

**Small Business Charter (SBC) response to the Department for Business and
Trade's consultation on small business access to finance**

8 May 2025

Questions for general response:

4. Do you believe that there are any barriers to demand for debt finance? If so, what are the main barriers?

Yes, there are several barriers to demand for debt finance including poor economic growth, complex processes for accessing finance, and low levels of financial acumen and knowledge gaps amongst SMEs.

SMEs are operating in an increasingly challenging environment in the UK. Whilst the UK ranks third for start-ups, it ranks only 13th for the number of businesses that scale up successfully¹. Of the 325,811 start-ups registered in 2020, only 47% survived to 2023. The 10-year survival rate for start-ups is only 10%. Only 2% (3,049) of the surviving start-ups registered in 2020 managed to achieve £1m turnover after 3 years².

Accessing external finance, whether it's equity or debt, is positively associated with faster growth and productivity in SMEs. However, a survey by the Bank of England in 2024 found that over half of SMEs relied solely on internal funds for investment, with around 70% preferring slower growth over incurring debt³. Data from the ScaleUp Insitute, shows that 5 in 10 of scaleups believe they do not have sufficient capital to meet their current growth trajectory, and a similar number still perceive that much of the funding resides in London and the South-East⁴.

Another survey found that 77% of finance brokers believe that high street banks are scaling back their willingness to fund SMEs⁵. This is reflected in the lending market where large businesses are overrepresented with 77% of bank lending value going to larger businesses.

There are several barriers that prevent SMEs from seeking out debt finance but one of the most pressing issues is that SMEs tend to have lower levels of financial acumen and are more likely to have knowledge gaps on financial products which makes them more averse to borrowing. A British Business Bank report surveying intermediaries who

¹ OECD, November 2017

² Enterprise Research Centre, The State of Small Business Britain, 2024

³ Bank of England, Identifying barriers to productive investment and external finance: a survey of UK SMEs, 2024

⁴ ScaleUp Institute, Annual Review 2023, 2024

⁵ Iwoca, Q1 2024

engage with SMEs found that 60% of intermediaries believe that SMEs' lack of awareness of finance options available remains the biggest barrier to demand⁶.

SMEs are also facing growing difficulties in securing access to finance. The House of Commons produced a report on SME Finance in which The Impact Investing Institute reported that the success rate of SME applications for bank loans fell from 80 per cent in 2018 to around 50 per cent as of 2023⁷. In the same report, the Federation of Small Businesses (FSB) reported that the success rate for all types of finance was falling and fell from 65 per cent before the pandemic to a low of 45 per cent in 2022. In 2023, the acceptance rate for an SME applying for finance fell to around 50%, down from 80% in 2018. Furthermore, only 5% of SMEs would consider looking for another lender if their own bank rejected them.

With regards to equity finance, research from the Enterprise Research Centre⁸ found that the process to accessing equity finance is often long and difficult for several early-stage ventures. One-third of the firms surveyed had sought equity finance in 2022-23, but only half of these were receiving any finance, with the average amount of their finance being only two-fifths of their application requirement. The report concluded that a lack of prior experience in using equity finance, as well as inadequate access to external assistance were all factors in lower application rates.

Overall, SMEs are operating in a difficult economic environment with many struggling to generate revenue growth with the recent FSB Small Business Index reporting that in Q4 2024⁹, the net balance of small businesses reporting revenue growth was -32.1%. The share of small businesses aspiring to growth over the next 12 months was at its lowest reading in four years at 43.4%. The same index found that the share of small businesses applying for credit receded to 14.1% in Q4.

The small business appetite for growth and finance is linked to the fundamentals of the economy, if growth is weak and small businesses don't feel confident in their ability to grow, they will not seek out finance. Government-backed initiatives, such as the Help to Grow: Management course, play an important role in supporting the growth and development of small businesses. This course provides business leaders with the strategic knowledge and practical skills necessary to manage their business effectively, thereby enhancing their confidence to invest, innovate, and pursue sustainable expansion.

5. Do you believe that financial education or knowledge and availability of information are barriers to demand? If so, to what extent?

⁶ British Business Bank, SME Intermediary Survey, 2024

⁷ House of Commons, SME Finance Report, 2023

⁸ Enterprise Research Centre, The State of Small Business Britain, 2024

⁹ Federation of Small Businesses, Small Business Index Q4 2024, 2024

Yes, as per our answer in question 4 we strongly believe that the lack of financial education and availability of information to SMEs on finance are one of the main barriers to demand.

We recently surveyed small business leaders and when asked what kind of support they would find useful, 38.5% said they would like finance for growth support such as help to access funding or working capital to support growth plans.

- **In your view, how can these barriers best be addressed?**

When the British Business Bank was established, educating SMEs was in its original remit. While the Covid-19 pandemic put these plans on hold to enable the bank to step in and provide emergency loans to businesses, we now understand that the bank has plans to offer one on one support to small business owners and provide them with help on how to access investment and finance. We strongly welcome this initiative, and we encourage the Government to facilitate this type of support for small business owners.

There is also an opportunity for the bank to collaborate with organisations such as the SBC, Chartered Association of Business Schools, FSB, and the British Chambers of Commerce to provide this type of education to SMEs.

Business schools have an important role to play in improving financial literacy amongst SMEs and can contribute to economic growth by delivering leadership management training to SMEs. For many SMEs and entrepreneurs, their local business school is a doorway to vital knowledge and learning. This is precisely why the SBC was developed 10 years ago by Lord Young, the Department for Business, Innovation and Skills, and the Chartered Association of Business Schools. It was established to signpost entrepreneurs, small businesses, and local economic stakeholders to business schools in their region with the expertise to help them thrive. UK business schools have a broad offer of services for SMEs, including bootcamps, incubators, accelerators, and other schemes to support emerging businesses.

There are 68 SBC accredited business school centres of excellence across the UK and Ireland with a track record of partnering with local stakeholders and national government to deliver high-impact growth programmes which empower small business success and economic growth.

Through our business schools' connections with thousands of SMEs we are trusted partners of local stakeholders and the national government to deliver effective leadership and productivity programmes and business support to unlock our economic revival. The SBC is currently delivering the Help to Grow: Management Course across the UK, which develops the leadership capabilities required to stimulate growth and productivity and creates a culture of SME investment in management training. As of

May 2025, more than 11,850 business leaders have enrolled on the course¹⁰. The success of the programme is indisputable, with 91% of participants reporting increased awareness of factors that drive business productivity and growth and 91% reporting improved leadership and management skills¹¹.

As part of the Help to Grow Management course, we deliver Module 11 on Finance and Financial Management. SMEs generally require a lot of support in this area, and many choose to work with a dedicated mentor to increase their financial acumen to improve their ability to secure funding and investment for growth.

There is clear evidence showing that the Help to Grow Management course is helping SME leaders develop their finance acumen, as 62% of participants positively rated their firm's ability to understand financial management (35% before). However, this one module within a very successful government course will have limited impact on addressing the significant challenges SMEs face in access finance.

Among the Help to Grow: Management cohorts, there are 9,675 alumni firms and there is scope to working more intensively with this network of businesses to raise financial knowledge to ensure opportunities for growth materialise.

We believe there is scope to expand the current Help to Grow Management course with a separate and more detailed course to significantly improve how SME leaders are managing financial data and embracing new innovations in financial processes to be able to engage with and secure support from the financial services sector.

To address the key barriers and knowledge gaps faced by SMEs who are seeking finance and want to scale up their business, the SBC can deliver a specialist Help to Grow: Finance course in collaboration with business schools, the British Business Bank, and other stakeholders. The course could be piloted to Help to Grow: Management alumni businesses and traditionally underserved demographics who need and want access to investment. If successful, the course could then be expanded to other small businesses who want access to finance.

Furthermore, we believe that lenders and banks have a crucial role to play in funding and educating SMEs about finance. Supporting small businesses in accessing the capital they need to grow is in their best interest. Since SMEs make up the majority of UK businesses, failing to engage with them means missing out on a vital customer base. By equipping SMEs with the right tools and knowledge, banks can unlock significant long-term value.

¹⁰ Department for Business and Trade, Help to Grow: Management: enrolments and completions May 2025, 2025

¹¹ Department for Business and Trade and IPSOS, Evaluation of Help to Grow: Management, 2024

- **Are there examples of support and advice frameworks in other jurisdictions you believe could benefit the UK?**

There are existing informal frameworks within the UK that can be replicated at a national level. The collaborative relationship between business schools and small businesses serves as a model to replicate on a larger scale. Business schools serve as a shop window for small businesses, offering a range of opportunities to engage, and there are many valuable pathways through which businesses can enter the university ecosystem. Businesses may connect with schools by participating in knowledge exchange programmes such as Knowledge Transfer Partnerships (KTPs) or participating in research programmes funded by the Shared Prosperity Fund. They might also enter the university ecosystem through student placements, consultancy services, or other tailored courses designed to foster growth and innovation such as Help to Grow: Management.

This ecosystem is vital to enabling small businesses to grow, innovate, and improve their productivity. The success of the Help to Grow: Management is evident, but business schools are doing a lot more to educate small businesses on issues like as finance and equipping them with the skills they need to grow and therefore being more likely to seek finance.

The Government should work with SBC business schools as the delivery partner, positioning them as centres of small business excellence in their regions.

6. Why are some small businesses permanent non-borrowers?

According to a UK Finance, 31% of UK SMEs are labelled as permanent non-borrowers¹². As mentioned throughout this consultation response, this reluctance to borrow is often rooted in knowledge gaps and low levels of financial acumen among business owners regarding financial products with some small business owners averse to any debt, even when presented with low-interest rates. Even if some SMEs are willing to borrow, the complexity of accessing finance may discourage them from pursuing it altogether, placing them in the category of non-borrowers.

Research from the British Business Bank indicates that businesses are becoming increasingly cautious about borrowing, particularly given the state of the economy. This caution is partly driven by a growing awareness of peers falling into financial distress, with more than 650,000 businesses in significant financial difficulty by the end of last year. The research also found that 77% of businesses would prefer to accept slower growth rather than take on borrowing to fund expansion, highlighting a strong aversion to incur debt for investment purposes¹³.

¹² UK Finance, Unlocking Financial Inclusion for SMEs, 2024

¹³ British Business Bank, Small Business Finance Markets 2024/25 report, 2025

- **Should this be considered a problem?**

There will be a proportion of small businesses with no interest in borrowing, because they have sufficient resources, or because they prefer to remain small and self-sustaining and have no desire to grow.

However, there is a distinct group of businesses with high growth potential, and the Government should take an active role in encouraging their development to scale up successfully. Access to finance is a key enabler of this growth, which in turn can drive job creation and contribute significantly to the wider economy.

For instance, despite making up just 0.6% of all UK businesses, scale ups contribute £1.2 trillion to the UK economy and employ over 5 million people¹⁴.

Finance has a critical impact on the growth potential of these businesses. According to the European Investment Bank (EIB) businesses that benefited from financing not only had 5% higher employment and 6% increased productivity following lending but were also 15% more likely to secure VC investment¹⁵. Data from a UK lender also found that SMEs reported a 26% uptick in sales in the six months following funding and on average, hiring one more person to work for their business¹⁶.

In addition to restricting growth at a firm and national level, having a large group of permanent non-borrowers can hinder innovation. Research indicates that SMEs' innovation investment levels are closely tied to their access to external financing with limited borrowing capacity often resulting in underinvestment in innovation¹⁷.

Research from the British Business Bank which was referenced earlier found that this reluctance to borrow and invest is also linked to the UK's poor productivity. Business investment in the UK has trailed other G7 countries and is responsible for the UK's productivity gap, with the Office for National Statistics (ONS) estimating that labour productivity was on average 18% higher in the other six members of the G7 relative to the UK¹⁸.

- **How can policy intervention support small businesses in this category, who have ambitions to grow, to seek finance?**

To encourage more SMEs to access finance, the Government must work collaboratively with business schools and other key trusted stakeholders providing support to SMEs to

¹⁴ ScaleUp Institute, Annual Review 2023, 2024

¹⁵ European Investment Bank, EIB Group support for EU businesses, 2024

¹⁶ YouLend, Widening Access To Capital: YouLend Impact Report, 2023

¹⁷ Journal of Engineering and Technology Management, Exploring SMEs' innovation investment strategy to increase innovation output in economic crises, 2024

¹⁸ ONS, Productivity: Key Economic Indicators, August 2024

not only make financial products more accessible but also to clearly demonstrate their value to businesses that may be hesitant to borrow.

Business-specific financial data can also enable lenders to provide a more tailored approach to SMEs. When lenders have a deeper understanding of each business's unique needs and priorities, they can offer a more personalised lending experience, which can help build trust and make SMEs feel more confident and comfortable with the financing process.

Finally, financial education is a critical component of any effective policy intervention. The Government should work with lenders and business schools to educate businesses on how to access financial products but also equip them with the skills to track their financial data and adopt responsible borrowing practices. Without a solid understanding of finance, small businesses may struggle to make informed decisions or manage debt effectively.

About the Small Business Charter:

The Small Business Charter and its network of accredited business schools are experts in providing real-world support and training that empowers small business success and economic growth. Through our business schools' connections with thousands of SMEs we are trusted partners of local stakeholders and the national government to deliver effective leadership and productivity programmes and business support to unlock our economic revival. The SBC is currently delivering the Help to Grow: Management Course across the UK, with 93% of participating SMEs reporting greater confidence in leading and managing their business and 85% being better able to innovate within their business.

Developed 10 years ago by the late Lord David Young, the Department for Business, Innovation and Skills, and the Chartered Association of Business Schools, the SBC was established to signpost entrepreneurs, small businesses, and local economic stakeholders to business schools in their region with the expertise to help them thrive.

In order to achieve the Small Business Charter accreditation, business schools undergo a rigorous assessment to determine the effectiveness of their business support, entrepreneurship education, and engagement with their local economy.

Participants from these programmes become connected with the wider value ecosystem within university business schools providing further business support such as knowledge transfer partnerships, R&D collaboration, Master's programmes, short courses, and apprenticeships.