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Financial and Strategic Challenges Faced by Women-Led SMEs in the UK
(Submission to the Women and Equalities Committee: Call for Evidence on Female Entrepreneurship)

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INTRODUCTION

1. Women entrepreneurs play a vital role in the SME ecosystem, contributing to job creation, capital investment, innovation, and economic growth in the UK. Women-led SMEs represent about 17% of all SMEs and nearly 40% of social enterprises in the UK. This illustrates the significant managerial diversity in the SME sector (Social Enterprise UK, 2019).

2. Women-led SMEs have historically faced systemic challenges in accessing finance and a lack of opportunities for business growth. This is further highlighted by recent reports indicating that female entrepreneurs typically start businesses with 53% less capital than men, are less aware of funding options, and are less likely to take on debt, consequently limiting their growth opportunities (Rose, 2019). Addressing the financing gap for women-led businesses is seen as a significant opportunity to boost economic growth. Estimates suggest that a sustained effort to support women entrepreneurs could add £250 billion to the UK economy if they started and scaled businesses at the same rate as men (Rose, 2019, 2022; HM Government 2024).

3. This submission synthesizes academic research, especially in accessing finance, investment behaviours, and strategic decisions affecting women-led SMEs. Insights from recent studies by Brown et al. (2019) and Liñares-Zegarra and Wilson (2024a, 2024b, 2025) covering periods characterised by economic uncertainty following Brexit and COVID-19 are also presented.

KEY FINDINGS RELEVANT TO THIS CALL FOR EVIDENCE

4. Although studies by Brown et al. (2019) and Liñares-Zegarra and Wilson (2024a, 2024b, 2025) do not focus exclusively on women-led SMEs, their empirical analysis includes covariates related to the firm's leadership, specifically whether the SME is led by a woman. This allows us to provide key insights relevant to this call for evidence.

5. Key findings indicate that:

- **Women-led SMEs face funding barriers.** Women-led SMEs are less likely to use bank overdrafts, equity finance, leasing or hire purchase, loans from a bank, building society or other financial institutions, loans from P2P platforms, loans from business partner/director/owner, but more likely to use loans from family and friends (Liñares-Zegarra and Wilson, 2024a). Brown et al. (2019) found that women-led SMEs are less likely to use credit cards as a source of financing. Furthermore, women-led SMEs are less likely to apply for additional external funding in the short term compared to their male-led counterparts.
- **Women-led social enterprises face funding barriers.** Social enterprises pursue a hybrid business model that balances social impact with economic objectives. Women-led social enterprises are less likely to use equity finance and loans from business partners, indicating potential barriers in accessing a broad range of funding options. Moreover, women-led SMEs are less likely to receive

bank loans despite applying more frequently than male-led counterparts. They also face additional challenges in securing overdraft facilities and credit card funding (Liñares-Zegarra and Wilson, 2024a).

- **Women-led SMEs were substantially affected by the COVID-19 pandemic.** Women-led SMEs were more likely to have their business closed down completely (temporarily) or their operations scaled back relative to their male-led counterparts during the COVID-19 lockdown restrictions from the end of March to the middle of June 2020. Moreover, women-led SMEs were more likely to see their plans over the next 3 years affected by the COVID-19 pandemic. Women-led SMEs were less likely to have plans to increase the skills of the workforce, capital investment in overseas markets, and develop and launch new products/services (Liñares-Zegarra and Wilson, 2024b).
- **Brexit is viewed similarly as a business obstacle by both women and male-led SMEs.** Recent research found no statistically significant difference between female-led and male-led SMEs in how they viewed Brexit as a major business obstacle. This suggests that the gender of SME leadership does not influence perceptions of Brexit-related challenges (Liñares-Zegarra and Wilson, 2025).
- **Women-led SMEs are more cautious in investment, R&D, and future growth strategies.** Women-led SMEs display distinct strategic patterns in investment, R&D and growth plans compared to male-led counterparts. Specifically, they are significantly more likely than their male-led counterparts to scale back plans for capital investment (e.g., premises, machinery), reduce R&D spending, and limit efforts to grow sales (Liñares-Zegarra and Wilson, 2025).

6. These findings point to the existence of barriers in financing and vulnerability to unexpected shocks, resulting in a challenging environment for female entrepreneurs to achieve their full business potential. Compounded effects could potentially limit their long-term growth prospects. Thus, highlighting the need for tailored policy interventions to unlock the full potential of female entrepreneurship.

CONCLUSIONS AND POLICY RECOMMENDATIONS

7. The evidence presented demonstrates that women-led SMEs face a wide range of obstacles, which could limit their access to finance and growth opportunities. These challenges are exacerbated by recent economic shocks, such as Brexit and COVID-19. To address these challenges and maximize the potential of female entrepreneurship, tailored policy interventions and financial support are required. In doing so, inclusive economic growth and benefits to the broader UK economy are likely to follow.

8. Specialized funding mechanisms, take into account women entrepreneurs' unique challenges such as:

- Low-collateral loan schemes for first-time female borrowers.
- Support to consider alternative finance, venture capital, crowdfunding and peer-to-peer lending.
- Blended finance solutions (which combine grants with low-interest loans) could be deployed to enhance financial accessibility and support female entrepreneurs.

In the context of changing trade relationships and regulatory environments due to economic shocks like Brexit and COVID-19, export finance programs could potentially help women-led SMEs to expand internationally. From a supply-side perspective, financial intermediaries might consider gender-awareness training to address any unconscious biases that could disadvantage women-led SMEs when seeking funding. Additional efforts to access gender-specific lending data could also potentially improve accountability, reporting and transparency in lending decisions.

9. Based on the evidence and insights presented above, policy action is required to create an inclusive, resilient business environment for women-led SMEs. These efforts should be complemented by mentoring and networking initiatives that help female entrepreneurs navigate the funding landscape. By implementing targeted financial reforms and expanding access to different forms of capital, the UK can unlock the full potential of female entrepreneurship, driving both economic prosperity and social progress.

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