

Written evidence submitted by British Business Bank

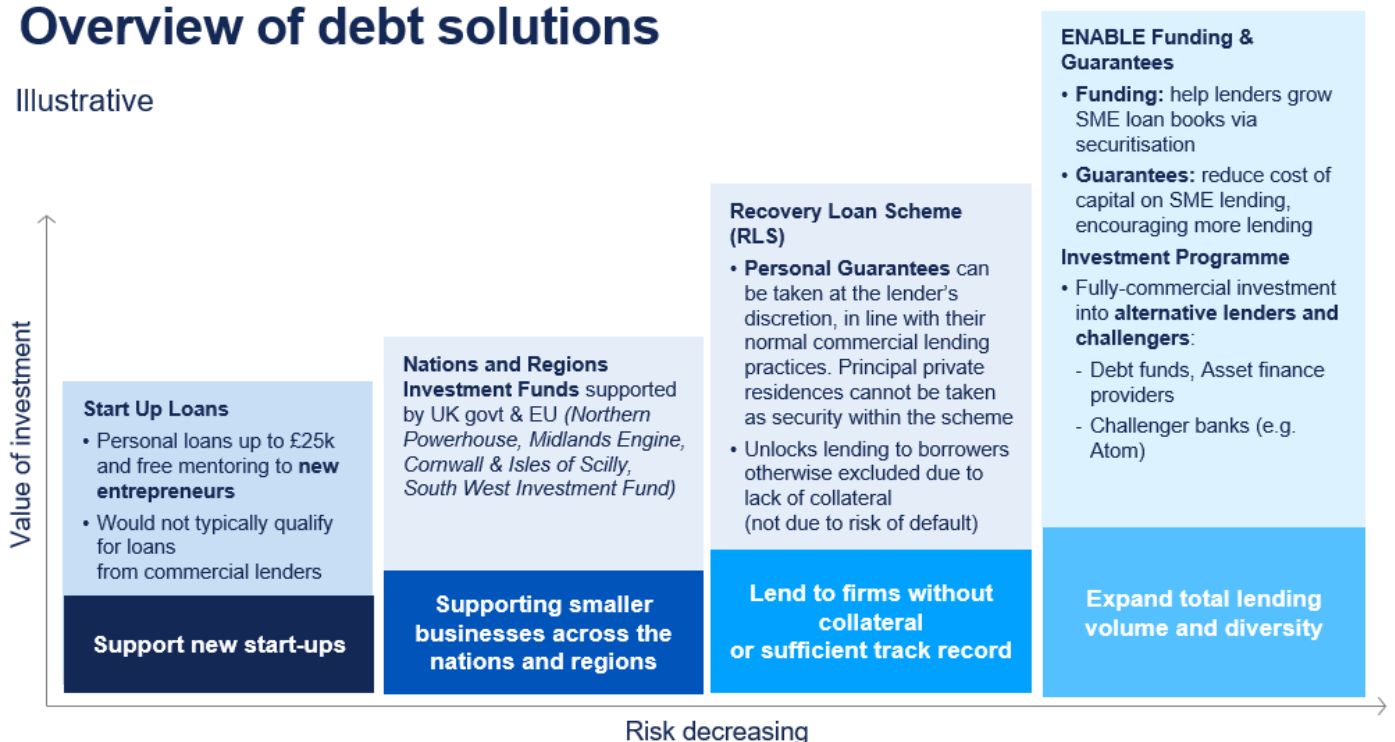
Executive Summary

1. Set up in 2014, the British Business Bank ('the Bank') is now firmly established as the UK's economic development bank, and an important economic lever for government to address market failures to help improve access to finance for smaller businesses. The Bank's operating model allows it to be active in areas of the market that the private sector will not tend to operate in, not because the Bank invests in unviable businesses, but because there are wider economic benefits that can be captured through the British Business Bank's participation.
2. The Bank now supports £12.2bn of finance reaching 96,000 smaller businesses through its core programmes and is the largest domestic investor in UK venture growth capital. Evaluations of core programmes have consistently demonstrated the significant additionality of the British Business Bank, expressed as increased economic value across the UK. Further details of the Bank's evaluations are provided in point 49 and 52 of this response.
3. The British Business Bank's interventions have a 'double bottom line': as well as being commercially minded, the Bank aims to deliver wider economic benefits. The Bank's strategic objectives, outlined in point 10 of this response, aim to address some of the biggest challenges and opportunities facing small business finance, this includes ensuring a diverse range of finance options for smaller businesses, supporting innovative businesses to access the finance they need, ensuring entrepreneurs can access the finance they need regardless of their personal characteristics and location, and supporting smaller businesses transition to a net zero economy.
4. Starting in March 2020, in response to the global pandemic and corresponding wide-ranging business impacts and economic uncertainty, the British Business Bank delivered £80.4bn of loan guarantees under the Covid-19 schemes, helping up to 500,000 companies to survive and saving up to 2.9m jobs, substantially expanding its operations and capabilities to do so by building on the strong foundation of its existing programmes. Further details of the Bank's Covid-19 schemes are outlined in points 45-48 of this document.
5. The British Business Bank's UK Network engages with business finance stakeholders (intermediaries) in each of the English regions and Devolved Nations to increase small businesses' awareness and understanding of the finance options best suited to their needs. The UK Network is developing a deep understanding of the business finance ecosystems in all parts of the UK, so that, ultimately, the British Business Bank can improve its support to SMEs across the entire UK.
6. The Bank also provides key insights to specific market gaps and business needs, including comprehensive overviews of the UK's small business finance markets, as well as examinations of how well those markets are serving diverse entrepreneurs from a range of backgrounds across the breadth of the country. Some examples of the influential research we publish include: the *Small Business Finance Markets Report*; the *Small Business Equity Tracker*; the *Finding What Works: Pathways to Improve Diversity in Venture Capital Investment*; and the *Nations and Regions Tracker*.
7. As the British Business Bank develops into a larger and more mature organisation, positioning the Bank as a permanent, flexible and sustainable institution is crucial to ensuring the Bank can get the necessary finance to the smaller businesses where it can have the most economic impact. The Bank's co-investment in high-growth innovative firms through the Future Fund: Breakthrough Programme and via its commercial subsidiary British Patient Capital, highlights the Bank's early success in managing direct investments. Points 40 and 41 of this document further outline the Bank's future ambition, including current work with the Government on the LIFTS and Mansion House initiatives, to unlock venture capital whilst benefitting the UK's pension savers.

8. The British Business Bank is a Government-owned economic development bank. Its core mission is to drive sustainable growth and prosperity across the UK, and to enable the transition to a net zero economy, by improving access to finance for smaller businesses. The British Business Bank delivers a wide range of finance programmes, each designed to address a market failure and help improve access to finance for smaller businesses.
9. The Bank mainly operates not by lending or investing directly with smaller businesses, but by deploying funding and support through over 200 delivery partners on a wholesale basis. These partners range from the largest banks through to small venture capital providers and innovative new players in the market, such as peer-to-peer lenders. The Bank attracts private capital through, and alongside, its interventions, rather than be in competition with market providers. By doing so, the British Business Bank has a clear positive impact on the market, and a bigger impact than funding smaller businesses directly.
10. From April 2023, the British Business Bank updated its strategic objectives to align with the Bank's mission and focus on the long-term impact on the market, to help smaller businesses access finance. The Bank's 2023 strategic objectives include:
 - **Driving sustainable growth.** Ensuring smaller businesses can access the right type of finance they need to start, survive and grow.
 - **Backing innovation.** Ensuring innovative businesses can access the right capital to start and scale.
 - **Unlocking potential.** Unlocking growth by ensuring entrepreneurs can access the finance they need regardless of where and who they are.
 - **Building the modern, green economy.** Financing groundbreaking solutions to climate change and helping smaller businesses transition to net zero so they thrive in a green future.
11. British Business Bank programmes provide either debt finance, equity finance, or a combination of both finance types to address a breadth of market failures, as outlined in the diagrams below:

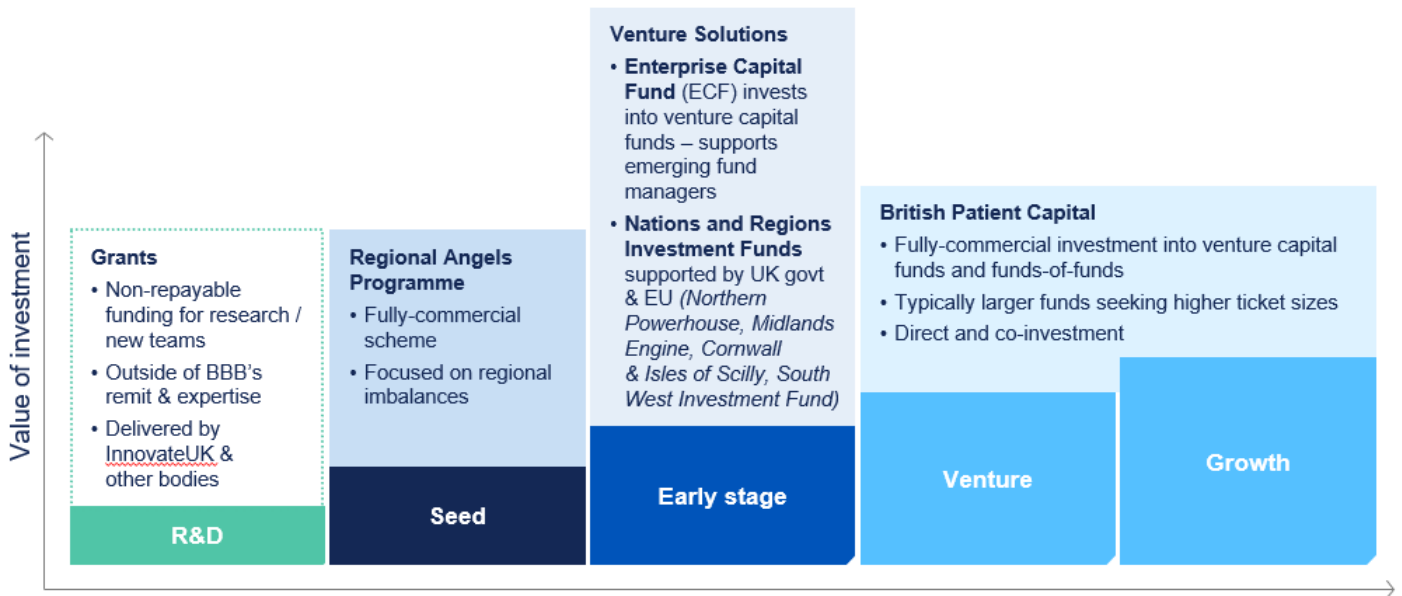
Overview of debt solutions

Illustrative



Overview of equity solutions

Illustrative



**The British Business Bank is launching additional funds in Scotland, Wales and Northern Ireland in 2023/24 as well as expanded 2nd generation Northern Powerhouse and Midlands Engine Funds.¹*

12. This response will reflect the Bank's experience as both a market participant and as a centre of expertise on smaller business finance in the UK. The British Business Bank submitted a response and gave evidence to the Treasury Select Committee's Venture Capital Inquiry^{2,3}, which concluded in July 2023. This response will further build on evidence provided to that inquiry. As a Government-owned entity, the British Business Bank is not a position to comment on some of the Inquiry's questions around regulation and government policy. These questions have been noted in Annex A of this response. The remainder of this response is laid out in accordance with the topics as ordered in the Inquiry's call for evidence.

¹ British Business Bank, Nations and Regions Investment Funds [Nations and Regions Investment Funds - British Business Bank \(british-business-bank.co.uk\)](https://www.british-business-bank.co.uk)

² British Business Bank (VCM0041), Treasury Select Committee, VC Inquiry (20 June 2022) committees.parliament.uk/writtenevidence/109252/pdf/

³ British Business Bank (VCM0042), Treasury Select Committee, VC Inquiry (27 June 2022) committees.parliament.uk/writtenevidence/109500/pdf/

What are the key challenges Small and Medium-sized Enterprises (SMEs) face when seeking finance?

13. The British Business Bank's Small Business Finance Markets Report⁴ examines in detail the funding landscape for smaller businesses, providing policy makers and the market with a comprehensive, independent assessment of finance trends throughout the year. The 2022/23 report, published in March this year, indicated 2022 as a challenging year for the UK's 5.5m smaller businesses, with high energy prices and inflation causing issues for many.
- a. The report highlighted that gross bank lending saw a significant rise of 12.8% to £65.1bn in 2022, but this was accompanied by a fall in the number of businesses accessing external finance (from 44% in 2021 to 33% in 2022), suggesting the rise in lending is due to larger than average loan sizes.
 - b. There was also an indication of supply constraints with increasing signs of reductions in loan approval rates. Declining approval rates are likely driven by a number of factors, including concerns about businesses ability to repay debts given deteriorating economic conditions.
 - c. UK SME equity markets saw strong investment growth in the beginning of 2022, but began experiencing a contraction from July onwards. In Q3 2022, £2.8bn was invested across 576 announced equity deals. This represents a 45% reduction in investment value and a 12% decline in deal numbers compared to the same quarter in 2021. Venture and growth stage investment fell the most, while seed stage deals remained more stable.
14. In a survey of the Bank's UK Network intermediaries', on the barriers to SME finance⁵:
- a. 66% of intermediaries stated that demand for finance exceeded supply in their region or nation.
 - b. 70% of intermediaries believe that SMEs' lack of awareness of finance options is the biggest barrier to demand. Access to finance (58%) and cost of finance (43%) were considered the next biggest barriers to demand.
 - c. 80% expressed views that there were gaps in the supply of finance for SMEs, regardless of their development stage.
 - d. 87% stated that debt finance would be the primary source of funding required during economic uncertainty.

Net Zero

15. The UK has set a legally binding commitment to reach net zero emissions by 2050. This would require an additional £50-60bn of annual capital investment through 2020-30⁶. Smaller businesses have a critical role to play in this transformation, yet they face considerable uncertainties about the future direction of policy, regulation, technologies, and consumer demand. The British Business Bank's Smaller Business and the Transition to Net Zero Report⁷ estimates that:
- a. Collectively SMEs account for around half (43–53%) of greenhouse gas emissions by UK businesses.
 - b. 27% of smaller businesses are 'transition exposed' (higher emission businesses with low transition maturity) accounting for 98% of the UK's smaller business emissions.
 - c. The barriers preventing action on net zero are multiple, complex and specific to each business, with over twenty types of barriers identified. Costs were the most significant barrier

⁴ British Business Bank, Small Business and Finance Markets Report 2022/23 (March 2023) [Small Business Finance Markets 2022/23 \(british-business-bank.co.uk\)](https://www.british-business-bank.co.uk/small-business-finance-markets-2022-23)

⁵ British Business Bank, SME Intermediary Research: UK Findings (March 2023)

⁶ Department for Energy Security and Net Zero and Department for Business, Energy and Industrial Strategy, Net Zero Strategy (October 2021) [Net Zero Strategy: Build Back Greener - GOV.UK \(www.gov.uk\)](https://www.gov.uk/net-zero-strategy)

⁷ British Business Bank, Smaller Business and the Transition to Net Zero (October 2021) [Smaller businesses and the transition to net zero \(british-business-bank.co.uk\)](https://www.british-business-bank.co.uk/smaller-businesses-and-the-transition-to-net-zero)

referenced by respondents (35%), with upfront costs being the most cited component of this at 21%.

Through which channels do SMEs find the most success when seeking funding and why?

16. Consistent and comprehensive data outlining the value of the aggregate stocks and flows of all forms of external finance is not readily available. However, the summary table below, as outlined in the British Business Bank's Small Business Finance Markets Report⁸, provides a reasonable snapshot. While flows of different types of finance are not directly comparable, the data shows that bank lending is still the largest form of external finance for smaller businesses. The Bank's 2022 SME Finance Survey indicated that 12% of SMEs have applied for a bank overdraft in the last three years, 10% applied for a bank loan and less than 5% applied for equity finance⁹.

Estimates of the flow & stock of external finance for UK SMEs (£ billions) (a)

		2017	2018	2019	2020	2021	2022
Bank lending flows	Gross flows (b)	57.3	57.8	56.9	104.9	57.7	65.1
Source: Bank of England	Net flows (c)	0.7	0.6	2.1	46.6	-8.0	-8.4
Bank lending stock	Outstanding Amount (d)	153	154	156	205	200	188
Source: Bank of England							
Bank overdraft stock	Outstanding Amount (e)	12.5	11.9	11.4	8.3	8.7	8.9
Source: Bank of England							
Total bank stock	Outstanding Amount (f)	165	166	168	213	209	197
Source: Bank of England							
Other gross flows of smaller business finance							
Private external equity		6.9	7.2	8.3	9.6	18.1	14.8 (Q1-Q3)
Source: Beauhurst (g)	Number of announced deals	1841	1899	2002	2244	2601	1932 (Q1-Q3)
Asset finance flows		19.3	19.8	20.6	16.3	20.3	22.5
Source: FLA (h)							

(a) The information contained in this table should be viewed as indicative as data and definitions are not directly comparable across different sources. There can be some double counting across estimates in different parts of the table. Flows data are cumulative totals for the year or to the date stated. Non-seasonally adjusted. All numbers are in billions, except number of reported equity deals, and have been rounded appropriately.

(b) Data exclude overdrafts and covers loans in both sterling and foreign currency, expressed in sterling. The total may not equal the sum of its components due to rounding.

(c) Net flows does not always reconcile with change in stock due to differences in statistical reporting. The reported stock can include other adjustments made by banks but not detailed when reported, whereas flows data does not include these adjustments.

(d) Movements in amounts outstanding can reflect breaks in data series as well as underlying flows.

(e) Movements in amounts outstanding can reflect breaks in data series as well as underlying flows.

(f) Movements in amounts outstanding can reflect breaks in data series as well as underlying flows.

(g) Beauhurst is a data provider that records visible equity deals including crowdfunding deals.

(h) The Finance & Leasing Association (FLA) whose members make up 90-95% of the market.

17. Because the spectrum of finance small businesses require is incredibly broad and nuanced, a diverse supply of finance is needed to support better access to finance for small businesses across the UK.

What role can financial innovation play in SME finance? Is there more the government and the regulators can do to improve access to finance through innovative firms?

18. One of the most striking findings in the Bank's most recent Small Business Finance Market's Report¹⁰ is that challenger and specialist banks accounted for over half of gross lending to small businesses in 2022. Their highest ever share. Alongside strong growth in asset finance, this is encouraging to

⁸ British Business Bank, Small Business and Finance Markets Report 2022/23 (March 2023) [Small Business Finance Markets 2022/23 \(british-business-bank.co.uk\)](https://www.british-business-bank.co.uk/small-business-finance-markets-2022-23)

⁹ British Business Bank, SME Finance Survey (March 2023)

¹⁰ British Business Bank, Small Business and Finance Markets Report 2022/23 (March 2023) [Small Business Finance Markets 2022/23 \(british-business-bank.co.uk\)](https://www.british-business-bank.co.uk/small-business-finance-markets-2022-23)

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see, as one of the British Business Bank's founding objectives has been to create more diversity of supply in finance markets.

19. FinTech has long been seen as an opportunity to drive volumes in small business lending. But, as many FinTech firms entered the market at a time of stable and low interest rates, during these more challenging times, support is needed to ensure FinTech providers are able to offer SME lending at scale.
20. 98.4% of finance supported by the Bank's core finance programmes in was delivered through organisations outside of the 'big-5' banks. Last published figures in 2021/22 show the British Business Bank has made direct commitments of £163m and guarantees worth £596.5m to challenger banks. The Bank has also made direct commitments of £1.3bn to 193 FinTech firms and is also investing through delivery partners who use FinTech to invest in companies across a wide range of sectors:
 - a. British Business Investments, a subsidiary of the British Business Bank, has made commitments to these FinTech delivery partners of £286m, facilitating £251m current stock through 6,773 loans to 6,490 smaller businesses.
 - b. The ENABLE Guarantee programme has made commitments of £444m to FinTech partners supporting close to £300m of current stock.

How accessible is finance for SMEs of different sizes?

21. The Bank's Business Finance Survey¹¹, undertaken in Q4 2022, found that, overall the number of SMEs who did not seek any form of external finance went up from 41% in 2021 to 61% in 2022:
 - a. SMEs with no employees were less likely to have sought external finance (35%) compared to SMEs with employees (50%).
 - b. Comparing the size of small (10–49 employees) and medium (50–249 employees) firms with the overall average, it was found that these firms were less likely than average to seek finance for working capital (33% and 39% respectively), but more likely to seek it for purchasing fixed assets (45% and 48% respectively).
 - c. Medium-sized businesses are the highest requesters of finance, with a median value of £300,000, compared to small and micro firms, which have median values of £50,000 and £24,000, respectively.
22. Innovation rates increase with firm size, with 36% of zero employee firms cited to have innovated compared to double that for 50–249 employees (72%)¹². This is the largest gap in absolute terms since the data series began in 2012 and suggests supporting small microbusinesses (0–9 employees) to innovate may offer substantial benefits.
23. Whilst supporting access to finance for SMEs of all sizes is an important goal. Other factors including characteristics of business owners, sector and location of small businesses, are also significant in determining an SME's ability to access finance.

Is finance available to allow SMEs to scale up from venture capital funding?

24. The British Business Bank is the largest domestic investor in venture capital funds in the UK. British Business Bank equity programmes supported around 13% of all equity deals announced between 2020 and 2022 and 15% of total investment¹³.

¹¹ British Business Bank, SME Finance Survey (March 2023)

¹² British Business Bank, Small Business and Finance Markets Report 2022/23 (March 2023) [Small Business Finance Markets 2022/23 \(british-business-bank.co.uk\)](https://www.british-business-bank.co.uk/small-business-finance-markets-2022-23)

¹³ British Business Bank, Small Business Equity Tracker 2023 (June 2023) [Small Business Equity Tracker 2023 - British Business Bank \(british-business-bank.co.uk\)](https://www.british-business-bank.co.uk/small-business-equity-tracker-2023)

25. Through a combination of equity, debt, and hybrid debt/equity programmes, the Bank plays an important role in strengthening and developing the venture capital market in the UK. The Bank's programmes aim to address a breadth of market failures from seed to growth stage venture capital, and include, but are not limited to:

a. Subsidised

- i. **Enterprise Capital Funds:** The Enterprise Capital Funds (ECF) programme helps to build a strong pipeline of venture capital investors, by supporting emerging fund managers with diverse entrepreneurial, operational, and financial experience to raise funds, build a track record, and become more established investors.
- ii. **Nations and Regions Investment Fund:** The next generation of Nations and Regions Investment Funds will build on existing successes to increase the amount of finance available in underserved regions, and crowd in private sector capital, as well as new to area fund managers.

b. Commercial

- i. **British Patient Capital:** At the later stage, the Bank's commercial subsidiary, British Patient Capital (BPC) helps close the growth funding gap with the US, unlocking billions in private sector equity for long-term investments in innovative companies.
- ii. **British Business Investments:** The Bank's other commercial subsidiary, British Business Investments (BBI), increases the overall supply and diversity of finance on offer to UK smaller businesses. For example, at seed stage, its Regional Angels Programme invests alongside business angels and other early stage equity investors across the UK, reducing regional imbalances in access to early stage equity finance. In addition, at the later stage the Managed Funds Programme targets later stage focussed Fund of Fund Managers.

26. The British Business Bank's Small Business Equity Tracker¹⁴ provides a comprehensive picture of equity funding conditions for smaller businesses across the UK. The report is intended to inform the development of the Bank's strategy in making finance markets work better for smaller businesses, as well as informing wider developments in both markets and government policy. Findings from the 2023 report, published in June, indicate that UK small business equity finance declined by 11% to £16.7bn in 2022, driven by a downturn in market conditions in the second half of the year which has continued into 2023. This downturn saw investment returning to 2020 levels, following a strong year in 2021 and H1 2022.

- a. There are still some bright spots in specific areas of the market, including record investment in university spinouts and cleantech companies. University spinouts raised £2bn of equity finance in 2022, the highest amount on record. The cleantech sector also bucked the trend of the wider market, with equity investment in this area increasing by over 50% to £0.9bn.
- b. Over £10.5bn in venture capital investment was raised by UK life sciences companies during 2020-22, more than Germany, France and Canada combined. While the UK is the third largest venture capital market in this sector, a gap remains with the US as the global leader, and the UK requires more late stage and specialist capital in order to address this.
- c. Looking at future opportunities, the UK can capitalise on its leading position in nanotechnology. Global venture capital investment growth in the sector is high, at over 130% comparing 2020-22 with 2017-19, yet the UK is outpacing this growth with an increase in funding of over 220% across the same period.

¹⁴ British Business Bank, Small Business Equity Tracker 2023 (June 2023) [Small Business Equity Tracker 2023 - British Business Bank \(british-business-bank.co.uk\)](https://www.british-business-bank.co.uk/small-business-equity-tracker-2023)

Is securing access to SME finance particularly challenging for women, people from ethnic minorities, people from certain social classes, or any other group? If so, what should be done about it?

27. The British Business Bank recognises that there are a wide range of factors including age, disability, education, income, working hours and caring responsibilities that can influence access to finance challenges, with layers of intersectionality which may further increase or exacerbate these challenges. Under the 'Unlocking Potential' strategic objective, the Bank looks to support entrepreneurs in accessing the finance they need regardless of where and who they are in a variety of ways and through numerous programmes.

28. The Bank plays a key role in administering the Investing in Women Code, which commits providers of small business finance – spanning debt and equity – to promote female entrepreneurship and share data on finance provided to women. There are now 204 signatories to the Code, the majority of which (139) are venture and growth investors. There are 34 angel investors signed up, alongside 23 lenders, and 8 other providers.

Debt

29. Data in the British Business Bank's Small Business Finance Market Reports¹⁵ explores the attitudes and success rates of female and Ethnic Minority entrepreneurs applying for all types of finance. However, since the vast majority of small businesses use debt finance to start and grow their businesses, these findings vastly reflect attitudes to securing debt finance.

- a. Female or Ethnic Minority-led businesses are typically more likely to say they have needed finance or wanted to apply. However, expecting to be rejected, and concerns over the cost of finance and slow decision making, prevent some of these entrepreneurs from applying. 64% of Ethnic Minority-led businesses cited cost as a reason for not applying in 2021, while 57% said they thought they would be rejected. The evidence suggests female-led businesses could be more price-sensitive to the cost of external finance than their male-led counterparts, and more likely to see the application process as a barrier.
- b. Finance rejection rates were significantly higher for Ethnic Minority-led businesses than for White-led businesses. Between 2018 and mid-2020, 52% of Ethnic Minority-led businesses that applied for finance were turned down compared to just 22% of White-led businesses. 29% of Ethnic Minority-led firms reported not being given a reason for being turned down, compared to 2% of White-led businesses.
- c. Ethnic Minority-led firms tend to be younger and less profitable, and entrepreneurs from Ethnic Minority backgrounds are more likely to be on lower incomes. These characteristics can increase the chances of being turned down due to lack of track record, credit risk or collateral respectively. This suggests that ethnicity-based discrimination isn't driving differences in application outcomes, but further work is necessary to understand why differences in outcomes persist.
- d. Rejection rates have historically been higher for female-led businesses, reflecting a higher share of applications made in the applicant's personal name, but are now in line with those for male-led businesses.
- e. Challenges faced by Ethnic Minority and female entrepreneurs in accessing finance have made it harder for them to invest in their businesses, with many needing to draw on personal funds.

30. The community development finance institutions (CDFIs) sector is relatively effective at reaching entrepreneurs who are further from finance or discouraged from approaching more traditional lenders. In 2022, CDFIs lent £248m to SMEs, 15% of which went to Ethnic Minority-led businesses, which represent 6% of the SME population, and 36% of which went to female-led businesses,

¹⁵ British Business Bank, Small Business and Finance Markets Report 2022/23 (March 2023) [Small Business Finance Markets 2022/23 \(british-business-bank.co.uk\)](https://www.british-business-bank.co.uk/small-business-finance-markets-2022-23)

compared to 16-21% of the SME population (data from Responsible Finance¹⁶). There is also a strong regional angle to CDFI lending, with 50% of SMEs supported located in the bottom 35% most deprived areas of the UK.

31. A 2022 report by the Centre for Research in Ethnic Minority Entrepreneurship and NatWest¹⁷ posited that CDFIs could be supported to play a more significant role in driving finance to Ethnic Minority-led businesses. A community-focused and relationship-based approach to lending into communities that can't access other more traditional commercial finance may be effective in tackling some challenges around discouragement.
32. Furthermore, the Bank's **Start-Up Loans programme** provides vital support to start-up businesses who have been unsuccessful in applying for finance elsewhere. As at April 2023, the Start Up Loans programme had delivered more than 103,000 loans, providing more than £981m of funding. 40% went to women and 21% went to Asian people, Black people, or people from other Ethnic Minorities (excluding White minorities), 31% went to people who were previously unemployed or economically inactive.

Equity

33. Data from the British Business Bank's Small Business Equity Tracker 2023¹⁸ shows that, in 2022, female founded businesses continued to receive a higher share of equity deals than in previous years. All female founded businesses accounted for 9% of deals in 2022, up from 6% in 2021, while businesses with at least one female founder received 27% of deals – the highest proportion on record. However, female founders continue to receive a relatively small share of total investment. The 2% share of deal value received by all female founded teams in 2022, represents no improvement over the past decade.
34. All-Ethnic Minority founding teams received an average of 1.7% of the venture capital investments made at seed, early and late stage between 2009 and 2019. All-Ethnic Minority founding teams raised less money than their White counterparts across all venture capital stages and just 0.24% of venture capital funding went to Black founders¹⁹.
35. The British Business Bank's 2023 report, Finding What Works: Pathways to Improve Diversity in Venture Capital Investment²⁰, found that there have been nascent steps towards greater diversity in the investment pipeline: founding teams that raised equity for the first time have become slightly more diverse in terms of their gender and ethnic composition in the past decade. First-time deals indicate the strength of the pipeline, with the proportion of all Ethnic Minority founding teams rising.
36. However, female founders' share of the market for first-time deals, in terms of investment value, has remained relatively static. Additionally, over 40% of total venture capital invested at seed stage between 2009 and 2019 went to founding teams with an elite education (elite universities include Oxford, Cambridge, Harvard and Stanford).
37. The report found three pathways for enhancing diversity in venture capital investment: promoting diversity at the top; fostering inclusion in the investment pipeline; and embracing transparency and

¹⁶ Responsible Finance, 2023 Impact Report (May 2023) [Reponsible-Finance-Impact-Report-2023-1.pdf](https://responsiblefinance.org.uk) (responsiblefinance.org.uk)

¹⁷ Centre for Research in Ethnic Minority Entrepreneurship and NatWest, Advancing the growth potential of UK's Ethnic Minority businesses (May 2022) [Advancing the growth potential of UK's Ethnic Minority businesses](#)

¹⁸ British Business Bank, Small Business Equity Tracker 2023 (June 2023) [Small Business Equity Tracker 2023 - British Business Bank](https://british-business-bank.co.uk) (british-business-bank.co.uk)

¹⁹ Diversity Beyond Gender, Extend Ventures (November 2020) [52d2fc_1b4c9ee497fb437d99facdc7ed847083.pdf](https://extend.vc) (extend.vc)

²⁰ British Business Bank, Finding What Works: Pathways to Improve Diversity in Venture Capital Investment Report (July 2023) [Finding What Works: Pathways to Improve Diversity in Venture Capital Investment](https://british-business-bank.co.uk) (british-business-bank.co.uk)

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accountability. These pathways are not mutually exclusive, a range of approaches can be effective in improving investment diversity but meaningful action, and avoiding tokenism, is critical to success.

Other Groups of Interest: Regional Disparities

38. There are also regional disparities in accessing finance for SMEs across the UK. High growth SMEs outside London have much less access to equity finance. In 2022 a total of 1,357 deals worth £10.8bn took place in London, representing 50% of the UK's overall deal count and 65% of the total investment value. The table below outlines how this compares to other Nations and English regions²¹

Number and value of announced equity deals by nation and English region

Source: British Business Bank analysis of Beauhurst data

Nations and English regions	Number of deals (2022)	% change vs 2021	Investment value (2022)	% change vs 2021
London	1357	-5%	£10.8bn	-12%
South East	238	-20%	£1.7bn	3%
Scotland	190	-22%	£762m	37%
East of England	185	-6%	£1.2bn	-15%
North West	162	-7%	£685m	-22%
South West	155	4%	£540m	-32%
Yorkshire and The Humber	94	4%	£258m	48%
North East	75	-16%	£166m	-60%
West Midlands	76	-10%	£276m	-22%
Wales	70	19%	£82m	-10%
East Midlands	58	-3%	£98m	-37%
Northern Ireland	34	-17%	£94m	39%

39. The British Business Bank has deployed more than £900m of finance outside London in 2021/22 and is supporting almost 83,000 businesses outside the capital:

- a. £500m+ Northern Powerhouse Investment Fund, £300m+ Midlands Engine Investment Fund and £40m Cornwall & Isles of Scilly Investment Fund. The Nations and Regions Investment Funds were allocated £1.6bn of funding in the 2021 Spending Review to extend investment across Scotland, Wales, Northern Ireland, the South West, North of England and Midlands.
- b. As at December 2022 the NI Growth Finance Fund has invested £26.2m in 27 businesses in Northern Ireland.
- c. The Regional Angel Programme's (RAP) initial allocation of £100m has been fully committed and an increase of £150m was announced at the Autumn Budget 2021. As at September 2022, RAP had 13 live partners, totalling £165m. As of December 2022 it had deployed over £78m into over 396 businesses across the UK, covering all 12 regions, including devolved nations

²¹ British Business Bank, Small Business Equity Tracker 2023 (June 2023) [Small Business Equity Tracker 2023 - British Business Bank \(british-business-bank.co.uk\)](https://www.british-business-bank.co.uk/small-business-equity-tracker-2023)

Government policy issuesShould the Government do more to enhance SME access to finance? And, if so, what?

40. Since being established in 2014, the British Business Bank has developed into a substantially larger and more mature organisation. In order to maximise opportunities and ensure the Bank can work in an era of renewed global economic competition and stimulate long-term sustainable growth, positioning the Bank as a permanent, flexible and sustainable institution, will further support its role in catalysing growth across the UK. This could include making the Bank's current capital base permanent, allowing the Bank to retain and reinvest profits, and removing ringfences around capital funding to give the Bank greater clarity, accountability, and flexibility.
41. This year, the Bank has worked closely with the Government to support initiatives aimed at addressing the lack of institutional investment into UK venture capital and unlocking billions of pounds of additional investment for the UK's fastest growing and most innovative companies, while also enabling the UK's pension savers to benefit from the value created by UK innovation. An update on both initiatives will be provided at the Autumn Statement.
- a. **Long-term Investment for Technology and Science (LIFTS):** The Bank has held a Call for Proposals from industry for the establishment of new funds or investment structures to crowd in UK institutional investment, particularly Defined Contribution (DC) pension schemes, to support the growth and ambitions of the UK's most innovative science and technology companies. An initial Government-funded commitment of up to £250m is expected to be available to support one or more successful proposals in mobilising institutional investment into the UK's science and technology companies.
 - b. **Chancellor's Mansion House Announcement:** In July, the Chancellor of the Exchequer announced an ambitious package of measures to unlock UK pension fund capital into productive investment. This includes asking the British Business Bank to test proposals to build on the skills and expertise of its commercial arm, which currently has over £15bn of capital mobilised into more than 20,000 companies, and potentially open its pipeline of growth company investment opportunities to pension funds to crowd in more investment.

Net Zero

42. The Bank's strategic objectives include 'Building a Modern Green Economy', which involves developing innovative low carbon business models that are less polluting and damaging to the natural environment. This creates both risks and opportunities for smaller businesses.
43. Building a modern green economy will require entire industries to transform and new technologies to be developed, scaled and adopted. High emitting sectors such as agriculture, manufacturing, transport and real estate need to decarbonise. Smaller businesses may face higher costs of finance or risk losing their place in large company supply chains if they do not take demonstrable action on their own emissions. Much of this transition will require access to finance.
44. The Bank is assessing how existing and new products can provide sufficient and appropriate finance to SMEs to ensure that they are not disproportionately impacted by the risks, nor miss out of the opportunities, of the transition to a net zero economy. Subject to this assessment, further government support and funding may be required to realise this objective.

What has the impact of the Covid Bounceback Loan Scheme (BBLs) which was followed by the Recovery Loan Scheme, been on SME finance?

45. In March 2020, in response to the global pandemic and corresponding wide-ranging business impacts and economic uncertainty, the British Business Bank worked with the Government to rapidly design and deploy a series of three loan-guarantee schemes – the Coronavirus Business Interruption Loan Scheme (CBILS), the Coronavirus Large Business Interruption Loan Scheme (CLBILS) and Bounce Back Loan Scheme (BBLs). These aimed to support smaller businesses

across the UK which were experiencing lost or deferred revenues, leading to disruptions to their cashflow. One year later, the British Business Bank commissioned a multi-year evaluation of the three schemes. Key findings included²²:

- a. Up to 500,000 businesses and up to 2.9m jobs may have been saved by the schemes.
- b. Most businesses used the funds for working capital or for financial security. The money raised through the schemes most commonly enabled businesses to adopt new technologies, undertake innovation activities or build business resilience.
- c. Between 10-34% of BBLS borrowers and 7-28% of CBILS/CLBILS borrowers could have permanently ceased trading in 2020 without the schemes.
- d. The Covid-19 loan guarantee schemes met their primary objectives of unlocking credit for businesses at scale and speed, and resulted in £78bn in guaranteed loan facilities.
- e. Reduction of approval times between CBILS and BBLS was necessary to prevent business failures.

46. The Bounce Back Loan Scheme (BBLS) targeted small and micro businesses in all sectors, providing loans from £2k up to 25% of the business' turnover with a maximum loan of £50k. It provided lenders with a 100% government backed guarantee. BBLS, although open to businesses of any size, was established specifically to target micro and small businesses, with a streamlined application process designed to deliver loans quickly to borrowers. The scheme closed to new applications on the 31 March 2021.

- a. BBLS offered £47.36bn, via 1,560,309 approved facilities as at 6 July 2021.

47. The Recovery Loan Scheme (RLS) was announced by the Chancellor of Exchequer on 3 March 2021 and initially launched on 6 April 2021. RLS was initially designed to help businesses affected by Covid-19. In July 2022, the Government announced there would be a new iteration of RLS, Phase 3, which opened in August 2022 to support any smaller business to access finance as they looked to invest and grow beyond the implications of Covid-19. RLS can be used for any legitimate business purpose, including managing cashflow, investment and growth, and is designed to appeal to businesses that can afford to take out additional debt finance for these purposes. Key data for RLS:

- a. RLS iterations 1 & 2, which made total offers of £ 4.51bn through 20,643 facilities, were closed to new applications on 30 June 2022.
- b. At 31 March 2023, £4.34bn has been drawn down through 20,084 facilities under the first two iterations of the RLS.

48. Continuing to be able to offer a loan guarantee scheme is critical to supporting businesses through challenging lending conditions, and the RLS has a proven track record of doing so. As well as supporting against market failure there is also the benefit of having an operational loan guarantee scheme in place at all times, to enable a flexible response to exceptional market disruption. Its flexibility also allows us to consider variants to fit the specific circumstances of emerging market gaps.

How useful is the British Business Bank? Does its finance hub improve SME access to finance?

Performance of the British Business Bank

49. The British Business Bank has been in operation for eight years and is firmly established as an important economic tool for government. Evaluations of the Bank's core programmes have consistently demonstrated significant additionality expressed as increased economic value across the UK. The Bank's performance against its six objectives in the last financial year (2021/22) were as follows²³:

²² British Business Bank, Evaluation of the Bounce Back Loan Scheme, Coronavirus Business Interruption Loan Scheme, and Coronavirus Large Business Interruption Loan Scheme (June 2022) [Evaluation of BBLS CBILS and CLBILS - Process evaluation and early impact assessment \(british-business-bank.co.uk\)](https://www.british-business-bank.co.uk/evaluation-of-bbls-cbils-and-clbils-process-evaluation-and-early-impact-assessment)

²³ British Business Bank, Supporting sustainable recovery across the UK: Annual Report and Accounts 2022 (September 2022) [Annual Report and Accounts 2021 \(british-business-bank.co.uk\)](https://www.british-business-bank.co.uk/annual-report-and-accounts-2021)

- a. **Increasing the supply of finance to smaller businesses** – The stock of finance supported through the Bank’s core finance programmes was £12.2bn at the end of March 2022, supporting more than 96,000 businesses.
- b. **Helping create a more diverse finance market for smaller businesses** – The Bank continued to deploy the vast majority of finance in its core finance schemes outside of the largest UK banks, exceeding the target set. 98.4% of the Bank’s finance was provided outside the ‘Big Five’ banks.
- c. **Identifying and helping to reduce regional imbalances in access to finance** – The Bank exceeded its target through strong deployment of finance across the UK’s Nations and Regions by deploying £900m of finance outside London in 2021/22. The Bank was supporting almost 83,000 businesses outside London at the end of March 2022.
- d. **Encouraging and enabling SMEs to seek the finance best suited to their needs** – Prompted awareness of the Bank amongst small businesses surveyed in 2021/22 was 22%, a decrease of 3% from 2020/21, during which the Bank administered the high-profile Covid-19 loan guarantee schemes.
- e. **Being the centre of expertise on smaller business finance in the UK, providing advice and support to the Government** – The Bank met its objective in deploying its expertise to the Government effectively, ranging from engagement on the Spending Review and administering the Covid-19 response schemes, to fulfilling priorities on research and market engagement. There were almost 17,000 downloads of the Bank’s research reports in 2021/22.
- f. **Achieving its other objectives while managing taxpayers’ money efficiently** – The Bank achieved an adjusted return of 18.2%, significantly exceeding its target.

50. The Bank’s Annual Report and Accounts detailing 2022/23 financial performance will publish by the end of September, and we will be pleased to update the Committee with this latest information once published.

51. The Bank runs regular reputation surveys with smaller businesses, intermediaries and key stakeholders. A recent reputation survey²⁴ found that:

- a. 62% of intermediaries regard the British Business Bank as experts on finance for smaller businesses in the UK
- b. 57% of intermediaries say that the Bank supports the needs of SMEs in their region by improving the supply of available finance.
- c. 78% of intermediaries say the Bank encourages SMEs to seek finance best suited to their needs

Programme Evaluations

52. The British Business Bank regularly carries out evaluations of its interventions and programmes to ensure they continue to effectively address failures in the market. Evaluations are conducted by independent evaluators and provide important evidence to help inform the direction of the Bank’s current and future market interventions. Key findings from the Bank’s recent evaluations are outlined below:

- a. **British Patient Capital²⁵**: BPC has made good progress against its objectives. It has increased the supply of additional capital and enabled funds of greater scale, with a greater UK focus and that have been able to close more quickly. Companies are better capitalised than they would have otherwise been and used BPC-backed finance to support innovation and growth. The findings suggest that BPC-backed investments are providing value for money for the taxpayer so far.
- b. **Midlands Engine Investment Fund²⁶**: By March 2022, £168.9m of MEIF finance had been deployed in 759 investments across 539 SMEs. Of this, 13% was microfinance, 49% was

²⁴ YouGov Reputation & Business Research (April - June 2023)

²⁵ British Business Bank, Interim Evaluation of British Patient Capital (February 2023) [British Business Bank Interim Evaluation of British Patient Capital \(british-business-bank.co.uk\)](https://www.british-business-bank.co.uk/interim-evaluation-of-british-patient-capital)

²⁶ British Business Bank, Midlands Engine Fund- Interim Evaluation Report (January 2023) [Microsoft Word - MEIF](#)

larger debt, 37% was equity investment (including proof of concept (PoC)). Qualitative feedback suggests that MEIF was relevant to meet business needs, and that the original rationale for the Fund was valid and remains so, especially for equity and small business loans.

- c. **Cornwall and Isle of Scilly Investment Fund**²⁷: CIOSIF had invested just over £12m, deployed via 54 investments across 43 SMEs between December 2018 and March 2022, which was around half of the anticipated expenditure over this period. Investments have been more weighted towards equity than debt (65% and 35% respectively) compared to expectations of an even split. Just as the fund was starting to build momentum, the Covid-19 pandemic hit. The influx of emergency debt funding, which the Fund Manager was not accredited to distribute, led to a reduction in demand for CIOSIF debt finance. However, the Fund saw demand return and now has a strong pipeline of investable opportunities. Qualitative feedback suggests that CIOSIF was relevant to meet business needs and that the original rationale for the fund remains valid, especially for equity and small business loans.
- d. **Northern Powerhouse Investment Fund**²⁸: £281m of NPIF finance had been deployed by June 2021, slightly ahead of target. This had supported 913 SMEs across all ten Northern Local Enterprise Partnership areas involved in the programme. The evaluation has confirmed the need for a programme of this nature, particularly to address the gap in equity finance in the North and challenges for SMEs in accessing microfinance. The programme has delivered finance to SMEs in the North that – for the large majority – would not otherwise have been accessed at all, would have been smaller in scale or taken longer to secure. In doing so, NPIF has helped to tackle the original market failures it was designed to address.
- e. **Future Fund**²⁹: The Future Fund was established in May 2020 and deployed £1.14bn of funding through Convertible Loan Agreements (CLAs) to 1,190 equity-backed companies. The early assessment report highlights initial evidence on the effectiveness of the Future Fund programme in meeting its objectives. The programme's main objective was to increase the supply of finance to viable, equity-backed UK companies that would otherwise have had problems raising finance due to adverse market conditions during the Covid-19 pandemic.
- f. **Evaluation of Bounce Back Loan Scheme (BLS), Coronavirus Business Interruption Loan Scheme (CBILS), and Coronavirus Large Business Interruption Loan Scheme (CLBILS)**³⁰: The schemes met their primary objectives of unlocking credit for businesses at scale and speed and resulted in £78bn in guaranteed loan facilities, reaching just over a quarter of SMEs in the UK. Loans were generally either used to fund operational expenses or to boost reserves and resilience to unexpected shocks, and guaranteed lending may have had a significant protective effect. Funding may have been critical in directly securing the survival of up to a third of the businesses receiving loan guarantees (around 500,000 businesses).
- g. **Enterprise Capital Funds**³¹: The evaluation report estimated that the 388 UK-based firms funded by the ECF programme between 2011 and 2019 created almost 8,000 jobs and generated £2.2bn in additional sales by March 2019. Those companies funded by ECFs saw their annual rates of turnover and employment grow by 76% and 48% respectively. By the end of 2019, those companies being supported by the ECF programme raised an estimated £4.5bn in equity funding (including follow-on investments), with £480m of this total coming from ECFs, showing the programme is helping to unlock increased equity funding for these companies.

[final Interim Evaluation report - accessibility checked \(british-business-bank.co.uk\)](#)

²⁷ British Business Bank, Cornwall and Isle of Scilly – Interim Evaluation Report (January 2023) [Microsoft Word - CIOSIF final Interim Evaluation report - accessibility checked \(british-business-bank.co.uk\)](#)

²⁸ British Business Bank, Northern Powerhouse Investment Fund – Interim Evaluation Report (April 2022) [Northern Powerhouse Investment Fund Interim Evaluation Report - Research Report \(british-business-bank.co.uk\)](#)

²⁹ British Business Bank, Future Fund Assessment Report (November 2022) [Add title of document \(british-business-bank.co.uk\)](#)

³⁰ British Business Bank, Evaluation of Bounce Back Loan Scheme (BLS), Coronavirus Business Interruption Loan Scheme (CBILS), and Coronavirus Large Business Interruption Loan Scheme (CLBILS) (June 2022) [Evaluation of BLS CBILS and CLBILS - Process evaluation and early impact assessment \(british-business-bank.co.uk\)](#)

³¹ British Business Bank, Enterprise Capital Funds Interim Evaluation Report, (November 2021) [Enterprise Capital Funds interim evaluation report 2021 - British Business Bank \(british-business-bank.co.uk\)](#)

53. The British Business Bank's Finance Hub offers independent and impartial information on different finance options for all small businesses, regardless of their business stage. It features infographics and checklists to help businesses get 'investor ready' as well as articles and guides on how smaller businesses can identify and access finance suited to their growth ambitions. The Finance Hub also includes resources to support SMEs embed sustainability, innovation, and a focus on diversity and inclusivity.
- a. Almost half a million users (495,600) accessed the Finance Hub page in 2022-23.
 - b. A total of 1.6m users have accessed the Finance Hub since it was created (data started June 2018).
 - c. The most popular page is the Finance Finder Tool (240k unique users) - helping small businesses identify the potential finance options which may be suitable for them and find finance providers, business support and information.
 - d. The most clicked on page last year was the Sustainability home page (116k)
 - e. The most clicked on page all time via a search engine is the guide on ESG. (42k)
 - f. A recent survey of Finance Hub users found that visitors felt better informed after visiting the webpage (6.9/10) and felt better able to act on the information they received (6.5/10).
54. The Bank has limited resource to drive awareness of the Finance Hub amongst its SME audience, to directly target and reach new users, however working with over 30 industry-leading partners (including Be the Business, Institute of Chartered Accountants of Scotland, National Association of Commercial Finance Brokers, Federation of Small Business, Institute of Chartered Accountants in England and Wales, Companies House, UK Export Finance, British Chamber of Commerce, Innovate UK, Responsible Finance, Finance and Leasing Association, ScaleUp Institute, UK Business Angels Association, and UK Finance) the Finance Hub is able to collate, promote and distribute content to reach an extended audience of small businesses and address key gaps in financial literacy, whether SMEs are at survival, recovery, stabilisation or growth stage.
55. Two recent examples include the Finance Hub's 'Managing Business Debt Guide' (unique users 10,922) and the 'Guide to Building Business Resilience' (over 3,000 unique users) with an estimated reach of over a 1m through partner distribution. The guides have been created to help smaller businesses overcome the challenges of economic uncertainty and emerge in a position to grow and contain impartial, practical, and actionable information and support to help smaller businesses manage their costs and boost their long-term profitability.

ANNEX A – List of questions the British Business Bank is not in a position to comment

Industry issues

How successful has the Bank of England's Term Funding Scheme with additional incentives for SMEs (TFSME) been at encouraging banks to lend to SMEs?

What role do credit reference agencies play in supporting SME finance?

What impact has the RBS bailout state aid Alternative Remedies Package and its various funds for SMEs (implemented by Banking Competition Remedies Ltd) had on SME access to finance?

Regulatory issues

Do SMEs have adequate and appropriate access to a complaints procedure when in dispute with their bank or lender?

How effective has the Lending Standards Board's Standards of Lending Practice been?

How well does the Financial Ombudsman Service (FOS) work for small business complaints?

Is the FOS's existing role in SME finance appropriate? If not, how should it change?

How effective has the Business Banking Resolution Service been, and what lessons can be learnt from it?

Should SMEs have the same level of consumer protection and deposit insurance limits as retail consumers?

Should commercial lending to SMEs be brought into the regulatory perimeter?

What impact will the PRA's proposed Basel 3.1 capital requirements framework, and in particular the proposed removal of the SME support factor, have on SMEs in the context of the PRA's objectives?

Government policy issues

In the US the Treasury approved a fund, (State Small Business Credit Initiative (SSBCI)) for incentivising and supporting underserved businesses. Does the UK need similar provisions?

September 2023