

**Impact case study (REF3b)**

<b>Institution:</b> Warwick University
<b>Unit of Assessment:</b> Warwick Business School
<b>Title of case study:</b> Improving Access to Finance for UK SMEs
<p><b>1. Summary of the impact</b> (indicative maximum 100 words)</p> <p>The UK Survey of SME Finances (UKSMEF) was conceived and developed by Dr W.S. Fraser to provide policy makers, and other users of the research, with a detailed analysis of SMEs, their owners and the availability and cost of finance. This innovative UKSMEF project has had sustained and on-going impact, playing an essential part in informing national policy to address the financing of the SME sector, and has resulted in providing SMEs with better access to finance opportunities, as well as leading to initiatives such as the Enterprise Finance Guarantee and the Ethnic Minority Business Taskforce. As a result new sources of finance for SMEs have been created and the UKSMEF has provided an on-going evidence base for policy-makers, aiding decision making and policy development.</p>
<p><b>2. Underpinning research</b> (indicative maximum 500 words)</p> <p>The initial motivation for UKSMEF was to provide the first large scale representative survey of the state of SME finances in the UK and SME relationships to finance providers. The project was led by Dr Fraser as PI (in 2004, 2008 and 2009) and Professor David Storey as co-investigator (in 2004 and 2008). UKSMEF data and research is available on the UK Data Archive and is widely used and cited by academic and policy makers as an authoritative source of information on SME finance.</p> <p>Using data from the UKSMEF 2004 and the Ethnic Minority Business (EMB) Finance Survey (a follow-up booster survey to UKSMEF using the same methodology) (2005), a summary analysis of credit revealed large differences across ethnic groups with Black and Bangladeshi businesses, in particular, experiencing poorer outcomes than White and Indian businesses. Econometric analysis showed that ethnic differences in denial rates and interest rates could be explained by variations in non-ethnic risk factors such as missed loan repayments and overdraft excesses. The research suggested that there was no ethnic discrimination in credit markets although ethnicity did appear to influence whether business owners felt discouraged from applying for loans, showing that some ethnic groups are affected by misperceptions of ethnic discrimination (see Fraser, 2009a).</p> <p>In 2010 Dr Fraser was invited by the Department for Business, Innovation and Skills (BIS) and the Department for Culture, Media and Sport (DCMS), to investigate the barriers faced by Creative Industry Businesses (CIBs) in accessing finance. The evidence suggested that applicants from Software and Other Creative Content Sectors (i.e. Publishing; Video, Film and Photography; and Radio and TV) experienced greater rejection rates than applicants from other CIBs in Music/Visual Performing Arts and in Advertising and Architecture and those from non-CIBs with comparable risk profiles. The study also found that owners of CIBs in Other Creative Content sectors are more likely to feel discouraged about applying for finance in the first place than owners of non-CIBs with similar risk profiles; and that CIB owners have worse perceptions about supply conditions in the loan market than owners of comparable non-CIBs (Fraser, 2011).</p> <p>SMEs are facing real difficulties in accessing credit since the 2008 financial crisis. In July 2013, bank lending to SMEs was £3.8 billion, versus a monthly average of £3.4 billion for the previous six months. However, repayments in July by SMEs totaled £4.1 billion (versus a monthly average of £3.5 billion for the previous six months (Bank of England Statistical Release August 2013). Hence, SMEs are actually paying back more than they receive in credit. This makes it vital to understand the nature of problems faced in accessing credit and to consider policy interventions.</p> <p>In an attempt to provide a comprehensive assessment of the impact of the 2008 credit crisis on access to finance amongst UK SMEs, Dr Fraser conducted another research study in 2009 using the UKSMEF 2004 and 2008 surveys. The data showed that in 2008 (compared to 2004) loan and overdraft rejection rates increased 2½ and 3½ times respectively. At the same time average loan amounts increased by 30%. However, low risk firms, particularly with collateral, were the main beneficiaries of these increases whilst higher risk SMEs found their credit supply substantially reduced (see Fraser, 2009b).</p>

## Impact case study (REF3b)

In early 2012, Fraser was asked by the Breedon Taskforce (commissioned by Vince Cable, BIS) to provide quantitative evidence of the impact of the credit crisis on bank lending to SMEs. His findings provided robust empirical evidence that bank debt rejection rates approximately doubled in 2008/09 compared to 2001-04. Again, for loans larger than £20,000, collateral ratios in 2007-09 were approximately double their level before 2004 (Fraser, 2012).

### 3. References to the research (indicative maximum of six references)

1. Fraser, S. (2009a) 'Is there ethnic discrimination in the UK Market for Small Business Credit?' *International Small Business Journal*, 27:5, pp. 583 – 607. Peer reviewed journal article.(REF2)
2. Fraser, S. (2009b), 'Small Firms in the Credit Crisis: Evidence from the UK Survey of SME Finances', ESRC:  
[http://www2.warwick.ac.uk/fac/soc/wbs/research/csme/research/latest/small\\_firms\\_in\\_the\\_credit\\_crisis\\_v3-oct09.pdf](http://www2.warwick.ac.uk/fac/soc/wbs/research/csme/research/latest/small_firms_in_the_credit_crisis_v3-oct09.pdf) [Reviewed by ESRC Funding Council]
3. Fraser, S. (2011), 'Access to Finance for Creative Industry Businesses, Research Report', Prepared for the Department for Business, Innovation and Skills and Department for Culture, Media and Sport: <http://www.bis.gov.uk/assets/biscore/enterprise/docs/a/11-898-access-to-finance-for-creative-industry-businesses> [Government commissioned research report]
4. Fraser, S. (2007a), 'Finance for Small and Medium Sized Enterprises: Comparisons of Ethnic Minority and White Owned Businesses', Research Report Prepared for the Department for Business Enterprise and Regulatory Reform: <http://www.bis.gov.uk/files/file39925.pdf> [Government commissioned research report]
5. Fraser, S. (2007b), 'Finance for Small and Medium Sized Enterprises: Comparisons of Social Enterprises and Mainstream Businesses', Research Report Prepared for the Cabinet Office: [http://webarchive.nationalarchives.gov.uk/20070701110940/http://www.cabinetoffice.gov.uk/third\\_sector/documents/finance/sme\\_finance.pdf](http://webarchive.nationalarchives.gov.uk/20070701110940/http://www.cabinetoffice.gov.uk/third_sector/documents/finance/sme_finance.pdf) [Government commissioned research report]
6. Fraser, S. (2012), 'The Impact of the Financial Crisis on Bank Lending to SMEs: Econometric Analysis from the UK Survey of SME Finances', Research Report Prepared for the Department for Business, Innovation and Skills (on behalf of the Breedon Taskforce): <http://www.bis.gov.uk/assets/biscore/enterprise/docs/i/12-949-impact-financial-crisis-on-bank-lending-to-smes> [Government commissioned research report]

### Associated grants

1. W.S. Fraser (PI) 'UK Survey of SME Finances, 2008 – Panel Study.' (Total award: £77,155.76 (ESRC) plus £150,000 (Barclays Bank) from 5<sup>th</sup> November 2008 - 4<sup>th</sup> September 2009.
2. W.S. Fraser (PI) 'UK Survey of SME Finances 2009 Follow on Study.' (Total award: £95,419.83 (ESRC) plus £50,000 (BIS), from 5<sup>th</sup> December 2010 - 4<sup>th</sup> December 2011.

### 4. Details of the impact (indicative maximum 750 words)

Through a sustained programme of research, the UKSMEF has created a substantial and important evidence base for policy-makers and businesses. Four distinct strands of impact activity can be identified, each of which has been significant in improving access to finance for a range of business sectors.

#### 1. Availability and cost of finance to Ethnic Minority Businesses (EMB)

The findings and analysis of EMB finance research were a major influence on the activities and recommendations proposed by Ethnic Minority Business Taskforce (2007-09) Fraser's research showed that differences in finance approval rates could be attributed to non-ethnic risk factors such as higher rates of missed loan repayments and unauthorised overdraft borrowing ('financial delinquency'), rather than discrimination, and thus informed the Taskforce's recommendations proposed to the BIS on dealing with the underlying causes of financial delinquency such as poor financial skills.

The UK Government's responses to the issues raised by the Ethnic Minority Business Taskforce, including the issues raised originally in Fraser's research, are reported in 'The Government's Response to the Ethnic Minority Business Taskforce' (3 November 2009). The policy recommendations adopted the findings and implications contained in Fraser's research and included actions to: establish a regional business mentoring network for EMBs; provide advice on access to finance via the website of James Caan/the BBC Dragon's Den portal; and promote fairness in banking. The EMB research continues to resonate with policy makers and has been

directly referenced by UK Prime Minister David Cameron and Deputy Prime Minister Nick Clegg in public speeches and press conferences on matters of SME finance. In July 2013 the Department for Communities and Local Government and the Deputy Prime Minister's Office published a policy paper, which cites Fraser's research as an evidence base, and outlines the actions agreed by the British Bankers' Association to improving access to finance for ethnic minority businesses.

## 2. Evolution of the Small Firm Loan Guarantee Scheme (SFLGS) into the Enterprise Finance Guarantee (EFG)

Findings from UKSMEF 2008 helped underpin the 2009 evolution of the SFLGS into the EFG. The EFG is the UK Government's flagship intervention for SMEs following the 2008 financial crisis, with the aim of helping creditworthy businesses with insufficient collateral to obtain loans. Over £1.5bn EFG loans were made in 2009-11 and, subject to demand, the scheme will provide guarantees on over £2bn of new lending to SMEs in 2011-15. The UKSMEF findings were communicated very early on in the project to policy makers through a member of the Barclays Bank and BIS Access to Finance Advisory Group. A seminar was also held at the Department for Business Enterprise and Regulatory Reform (now BIS) in February 2009 at which Fraser presented the research findings directly to policy makers. Subsequently, the UKSMEF 2009 findings formed part of the evidence in relation to SME finances presented in the BIS Finance Green Paper, 'Financing a Private Sector' (July 2010). In April 2013 the BIS published a report prepared by the National Institute of Economic and Social Research (NIESR) to understand the changes in lending to SMEs from 2001-12. The study used Fraser's (2012) research as a benchmark and the core findings concurred with Fraser's results which formed the basis of the NIESR's suggestions to Government.

## 3. Impact of the 2008 Financial Crisis on Bank Lending to SMEs

Findings from UKSMEF 2009, which provided independent data on the state of lending to SMEs in the wake of the financial crisis, were also referenced in a report by the Business Finance Taskforce (comprised of the six largest UK banks and the British Bankers' Association (BBA)) published in October 2010. The report has led to a number of commitments by UK banks to: improve banking relationships; ensure SMEs have better access to finance; and provide better information on SME finances. In terms of the latter, the Taskforce banks introduced a quarterly independent business finance survey (SME Finance Monitor), modelled directly on the methodology from the original UKSMEF study (at a cost of £1m per annum). In February 2011, the four largest banks and Santander also committed to putting in place new dedicated lending capacity of £76bn for UK SMEs.

Fraser's UKSMEF research analysis also influenced the Breedon Taskforce's 2012 proposals to the BIS on boosting finance options for businesses.

## 4. Access to Finance for Creative Industry Businesses (CIBs)

The research also helped to inform debate among Government and creative industries stakeholders as to CIB's ability to obtain finances by identifying the areas of differences between CIBs and other businesses. Fraser's CIB report (2011) formed the basis of further focused investigation and discussion by the Creative Industries Council (CIC), a joint forum between the Creative Industries and Government. This led to the publication of the Creative Industries Council Access to Finance Working Group report (2011). Fraser's research was pivotal to the discussion contained within the report and its recommended initiatives.

## **5. Sources to corroborate the impact** (indicative maximum of 10 references)

### Evidence of impact on access to finance opportunities for Ethnic minority SMEs

- 1. Director of Centre for Research in Ethnic Minority Entrepreneurship (CREME), De Montfort University.** The Director was a member of the previous Labour government's Ethnic Minority Business Taskforce (which acted on the UKSMEF findings) and can testify to the specific impact of Dr Fraser's UKSMEF research on EMB finance policy. "Dr Stuart Fraser's research on access to finance on ethnic minority businesses has been a real 'game-changer'. It has provided much needed clarity to an issue that has been characterised by misinformation and anecdote. Stuart's research is recognised as the benchmark study in this field, and is accepted as such by the academic community, policy-makers, professional bodies and ethnic minority business intermediaries. Moreover, its recommendations have catalysed a number of

practical interventions that are making a real difference to ethnic minority businesses. Stuart himself has been extremely active in disseminating the key messages to a wide range of non-academic stakeholders, ranging from senior politicians (notably the Deputy Prime Minister) to individual minority entrepreneurs”.

2. **The Government’s Response to the Ethnic Minority Business Taskforce** (2009). This report summaries the impact of Dr Fraser’s research and influence on the EMB Taskforce and its activities to improve EMB access in direct response to the research findings. Online available from: <http://www.bis.gov.uk/files/file53440.pdf>
3. **Ethnic Minority Businesses and Access to Finance, Department for Communities and Local Government**. Report (30 July 2013). Outlines the actions agreed by the British Bankers’ Association to ensure ethnic minority businesses can access finance and explicitly recognises Fraser’s research contribution. <https://www.gov.uk/government/publications/ethnic-minority-businesses-and-access-to-finance>

Evidence of impact on UK SME Finance policy

4. **Letter from SME Market Analysis Director at Barclays Bank** (electronic copy available from WBS): providing an independent testimonial on the policy impact of UKSMEF. In addition to his senior role in SME banking, the Director is a member of the BIS Access to Finance Advisory Group and the Secretary of State’s Advisory Panel on the UK Economy.
5. **Supporting UK Business - A Business Finance Taskforce Report** (October 2010). Evidence of influence on government strategies in credit provision to SMEs: <http://www.bba.org.uk/media/article/business-finance-taskforce>
6. **Evaluating changes in bank lending to UK SMES over 2001-12 – On-going tight credit?, Department for Business Innovation and Skills (BIS)** (April 2013): Evidence of Fraser’s research influencing the methodology and econometric analysis of independent research study into SME finance conducted by the National Institute of Economic and Social Research (NIESR) on behalf of BIS: [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/193945/bis-13-857-evaluating-changes-in-bank-lending-to-uk-smes-2001-12.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/193945/bis-13-857-evaluating-changes-in-bank-lending-to-uk-smes-2001-12.pdf)

Evidence of impact on SME credit industry during financial crisis

7. **Boosting Finance Options for Business: Report of industry-led working group on alternative debt markets** (Tim Breedon Report) (2012). Document provides evidence of research impacting the Taskforce recommendation proposals to Government. <http://www.bis.gov.uk/assets/biscore/enterprise/docs/b/12-668-boosting-finance-options-for-business>
8. **Financing a Private Sector Recovery** (2010), [HMT/BIS: cm 7923]. Evidence of impact by shaping government policy and the development of the Small Firm Loan guarantee Scheme: [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/31975/10-1081-financing-private-sector-recovery.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/31975/10-1081-financing-private-sector-recovery.pdf)

Evidence of impact on SME finance initiatives in the Creative Industries

9. **Creative Industries Council: Access to Finance Working Group Report** (December 2012). Final report repeatedly cites Fraser’s research evidence which underpinned and stimulated discussions and the recommendations developed by the working group: <http://www.creativeengland.co.uk/wp-content/uploads/2012/12/CE-ReportDec2012e-without-Registration1.pdf>

Evidence of impact by engaging key political stakeholders and the UK public through press media

10. Press Articles providing evidence of research informing political debate:
  - ‘We’ll change black Britain: Conservatives will tackle racial inequalities by giving people what they want: a start in business.’ Article written by David Cameron in *The Guardian*, 17<sup>th</sup> March, 2010: <http://www.guardian.co.uk/commentisfree/2010/mar/17/black-britain-unemployment-conservatives>
  - ‘Nick Clegg to accuse the banks of racism’, *The Guardian*, 24<sup>th</sup> November 2011. Deputy Prime Minister quotes UKSMEF findings: <http://www.guardian.co.uk/business/2011/nov/24/nick-clegg-british-banks-racist>