

Business Activity

Statistics Bulletin

Northern Ireland Access to Finance 2007 and 2010

28 October 2011



Northern Ireland Statistics and Research Agency

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Executive Summary

1

1. Introduction

The Northern Ireland survey of Access to Finance is part of an EU wide survey of Small and Medium sized Enterprises (SMEs) – defined as businesses with 10-249 employees, designed to assess businesses' experiences of accessing finance from a range of sources in the period 2007-2010.

It also covers their need for finance and expectations regarding growth over the next three years. The survey covers most key sectors but excludes the financial and insurance sector as per the EU regulation.

2. Key Points - SMEs

The percentage of businesses applying for finance from any source remained relatively constant over the period 2007-2010. 38 per cent of SMEs applied for finance in 2007 and 39 per cent in 2010.

The NI survey also uniquely included a separate module on the micro business population (less than 10 employees).

Three-quarters of SMEs seeking loan finance approached banks. As such, 16% of all SMEs sought a bank loan in 2010 (17% in 2007).

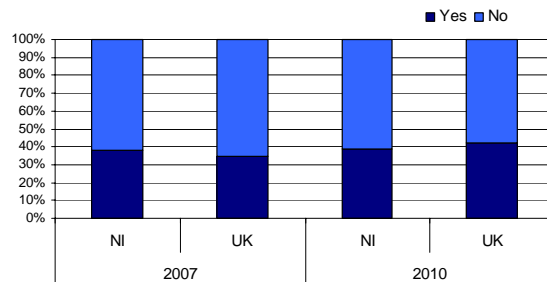
In 2007, 92 % of SMEs that applied for a bank loan were successful compared to 65 % in 2010. When those who were partially successful were included the success rate fell from 97% to 83%. To be partially successful refers to either not getting the requested amount of the bank loan or not getting it on the desired terms. The partially successful rate for NI SMEs increased from 5% in 2007 to 18% in 2010. The percentage of NI applicants who were completely unsuccessful in getting a bank loan increased from 3% to 18%. The equivalent rate in the UK increased from 6% to 21% between 2007 and 2010.

Over two-fifths (42%) of SMEs perceive the willingness of banks to provide finance has worsened over the period, this compares to a one-third of SMEs in the UK.

Almost half (49%) of NI SMEs consider the financial situation of their business has deteriorated between 2007 and 2010, compared to 41% in the UK.

89% of SMEs who were likely to need loan finance in the next 3 years expected to obtain a loan from a bank. This compared to 83% of such SMEs in the UK. As such, 29% of all SMEs expect to seek a bank loan before 2013 (25% in the UK).

Fig 1.1: Finance sought



3. Key Points – Micro businesses

In 2007, 14 % of micro businesses applied for loan finance of which 89% were successful. In 2010, 13% applied for loan finance however, the success rate halved to 45%.

Thirty per cent of micro businesses surveyed indicated they would have the need for finance during 2011 – 2013, 82% would seek loan finance and 28% would seek other finance (to include bank overdrafts).

Over half (55%) of micro businesses indicated that they would require future finance to maintain the business as a going concern and 51% would seek to obtain this finance from banks.

Three out of every ten micro businesses perceive the willingness of banks to provide finance has worsened and a greater percentage (43%) consider that the financial situation of the business has deteriorated.

SME Access to Finance

2

Finance sought

Demand for access to some form of financial credit (loans, equity finance, or “other”) in NI has remained relatively constant between 2007 and 2010. Thirty eight per cent of NI SMEs sought some form of financial credit in 2007, and 39% in 2010. This is in contrast to the UK where demand for credit increased from 35% of SMEs in 2007 to 42% in 2010.

Fig 2.1 Finance sought

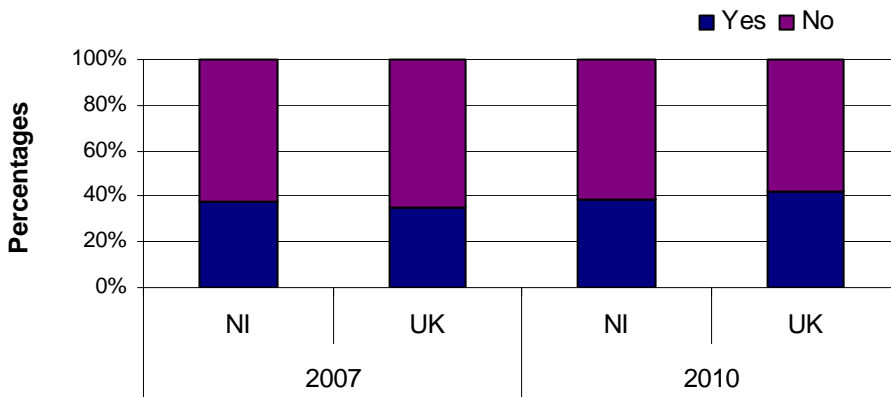
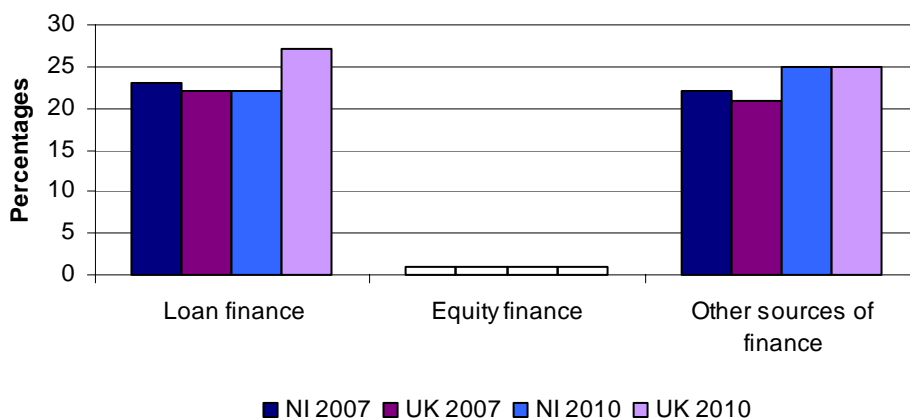


Fig 2.2 Type of finance sought, as a percentage of those seeking finance



Loan finance

Businesses were asked from which sources they had sought loan finance, and how successful they were in obtaining it.

In total, around 23% of all businesses surveyed sought loan finance. This fell marginally to 22% in 2010.

Businesses in the construction sector were more likely to have sought loan finance in 2007 than any of the other sectors surveyed.

Table 1 Applications for Loan Finance by standard industrial classification (SIC) sections

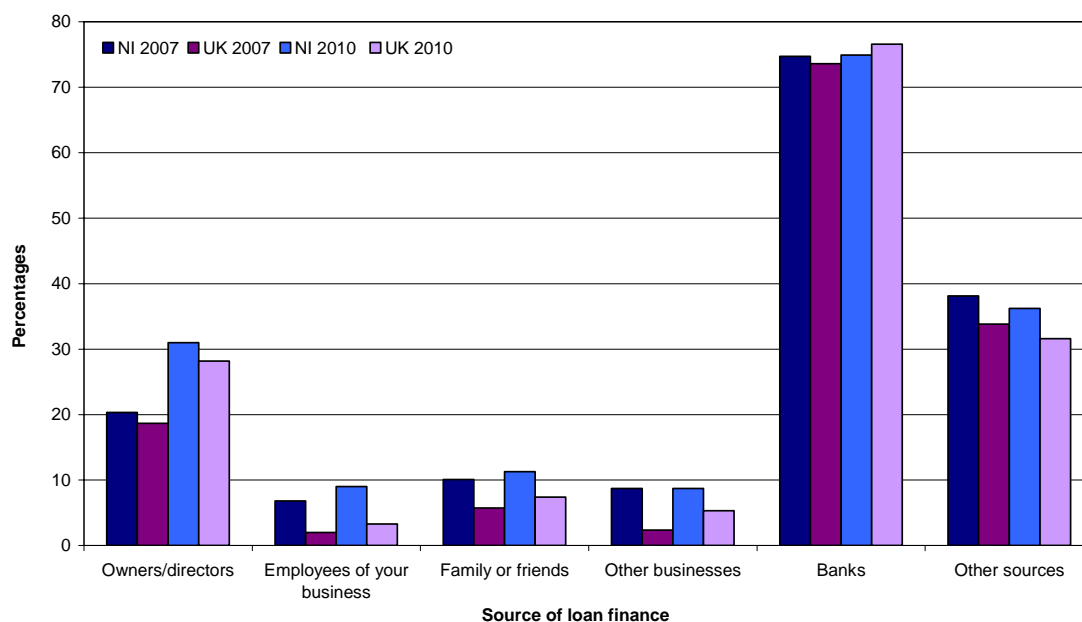
Applications for loan finance ¹	2007	2010
Industry (B to E)	24	26
Construction (F)	27	25
Services (G, H, I, L and N)	23	21
Information and communication services (J)	14	15
Professional, scientific and technical activities (M)	20	21

¹ Applications for loan finance include applications made to: the owner/director, other employees of the business, family, friends or other individuals outside your business, other businesses, banks, other loan sources e.g. finance houses and subsidiaries of banks

Approaches for loan finance: by source of loan finance

Loans were the most important form of finance sought in 2007 and banks were the most likely source of such a loan. Three-quarters of all NI SMEs surveyed that applied for loan finance, sought it from banks in 2007 and 2010. This was similar to UK SMEs. As such, when expressed in terms of the SME population as a whole, 17% of all SMEs sought a loan from banks in 2007 and 16% in 2010. The equivalent application rate for a bank loan in the UK was 16% in 2007 and 21% in 2010.

Fig 2.3 Applications for loan finance by source of loan finance



The success rates for loan finance from banks fell substantially between 2007 and 2010. Nine out of ten (92%) of NI SMEs that applied were fully successful in obtaining a bank loan compared to 65% in 2010. The UK rate fell from 83% to 65% over the same period. However, SMEs in NI are as likely to obtain a bank loan in 2010 as their counterparts in the UK or compared to the Republic of Ireland where the success rate was 53% in 2010. When those NI SMEs that were partially successful are included, the success rate fell from 97% to 83% (95% to 79% in the UK). To be partially successful refers to either not getting the requested amount of the bank loan or not getting it on the desired terms. The partially successful rate for NI SMEs increased from 5% in 2007 to 18% in 2010. The percentage of NI applicants who were completely unsuccessful in getting a bank loan increased from 3% to 17%. The equivalent rate in the UK increased from 6% to 21% between 2007 and 2010.

Table 2 Success rate of bank loan applications

Success rate of bank loan applications	2007			2010		
	Successful	Partially successful	Unsuccessful	Successful	Partially successful	Unsuccessful
Northern Ireland	91.9	5.4	2.7	64.8	18.4	16.9
Republic of Ireland ¹	96.9	2.1	1.0	53.2	20.2	26.6
United Kingdom ¹	88.4	6.1	5.6	64.6	14.7	20.8

¹ Source: Eurostat news release 144/2011

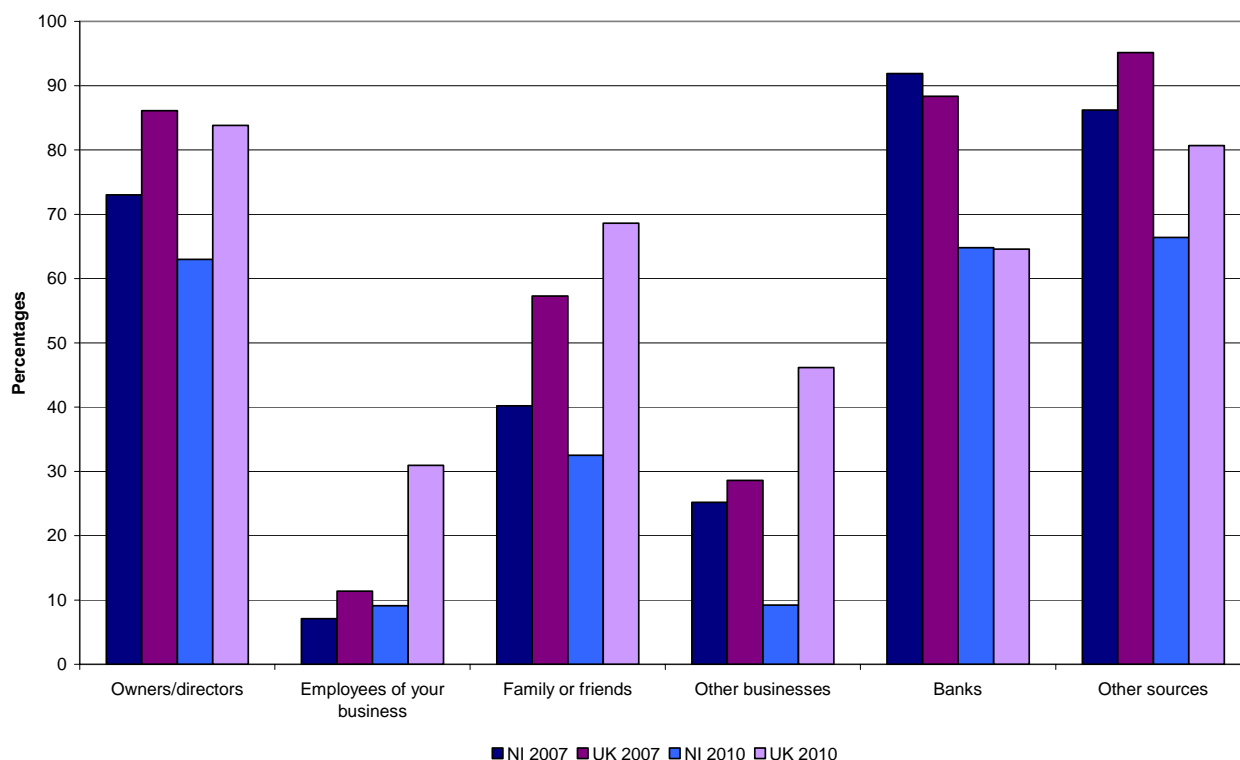
http://epp.eurostat.ec.europa.eu/cache/ITY_PUBLIC/4-03102011-AP/EN/4-03102011-AP-EN.PDF

A **successful** loan application: the loan is granted by the bank.

A **partially successful** loan application: the loan is granted by the bank under less favourable terms than desired.

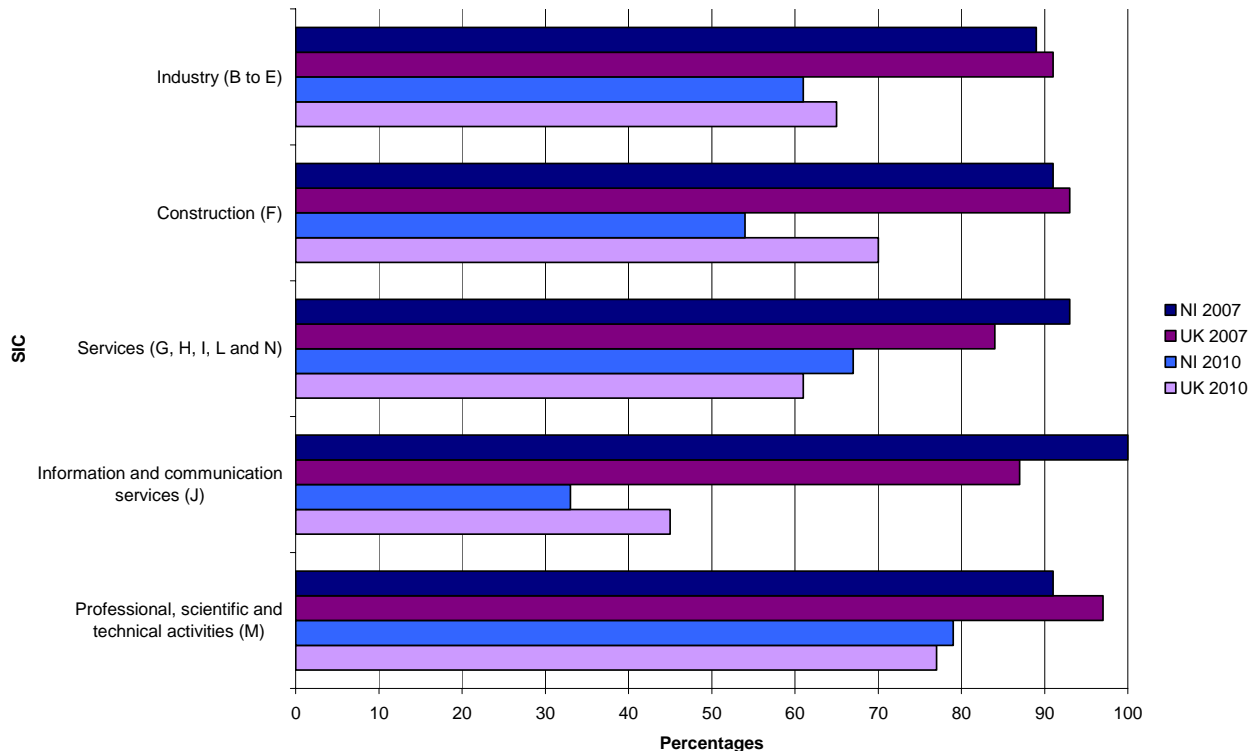
An **unsuccessful loan** application: the loan is not granted by the bank.

Fig 2.4 Loan finance success rates: by source



The success rates for bank loans fell most noticeably in the NI Construction sector from 91% in 2007 to 54% in 2010. The fall was not as marked in the UK where the rate fell 23% from 93% to 70% in 2010. The decline in success rates was least marked in the Professional, scientific and technical sector, between 2007 and 2010.

Fig 2.5 Loan finance success rates by SIC



Loan finance guarantees

In both 2007 and 2010 it is estimated that a guarantee was required from one third of businesses surveyed that obtained loan finance.

Reasons for not being successful in obtaining loan finance

Businesses that had been only partially successful or unsuccessful in obtaining loan finance were asked for the reason given by the lender for the failure to secure the finance requested. Due to the number of options available to choose, some of the categories had very few responses, especially in 2007 where the success rate of loan applications was in the region of 90%, therefore only 10% of respondents would have been eligible to answer this question. The most common reasons given by banks, in 2010, for refusing (or partially refusing) a loan in NI was that the project had insufficient potential or was too risky (reported by 19% of SMEs), followed closely by the lack of businesses’ own capital (18%) and that the business already had too many loans or too much debt (17%). However, NI businesses were more than twice as likely (34%) as UK businesses (15%) to report that banks did not give a reason for refusing a loan.

Reasons for choice of bank when applying for loan finance

Nine out ten respondents that applied for loan finance from a bank cited ‘already a client’ as the main reason for choosing a particular bank in both NI and the UK, in 2007. In 2010, 98% of businesses cited this reason compared to 85% in the UK. In 2010, one-quarter (25%) of respondents in NI cited the locality of the bank branch as important compared to 12% of UK businesses.

Other sources of finance

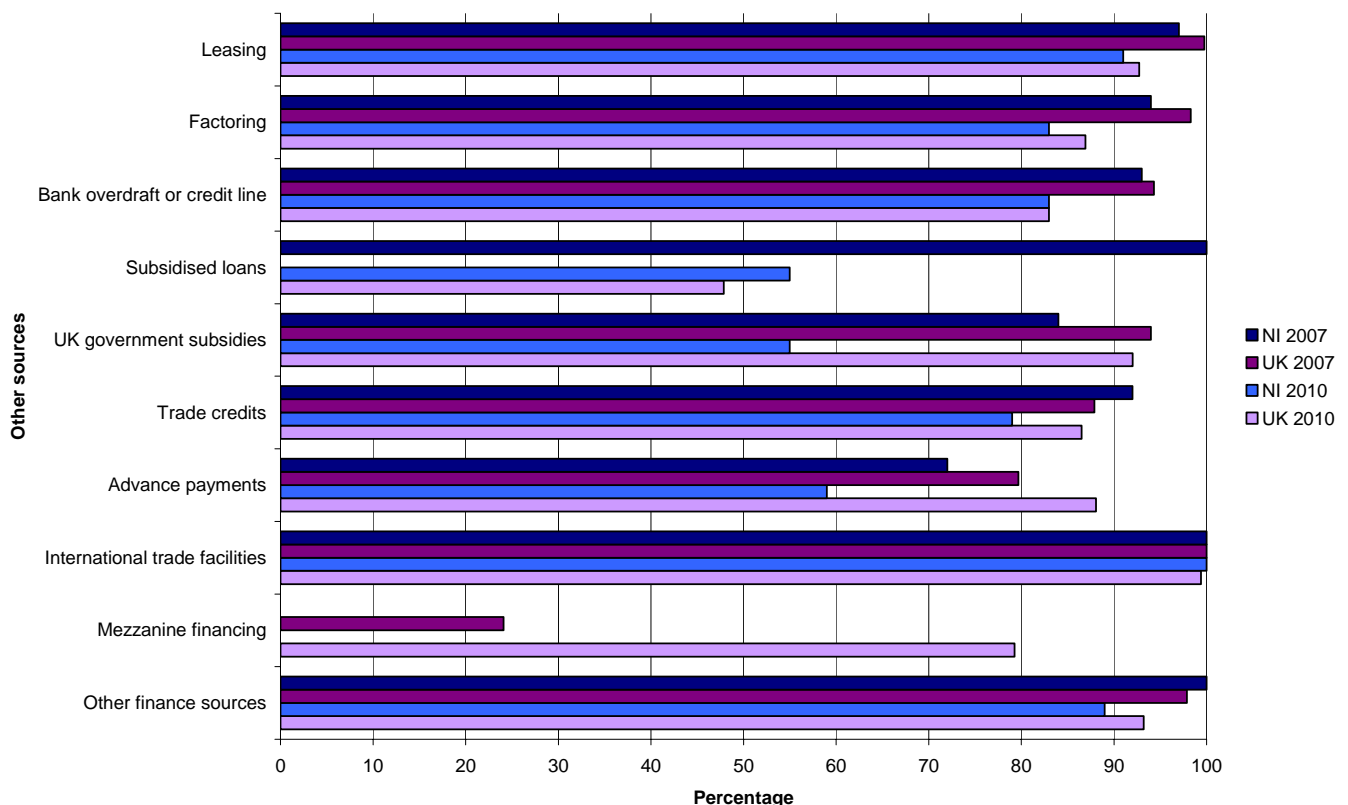
Respondents were asked to select which other sources of finance they sought in the reference period and this included bank overdrafts and credit lines along with trade credit, leasing, financing and government subsidies. Bank overdraft or credit line were the most popular other sources of finance sought in both years for NI and the UK. In 2007, 68% of NI SMEs sought a bank overdraft compared to 65% in the UK. By 2010, the figure had risen to 74% for NI SMEs and 68% for those in the UK. As such, 15% of all SMEs sought an overdraft facility in 2007 compared to 19% in 2010. The equivalent figures for overdraft applicants in the UK were 14% and 19%.

The success rate for bank overdrafts fell by around 10 percentage points between 2007 and 2010 for NI and UK. In 2007, SMEs in NI were 93% successful (fully) in obtaining a bank overdraft compared to 94% in the UK and in 2010 the success rate was 83%. All sectors in NI, apart from construction, experienced an increase in demand for other sources of finance between 2007 and 2010.

Table 3 Applications for other finance by SIC

Applications for other finance	2007	2010
Industry (B to E)	28	32
Construction (F)	23	21
Services (G, H, I, L and N)	19	24
Information and communication services (J)	*	*
Professional, scientific and technical activities (M)	28	31

Fig 2.6 Other finance success rates by source



Perception of changes in the financial environment between 2007 and 2010

All businesses surveyed were asked about their perception of changes in the availability of finance during 2007 to 2010. Almost half of all NI SMEs cited the financial situation of the business had worsened during the period. Over two-fifths (42%) of SMEs perceive the willingness of banks to provide finance has worsened over the period compared to 33% of UK SMEs.

Fig 2.7 Perception of change in finance availability between 2007 and 2010

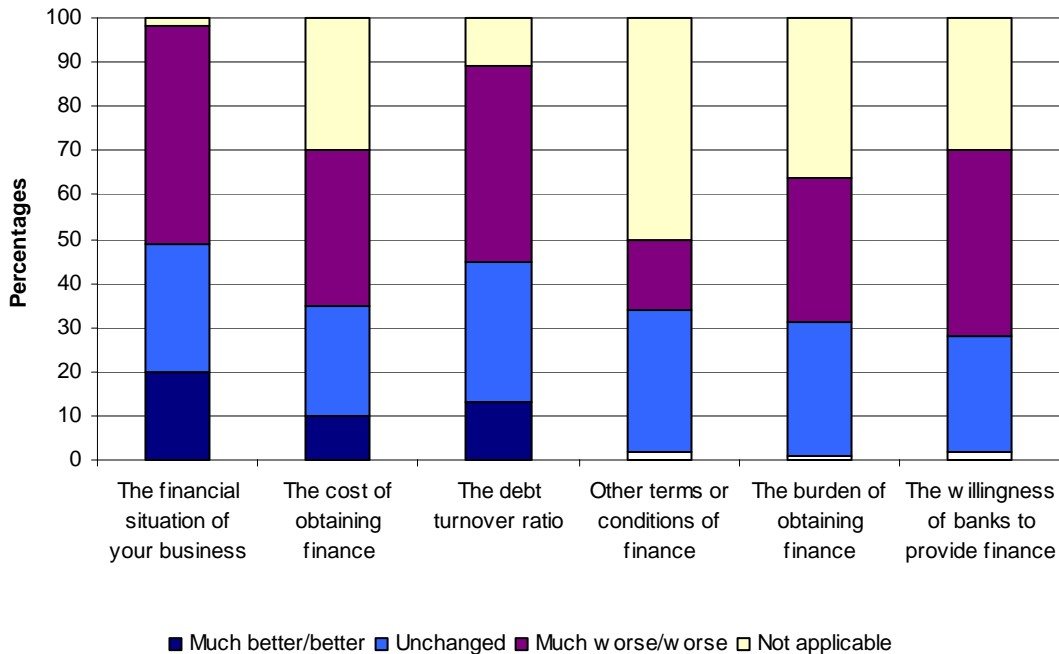


Table 4 Perception of change in finance availability between 2007 and 2010: NI compared to UK

Perception	The financial situation of your business		The cost (interest and other) of obtaining finance for your business		The debt/turnover ratio of your business		Other terms or conditions of finance		The burden or effort of obtaining finance for your business		The willingness of banks to provide finance	
	NI %	UK %	NI %	UK %	NI %	UK %	NI %	UK %	NI %	UK %	NI %	UK %
Much better	4	6	2	3	2	2	0	1	0	1	0	1
Better	16	24	8	11	11	17	2	1	1	1	2	3
Unchanged	29	27	25	21	32	36	32	29	30	30	26	28
Worse	37	30	24	20	35	27	12	10	21	17	21	16
Much worse	12	11	11	9	9	7	4	3	12	11	21	17
Not applicable	2	3	30	37	11	12	50	55	36	40	30	36

Demand for future finance

All respondents were asked about their perceived need for future finance. Businesses were asked whether they were likely to need finance over the three year period from January 2011 to December 2013. More than two-fifths of respondents, in both NI (44%) and the UK (42%) indicated they would seek finance. The main source, with almost three-quarters of respondents stating they foresaw the need for loan finance.

Source of future finance

Table 5 Source of future finance

Source of future finance	NI %	UK %
The owners/directors of your business	19	25
Other employees of your business	1	2
Family or friends	5	5
Other businesses	4	3
Leasing companies	30	27
Banks	89	83
Other financial institutions	20	25
Mezzanine or hybrid financing	1	1
Venture capital funds	2	3
Business angels	2	2
An initial public offering	*	0
A UK government body	10	4
Foreign governments or international organisations	0	0
Other	6	4

* Disclosive

Reasons for the need for future finance

There was consensus between the majority of SMEs in NI and the UK that the main reason they would require finance in the next few years was maintain the business as a going concern. Around one-half of the respondents would use future finance to grow their domestic activities. Financing export sales appears to be a more important reason for NI SMEs (13 per cent) compared to those in the UK (six per cent).

Table 6 Reasons for future finance

Reason	NI %	UK %
Maintain the business as a going concern	69	59
Grow the business's domestic activities	48	52
Finance export sales	13	6
Finance innovation and R&D	10	9
For mergers and acquisitions	4	9
Develop international activities	6	4
Other purposes	15	15

Fig 2.8 Reasons for the need for future finance



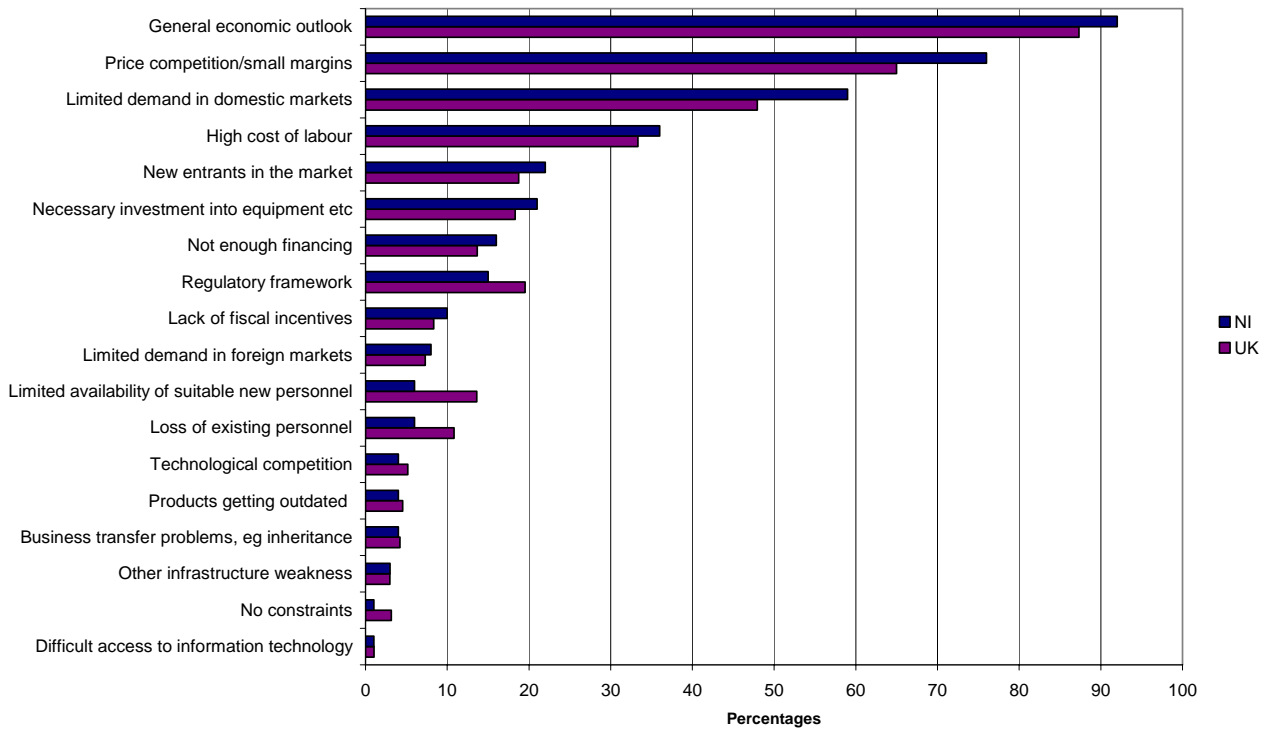
Limiting factors for business growth: NI compared to UK

The most important factor, for the majority of businesses, which would limit their growth between the time of the survey and 2013, was the general economic outlook. Around nine out of every ten businesses in NI and the UK cited this as the main constraint, only 1% of businesses in NI stated that they saw no constraints. Three-fifths (59%) of NI SMEs thought that limited demand in the domestic market would limit the growth of their business, whereas around one-half (48%) of respondents in the UK mentioned this as a factor. Three-quarters (76%) of businesses in NI pointed to small margins compared to around two-thirds (65%) of respondents in the UK. The lack of finance was cited by 16% of businesses in NI (14% in the UK) as a factor likely to limit business growth. It should be noted though that 44% of NI SMEs saw themselves as likely to need finance in the next three years. In this context, access to finance remains an important concern.

Table 7 Limiting factors for business growth

Limiting Factor	NI %	UK %
General economic outlook	92	87
Price competition/small margins	76	65
Limited demand in domestic markets	59	48
High cost of labour	36	33
New entrants in the market	22	19
Necessary investment into equipment etc	21	18
Not enough financing	16	14
Regulatory framework	15	20
Lack of fiscal incentives	10	8
Limited demand in foreign markets	8	7
Limited availability of suitable new personnel	6	14
Loss of existing personnel	6	11
Technological competition	4	5
Products getting outdated	4	5
Business transfer problems, eg inheritance	4	4
Other infrastructure weakness	3	3
Difficult access to information technology	1	1
No constraints	1	3

Fig 2.9 Limiting factors for business growth



Micro business - Access to Finance

3

Loan finance

In 2007, 14% of micro businesses sought loan finance with the main source being a bank loan (78%); the figure decreased slightly to 13% in 2010. However, the success rates for obtaining a bank loan halved during the period from 89% in 2007, compared to 45% in 2010.

In 2010, those micro businesses that were unsuccessful in obtaining a bank loan mentioned that the most popular reason given by the banks for failure to secure the finance after 'Other' (32%) was 'No reason given' (26%).

The main reason micro businesses cited for choosing their bank in both years was that they were already a client of the bank (97%). In 2007, around one-quarter (24%) of the businesses surveyed stated they choose their bank as it was local, compared to one out of five (20%) in 2010.

Other sources of finance

Businesses were asked to select which other sources of finance they sought in the reference period which included bank overdrafts and credit lines along with trade credit, leasing, financing and government subsidies. In 2007, 12% of businesses surveyed applied for this type of finance and it increased slightly to 14% in 2010.

Bank overdraft or credit line was the most popular other source of finance sought in both years for micro businesses. In 2010, nine out of every ten (91%) respondents that sought other finance sought a bank overdraft/ credit line and 70% of all such applications were fully successful.

In both years, leasing was the other main type of other finance sought with 27% of businesses making an application in 2007 compared to 17% in 2010.

Perception of changes in the financial environment between 2007 and 2010

All micro businesses surveyed were asked about their perception of how the financial environment changed between 2007 and 2010. Regarding the financial situation of their business, 14 % mentioned that it had improved in contrast to 43% which believed it had deteriorated. Only 4% of all micro businesses surveyed thought the cost of obtaining finance had improved and 28% of businesses stated it had worsened, in a period when the Bank of England base rate decreased.

The need for future finance

Three out of every ten (30%) micro businesses surveyed anticipated they would require finance at some point during 2011-2013. Around four out five (82%) said they would seek loan finance and 28% indicated they require other sources (e.g. bank overdraft). Just over one-half (51%) suggested they would obtain the finance from the banks and the main reason cited for the need for future finance was to maintain the business as a going concern (55%). 30% indicated they would use future finance to grow the businesses domestic activities.

Limiting factors for micro business growth

Four-fifths (80%) of micro businesses surveyed considered the general economic outlook would be a limiting factor, whereas around one in every ten mentioned that they saw no constraints. Price competition and small margins was less of a factor for micro businesses (47%) compared to three quarters of SMEs in NI. Even though relatively fewer micro businesses sought finance compared to the SMEs surveyed, 22% cited not enough financing as an obstacle to growth compared to 16% of SMEs.

Notes to Editors

Note 1

The Northern Ireland survey of Business Access to Finance is part of an EU wide survey of Small and Medium sized Enterprises (SMEs) – defined as businesses with 10-249 employees, designed to assess businesses' experiences of accessing finance from a range of sources in the period 2007-2010. It also covers their need for finance and expectations regarding growth over the next three years.

Note 2

The sample for this survey was selected from the following standard industrial classification (SIC) sections:

B to E - Industry
F - Construction
G, H, I L and N - Selected services
J - Information and communication services
M - Professional, scientific and technical activities

Section K (financial services) was excluded from the survey (as per the EU regulation).

The following business growth types were covered in the survey:

- Gazelles - Businesses born in 2003 or 2004 that experienced 72.8% or more employment growth between 2005 and 2008 (i.e. a compound growth rate of 20% per annum over three years)
- Other high growth businesses - Businesses born before 2003 that experienced 72.8% or more employment growth between 2005 and 2008.
- Other businesses - All other businesses in scope of this survey.

Note 3

The NI survey also uniquely included a separate module on the micro business population (less than 10 employees).

Note 4

Further details of the Northern Ireland businesses experience of obtaining finance and financial assistance schemes will be published at a later date.

Note 5

UK figures are sourced from the Office of National Statistics. The Office of National Statistics Access to Finance results can be found at the link below:

[ONS Access to Finance results](#)

Note 6

Results for 20 European countries that participated in the Eurostat survey can be found at the link below

[Eurostat Access to Finance results](#)

Note 7

NI has a lower reliance on the Information and Communication sector (1.8% of businesses compared with 6.9% in the UK) and on the Professional, Scientific and Technical sectors (6.9% of businesses compared with 15.4% in the UK).

[Facts and figures from the IDBR Dec 2010](#)