

Access to finance for small and medium enterprises

Westminster Hall Debate Summary

Tuesday, 9th November 2021 at 2:30pm

Read the Hansard [here](#), alternatively, you can watch the debate [here](#).

MPs debated access to SME finance during a Westminster Hall Debate led by Peter Gibson MP Vice-Chair of the APPG on Fair Business Banking who made the following arguments:

- The UK is the most regionally imbalanced country in Europe when it comes to the productivity of its economies, with London and the South-East receiving 67% of all equity deals and 75% of all invested funds in the UK between 2011 and 2017.
- SMEs across the country face a £22 billion funding gap and report significant problems in accessing finance as the current UK financial system is dominated by four large shareholder-driven banks that prefer to lend to larger, less riskier and more profitable firms.
- Due to this concentration, SMEs are unaware of alternative lending providers. The Bank Referral Scheme fails to provide adequate information on a diverse range of borrowing options and fails to help SMEs understand why they got rejected and what they can do to successfully obtain funding.
- This environment discourages SMEs from continuing their search for finance despite competitive, socially responsible and trustworthy alternative lenders existing. As found by the Federation of Small Businesses in 2018, 73% of SMEs in the UK would rather grow more slowly than borrow.

Other key points made during the debate:

- Responding for Government, Minister for Small Business Paul Scully welcomed the debate and agreed access to finance is “undoubtedly skewed” towards London and the South-East and this must be rectified. He was particularly vocal in his support of CDFIs who play a “massive role in the landscape of alternative lenders” and Regional Mutual Banks with whom the Government is willing to explore solutions that are “practical and proportionate”.
- Pat McFadden, Shadow Economic Secretary to the Treasury agreed CDFIs have a very important role to play in this debate, and have already proved successful in stepping in where main high street banks are unable to help. He argued that challenger banks are another key source of funding for small business and set out the issues with the current MREL limit, which is currently being explored by the Bank of England.
- Co-Chair of the APPG on Fair Business Banking Kevin Hollinrake MP said 73% of SMEs would rather grow more slowly than borrow. That means that we have a real problem, because we need those businesses to scale up. Part of the problem we have, as was very well articulated by the Chancellor when he was a Back Bencher, is that we are No. 1 in the OECD report in terms of start-ups, but No. 13 or No. 14 in terms of scale-ups—the number of small businesses that employ 10 people or more after three years. That is a real problem.



- Marion Fellows MP raised concerns that repayments from COVID-19 loans would be a burden for a long time, and argued SMEs should only begin repaying once they begin turning a profit.
- Margaret Ferrier MP argued high street banks could benefit from investing more time in understanding the SMEs they lend to and taking the time to understand the business model throughout the lending process.

Next steps in addressing issues faced by SMEs

- To deliver a financial services sector fit for SMEs the APPG on Fair Business Banking recommends Government:
 - Provides capital to strong local finance options, such as CDFIs and regional mutual banks, in order for them to scale up their offerings
 - Turbocharges the challenger banks and non-bank lending sector by reforming the minimum requirement for own funds and eligible liabilities (MREL rules) and providing access to the term funding scheme for non-bank lenders
 - Continues Government initiatives to unlock patient capital from pension funds for investment in long-term, socially important companies
 - Eases the finance application process to encourage borrowing for growth.
- Minister for Small Business Paul Scully set out a number of key points to take these forward:
 - Asked MPs to promote current Government schemes including Help to Grow which are “incredibly important opportunities to boost productivity wherever they are in the country”
 - Said the Government is engaging with prospective mutual banks and are willing to explore solutions that are practical and proportionate
 - Discussed the current implementation of a plan to unlock more than £20 billion to finance growth in innovative SMEs by providing SMEs with the long-term financing they need to scale up
 - Commented on the Bank of England’s current review of MREL and its approach to setting a minimum requirement for own funds and eligible liabilities