the **first source approached** in 2014 than in 2012 (43 per cent vs. 59 per cent). However, 51 per cent were still unable to obtain any finance from the first source (Figure 46).

**Figure 46: Difficulties seeking finance – first source**

Source: Small Business Survey 2014

Base minimum: sole traders that applied for finance, 2014 and 2012, 25

	2012 (%)	2014 (%)
<b>Any Difficulties</b>	<b>59</b>	<b>43</b>
<i>-Unable to obtain any finance</i>	56	37
<i>-Obtained some but not all</i>	4	6
<i>-Obtained all with some problems</i>	-	-
<b>No Difficulties</b>	<b>37</b>	<b>51</b>

4.37 The final outcome from **all sources approached** for 74 per cent of sole traders was to obtain all of the finance that they needed (Figure 47). This is a significant improvement compared with 2012. However, 20 per cent of sole traders obtained none of the finance they sought from any of the sources they approached.

**Figure 47: Final outcome of applications – all sources**

Source: Small Business Survey 2014

Base minimum: sole traders that applied for finance, 2014 and 2012, 25.

Omits still pending/don't know

	2012 (%)	2014 (%)
<b>Obtained all needed</b>	<b>48</b>	<b>74</b>
<i>-From first source</i>	41	57
<i>-From another source</i>	7	17
<b>Obtained some but not all</b>	<b>2</b>	<b>-</b>
<b>Obtained None</b>	<b>46</b>	<b>20</b>

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# **Access to Finance Report 2014**

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