BVCA Submission to the Department for Business and Trade Call for Evidence: Small business access to finance (22 May 2025)

The British Private Equity and Venture Capital Association (BVCA) is the industry body and public policy advocate for the private equity, venture capital and private credit (together "private capital") industry in the UK. With a membership of over 600 firms, we represent the majority of UK-based private capital firms, as well as their professional advisers and investors.

Equity and credit within the UK's private capital growth ecosystem

The private capital industry is an important driver of growth in the UK economy. In 2024, it directly supported 13,000 businesses, accounting for 2.5 million jobs and contributing 7% to GDP. The total amount invested by private capital funds in UK businesses in 2024 was £29.4bn (a 44% increase on 2023). This increased investment has fuelled UK-wide SME growth – nine in 10 private capital backed companies are SMEs, and six in 10 are located outside London.

The private capital ecosystem is diverse, with different types of fund backing different sized companies at different stages of their evolution, using different balances of equity and debt financing, but often working together to fuel growth in the same companies.

Companies turn to private equity funds (including venture and growth capital funds) for equity (i.e. ownership) investment. Equity investment allows and incentivises private equity firms to help their investee companies grow. This "active ownership" model is effectively a tightly aligned, long-term partnership between private equity firms and their portfolio companies, over six years or more. This supports those companies' growth by, amongst other things, refocussing their strategies, implementing operational improvements, making strategic acquisitions and expanding into new geographies and markets. The capital provided under this partnership includes funding for the initial investment in (or acquisition of) a company by a fund, as well as "follow-on" investments of primary capital to help finance the company's further growth (on average around 50% of all capital invested by private equity in 2023 was follow-on funding).

Private credit funds support SME growth in a very similar manner, alongside and in partnership with private equity funds. They provide the same, private equity-backed SMEs with financing for the initial investment or acquisition by a private equity fund, as well as direct, follow-on investment to fuel further business growth. Private credit firms are similarly aligned with the active ownership model, have a similarly deep understanding of those businesses' growth models, and a share similarly patient and flexible outlook, aligned towards driving the companies' long-term growth. The private credit industry also includes specialist venture debt funds, which provide additional capital in venture funding rounds, help fuel fast-growing companies' growth between funding rounds, and in some cases support fast-growing companies independently of the venture capital ecosystem.

These are all types of private company lending that have grown significantly in the last 15 years, as regulation and commercial factors have made it harder for many banks to lend to various types of company, especially high growth companies and SMEs. Private credit investment is specifically tailored to the needs of the borrower to support its growth and expansion, without significantly altering a company's ownership structure. These and other features have helped private credit become a critical part of the wider private capital fund investment ecosystem that drives growth in the real economy, supporting 2.5m UK jobs, 13,000 UK companies and 7% of UK GDP.

Supporting private credit lending to small businesses

The BVCA supports the Government's ambition to support small businesses across the UK, and their ability to access the finance needed, to help them thrive and grow in the UK. Small businesses in the UK face significant challenges accessing the funding they need to scale up and grow, which leads to many enterprises failing, or looking overseas for expansion and growth capital. As a result, the UK is losing talent and intellectual property, which puts the brakes on economic growth.

The Government's approach to supporting new UK small businesses, and its focus on national and regional growth, must take account of the specific challenges and barriers small businesses face when accessing finance, including lending provided by private credit funds. This includes low levels of awareness amongst small businesses of the financing options available.

The proliferation of private credit has been and continues to be increasingly prevalent at the larger, more mature end of the SME market. Without earlier stage debt funding to complement equity finance, future growth could be limited and reduce the strength of the investment ecosystem.

The BVCA has set out recommendations for the Government to increase levels of awareness and encourage the volume of small business lending in the UK. The BVCA recommends that the Government:

- Provides clarity to small businesses that private credit, including venture debt, can be an important source of capital and provides a signpost to schemes and support available, particularly through the British Business Bank (BBB) programmes.

- Expands the BBB's existing debt programmes, including the Nations and Regions Investment Funds and Growth Guarantee Scheme.

- Ensures the UK regulatory environment remains internationally competitive to preserve the UK's position as a global hub for private capital funds.

The answers below have been drafted in recognition that this call for evidence does not cover equity finance, in particular the creation of the National Wealth Fund, the British Growth Partnership and the Pensions Investment Review. Alongside private equity funds, private credit, including venture debt, can be suitable investment propositions for UK pension funds and can support lending to SMEs in the UK.

BVCA responses to consultation questions

We have responded below to selected consultation questions relevant to BVCA members' lending to UK SMEs.

4. Do you believe that there are any barriers to demand for debt finance? If so, what are the main barriers? AND

5. Do you believe that financial education or knowledge and availability of information are barriers to demand? If so, to what extent? AND

6. Why are some small businesses permanent non-borrowers? Should this be considered a problem?

The significant growth of the private credit fund sector over the last decade (estimates of the total size of the private credit market lie between $2tn and $3tn worldwide), has been vital for the UK economy and has made a positive contribution to the financial system. Without private credit funds, many private companies would have found it extremely difficult to raise capital to grow. Private credit functions in partnership with private equity investment, with both focused on business growth.

Private credit can often provide more flexible, timely, long-term and dependable direct lending to SMEs than traditional banks often can, and at different stages of their growth cycle, as well as strong risk-adjusted returns for investors. Private credit funds, unlike banks, are not subject to liquidity mismatch issues, and are countercyclical investors, much less leveraged, more resilient and help diversify risk, thereby enhancing financial stability.

The growth of private credit funds is set to continue and the importance of this specialised, direct lending activity to UK businesses and the economy must be reflected in UK policymaking. Prudential regulation, in particular, must clearly recognise that private credit funds should not be regulated like banks.

The Government's focus has largely been on supply-side debt and equity solutions, with less focus on support for companies on the demand-side. It is important to improve business finance support, alongside increased understanding which will in turn enhance entrepreneurs' financial management and credit readiness.

Low levels of awareness of the appropriateness of using lending to fund growth as well as the existence of alternative lenders is cited as a barrier to demand for debt finance. Many small businesses are aware of finance offered by banks, but there is limited awareness of alternative finance which has different lending criteria to banks and can offer more bespoke and flexible options. Some venture debt members of the BVCA note that low levels of awareness on the type of funding available is particularly evident amongst investee company management teams who are often averse to take on debt at a relatively early stage of a company's life due to the risks involved.

To mitigate this, the Government should clearly signpost to the range of schemes and support available for the different stages of growth and activities in a business' lifecycle, including private credit and venture debt providers. This could help to address the lack of awareness and underutilisation of external sources of finance to support growth, helping to tackle barriers to accessing to finance.

Initiatives to achieve this could be tailored to the life stage of the given business or by key demographics. It is important that the NWF, UKRI and the BBB have sufficient resource to support SME growth and to ensure funding schemes are adequately funded over the long term. The BBB supported £5.7 billion of debt finance in 2023, offering businesses with a vital source of capital to start and scale up. It is important that the BBB is able to continue to build on existing initiatives to support growth and innovation.

Some private credit firms note that small businesses are often permanent non-borrowers because they struggle to find a debt facility to suit their needs. Venture capital sponsored businesses are often likely to be loss-making, and unable to secure financing from banks who are unable to support this sort of borrower from their current product suite. Venture debt funds can often meet the financing needs of such businesses and can deliver returns even when there are relatively lower levels of growth. They can therefore fund a broader range of businesses, delivering continued innovation and growth to the UK economy.

Companies can and should be supported to consider the full range of potential financing options and determine what might be most appropriate source based on their needs. Equity finance is an important source of funding, but is sometimes too expensive for a given set of commercial circumstances. Private credit and venture debt provide an alternative option which can be more appropriate than equity finance given the specific needs of a company. It is an important part of the investment ecosystem that supports growth, alongside equity finance. Greater visibility and understanding amongst SMEs around these different types of finance is needed, including private credit and venture debt as a viable funding option that can support these businesses to grow.

Private capital funds can contribute towards assisting business transition, in the event of retirement or transfer to family members by allowing companies to pass to the next generation rather than wound down.

9. In your view, what would help to encourage the volume of small business lending in the UK?

Small business lending provides a vital source of capital for businesses particularly as they start up and grow, and throughout the full lifecycle of a business' journey. Investment from private capital funds, including private credit and venture debt funds, in fast-growing SMEs underpins economic development and regeneration of local economies.

Small businesses in the UK face a significant challenge accessing the funding they need to scale up and grow, which leads to many enterprises failing, or looking overseas for expansion and growth capital. As a result, the UK is losing talent and intellectual property, which puts the brakes on economic growth.

To encourage the volume of small business lending in the UK, it is important that the UK has a strong ecosystem of public and private sources of finance that can deploy capital across the nations and regions, and in specific sectors. It is also important that awareness is raised of the opportunity that private credit (including venture debt) provides as a financing option. Further clarity from government that private credit can be an important source of capital, particularly through programmes available through the BBB, would be beneficial.

The BVCA's Private Credit Conference is held annually to explore key trends, provide key insights into the opportunities available and assess the current state of the market. Through dedicated conferences such as this, industry can support the Government to raise awareness and encourage small business lending in the UK.

We recommend that the Government increases the volume of small businesses lending in the UK by taking the following actions:

Expand the BBB's existing debt programmes, including the Nations and Regions Investment Funds, the Growth Guarantee Scheme and ENABLE Programmes.

The BBB plays a significant role crowding in regional and growth funding in the UK venture capital and tech investment ecosystem. The BBB is, and will continue to be, a vital source of capital for businesses looking to start and scale up, including debt financing. It helps drive innovation, supports entrepreneurs and can help break down barriers to capital. This includes programmes such as the Nations and Regions Investment Funds (NRIF), the Growth Guarantee Scheme (GGS) and ENABLE Programmes.

To provide long-term support for SMEs to secure finance to support growth, a broader increase to the GGS's budget is needed, alongside an extension to the current expiry date in March 2026. The BBB could also focus more of its initiatives on smaller lenders as part of its focus on debt finance.

Some venture debt members of the BVCA would welcome an increase in lending to IP-rich companies through increasing the facility size to enable lending to more companies that already receive financing and lend to those that would sit outside firm credit lending remits for various reasons. This could be achieved by:

- Increasing the lending cap from £2m (to potentially £7.5-£10m).

- Independent IP Valuation to provide third party verification of the IP value and enable the Government to rely on an auditable value, validated by external valuation. There is currently no agreed acceptable IP valuation methodology.
- Any IP asset used to support this type of lending would need to be logged and the value over time tracked to support proof of concept and resilience of IP rich businesses. IP and other intangibles are often 'hidden' in financial reporting, limiting data available to investors. For many firms IP is a 'hidden asset' as, in accordance with accounting standards, it would not be included in financial reporting and can therefore be an area commonly overlooked as having value and reducing the data available to investors.

Expand the BBB's remit to cover growth capital funds

The BBB's mandate and resources should be expanded as part of the 2025 Spending Review to match the EU's EIF, which invests in smaller growth capital funds (not only venture capital funds). These growth capital funds are smaller private capital funds that invest in smaller UK companies, providing a much-needed source of capital to businesses across the UK to fulfil their potential; creating jobs, increasing productivity and delivering economic growth.

Growth capital funds that invest in the UK's lower mid-market, provide support for more established UK companies than venture capital funds. These funds typically take majority ownership through equity injections and often also offer debt financing options.

A growth capital fund's investment strategy is typically to identify local businesses that, with private capital investment and operational support, can become national and international businesses of strategic importance whilst remaining headquartered in the regions where they were conceived. These companies are fast-growing, innovative, and form a critical part of the UK's business growth and investment ecosystem, providing a pipeline of investment opportunities for larger investors and public markets.

The importance of this part of the market (where the amount one investor will typically commit to any one fund is £50m or below) is recognised by the EU, with the EIF providing multiple investments in smaller, EU-based growth capital funds on an annual basis (as it did in the UK prior to 2016. Since then, the BBB has not invested in this space).

The BVCA would be happy to share separately a sample of case studies relating to UK businesses that demonstrate the features and importance to the UK economy of small, growth companies backed by firms managing growth capital funds. We are also able to facilitate meetings and roundtable discussions with BVCA member firms and Government representatives.

12. In your experience, what are the barriers to borrowing to finance intangible investments relative to tangible investments?

13. What is the experience of businesses seeking to use intangible assets as collateral for borrowing?

The high price of borrowing is cited as a likely barrier, in particular for borrowers using intangible collateral. Transactions based on access to the intellectual property of intangible investments are more credible, relative to accounting reports on that IP's value. Establishing the value of intellectual property is subject to considerable assumptions. Lending often occurs to companies with no or few tangible assets, with the valuation performed on business fundamentals (such as revenue/margins/flexibility of cost base etc.). This provides a more reliable view of whether the company will be able to repay the loan in the timeline expected.

14. Do you believe that regulatory change has affected business lending? If so, how?

The UK is currently home to one of the largest private capital hubs in the world, second only to the USA. Key to the UK's success in attracting private capital firms and global institutional investment capital over the last forty years has been its stable and robust regulatory framework. The UK's regulatory environment has been competitive and in line with the international standards demanded by global institutional investors. To preserve the UK's position as a global hub for private capital management and investment activity, the regulatory regime must adapt to remain effective and attractive.

Bank lending to small businesses has reduced partly due to changes in banking regulation following the global financial crisis. The increased cost to serve small businesses, together with increased risk aversion as a result of this changing macro-economic environment, have meant that small businesses have found it increasingly difficult to access growth finance. While lending from private credit firms has increased, this is not yet on a scale that mitigates the reduction in bank-sourced lending. This is especially the case for businesses at the smaller end or those going through the earlier growth stage of the lifecycle.

Broadly, the BVCA would like to see regulators develop a more competitive mindset and do more to balance oversight with flexibility to enhance proportionality, holding firms to high standards and maintaining market stability without unduly constraining market activity. It would also mean monitoring international competitor regimes, not only to respond to changes to ensure the UK regime remains effective and competitive, but also to maintain regulatory alignment where needed to preserve the UK's position as a global hub for private capital, private credit and venture debt (e.g. for market access or dual regulation reasons).

A more competitive mindset within the regulator will make the UK more attractive to international firms, investors and talent – which will help to drive sustainable growth of the UK economy. We also believe that enhanced coordination between regulators and legislators is essential for ensuring a stable, effective and competitive regulatory system in the UK.

20. To what extent does the UK's current lending environment meet the finance needs of under-served entrepreneurs?

25. Do you have experience of any initiatives, either government or private sector-led, that have been or could be beneficial for access to finance for entrepreneurs from under-served groups?

To help improve the low levels of funding going to female and diverse founders, there are a number of ongoing industry and government-led initiatives to increase the level of diversity in the sector and enhance access to finance, including debt finance.

The BVCA is a signatory to the Invest in Women Code, which collects data from signatories across the financial services industry, has now attracted over 250 signatories, an uptake from 190 in 2023. There is an impetus to increase the number of signatories whilst committing all financial institutions to the principles of gender equality and transparent reporting of gender funding data.

In 2023, 60% of female-led businesses which applied for debt finance received approval, compared to 59% of male-led businesses. This indicates that the UK's current lending environment largely meets the needs of female-led businesses. However, after securing initial funding, female entrepreneurs often struggle with the scaling phase due to a lack of follow-on funding.

Organisations such as Investing in Women Taskforce recommend increasing access to follow-on capital and scaling support, so female entrepreneurs can grow their businesses beyond the seed stage.

The BVCA recommends:

- **Expand access to capital:** The Government should continue to fund initiatives like the Women Backing Women Fund, which aims to create one of the largest funding pools for female-led businesses. This involves mobilising both public and private sector investments and ensuring that capital is allocated through female investment decision-makers.
- **Structural changes to the funding ecosystem:** The Government should address the under-representation of women in funding decision-making positions, such as in venture capital committees, where currently only 11% of VC committee members are women. This could be done by establishing targets or incentives for firms to diversify leadership roles.
- **Support networking and mentorship:** The Government can facilitate the creation of networks and mentoring platforms specifically for female entrepreneurs to connect with investors, advisors, and peers. This can help overcome some of the barriers to success, such as limited access to key industry networks.
- **Create policy and financial incentives:** The Government should introduce policies that provide tax incentives, grants, and subsidies for female entrepreneurs, as well as ensure

financial products are accessible to women, particularly those starting and scaling businesses.

By implementing these steps, the Government can drive systemic change and support female entrepreneurs in scaling their businesses, ultimately contributing to economic growth.

Clarity, consistency and long-term support in these Government programs supporting female entrepreneurs in the UK is also crucial. It is more effective to strengthen and streamline existing initiatives rather than continuously creating new ones, with clear signposting at all levels and close collaboration with regional and local administrations to ensure accessibility and impact.

Female investors backing entrepreneurs

The Investing in Women Code 2024 report provides compelling evidence that increased female representation among investors leads to greater investment in female entrepreneurs. Specifically, it highlights that signatories of the Code have consistently outperformed the wider market in funding female-led businesses.

For instance, in the previous year, 35% of all venture capital deals made by Investing in Women Code signatories were in female-founded companies, compared to the market average of 27%.

This trend has been consistent over multiple years, with reports indicating that nearly a third (32%) of all venture capital deals by these signatories were in female-founded companies, surpassing the market average of 28%. These statistics suggest a positive correlation between female investor participation and increased funding for female entrepreneurs, underscoring the importance of diversity in investment decision-making.

Encouraging diversity on investment committees is essential. The BVCA is working to encourage firms to diversify their investment teams, ensuring that decision-makers reflect the communities they aim to serve. This would involve increasing the number of women in investment roles, so that the investment process itself is more reflective of diverse perspectives.

The BBB, UKBAA, UK Finance, and the BVCA are united in their commitment to the Code and to working with the Department for Business and Trade to secure equal access to finance for female entrepreneurs.