SUPPORTING SMES THROUGH THE CRISIS AND RECOVERY: FUNDING CIRCLE'S 2020 IMPACT

MARCH 2021

Debbie Leon is the founder of Fashionizer, a bespoke luxury uniform manufacturer that adapted to making face masks in 2020.

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Bird & Blend Tea Co. is an independent, award-winning tea company based in Brighton

FOREWORD

Small businesses have never had it easy. Since starting Funding Circle in 2010, I have been humbled time and time again by their determination and ability to adapt to the challenges they face. 2020 has been a harder year than any, however small businesses have yet again shown their tenacity, with the majority finding ways to continue trading.

It's never been more vital that they do. Their importance has long been recognised—they make up 99.7% of all UK businesses and have been responsible for 70% of all new jobs created since 2010. The integral role small businesses play in the world economy is reflected in the speed and strength of support measures set up by governments in response to the pandemic.

Where the response to this crisis differs compared to 2008 is how this support was accessed. Technology has driven more choice and competition in the market. Small businesses had to move fast, and this report shows they turned online in large numbers. When they did, many found that in the years since the last crisis FinTech lenders had built an entire ecosystem; one that offered them the speed and simplicity they needed. They should never have to struggle to access finance again.

My hope is that the service FinTechs have provided will lead to a permanent shift in attitude and expectations—86% of small businesses who turned to Funding Circle for their first online borrowing experience will come back to us first in future. This is validation that our relentless focus on machine learning and technology is building the place where small businesses get the funding they need to win.

The report shows this funding has been used not just to survive, but to thrive—adapting and innovating; investing in their futures and local communities. I'm pleased that lending through Funding Circle reached every corner of the UK last year, including to some of the communities most-in-need. In the UK—the focus of this report—last year small businesses used their Funding Circle loans to contribute £7.5 billion to GDP and support more than 100,000 jobs. In the US, small businesses also contributed $3.1 billion in GDP and supported 33,000 jobs.

The path to economic recovery has only just begun. As restrictions start to ease, this report shows there will be strong demand for further small business finance. Continued access will be essential if small businesses are to grow and rebuild the economy; four out of five future Funding Circle borrowers expect to use their funding to invest in and grow their business.

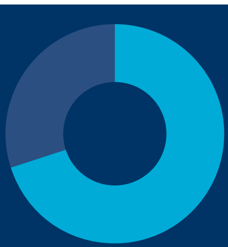
I'm proud of Funding Circle's role supporting small businesses through this crisis to date, and we'll continue to be there to help them power the recovery.

Samir Desai, CBE
CEO and co-founder of Funding Circle

EXECUTIVE SUMMARY

70%

of job creation since 2010 is by SMEs.



5 times

increase in online searches for business loans in 2020.

WHILE 2020 WAS A CHALLENGING YEAR, IT BROUGHT OUT THE BEST IN SMALL BUSINESSES

The last year has made many demands of us. It has forced changes—and accelerated pre-existing trends—in the way we live, work and interact with each other. This has been particularly true of the UK's small and medium enterprises (SMEs).

In 2020, SMEs demonstrated just how resilient they are: adapting, pivoting and innovating their business through the challenges they faced, with an average of 78% continuing to trade from June to December. Their determination is vital for the UK economy; SMEs contribute to half of the UK's turnover and have been responsible for 70% of all job creation since 2010.

This importance is reflected in the Government's support measures, where a range of interventions served different groups of SMEs. Continued access to SME finance was provided through two flagship guarantee loan schemes:

The Coronavirus Business Interruption Loan Scheme (CBILS) was typically used by SMEs to invest in and adapt their business to the pandemic's challenges. More than half of Funding Circle CBILS borrowers used their loans to support their investment plans.

While CBILS largely supported 'business-as-usual' lending, the increase in SME lending volumes seen in 2020 was mostly driven by the c. £40 billion approved through the ***Bounce Back Loan Scheme (BBLS)***, providing vital emergency support, typically to the smallest cohort of SMEs.

FINTECH LENDERS ARE WELL-PLACED TO BENEFIT FROM THE ACCELERATION IN ONLINE BORROWING

In a year when everything went online, so did small businesses. Across 2020 as a whole, online searches for business loans were 5.3 times higher than 2019, accelerating an existing trend. Almost six out of ten SMEs to take a Funding Circle CBILS loan were first-time users of the platform; 86% of these say they will come back to the platform first in future.

At a crucial time, platforms' continued investment in technology has provided SMEs with even faster access to finance. Now serving 50% of all UK loan applications, Funding Circle's Instant Decision Lending platform reduced application times on average to six minutes, and decision times to nine seconds. Some 55% of all Funding Circle CBILS applicants received a lending decision within 24 hours.

SME LOAN PLATFORMS CHANNELLED CBILS INVESTMENT INTO EVERY CORNER OF THE UK

By February 2021, Funding Circle had become the UK's third largest CBILS provider. In February 2021, £2.6 billion had been approved through the scheme with nearly 17,000 loans approved. This represented 27% of the number of approvals since Funding Circle started participating.

A greater share of this lending went to small businesses located in communities that will benefit most. When compared with the overall CBILS scheme, Funding Circle was over-represented in Yorkshire and the Humber, the Midlands and the North West. In 2020, lending through the platform reached 378 out of 379 of the UK's local authorities, with 14% helping SMEs located in the 10% of local authorities where residents earn the lowest wages.

378 out of 379

Funding Circle reached SMEs in virtually every UK local authority in 2020.

UK SMES HAVE THE CAPACITY, NEED AND DESIRE TO CONTINUE TO INVEST AND GROW THEIR BUSINESS

While BBLS drove a significant increase in lending volumes to the smallest SMEs, growth in debt levels for the wider population were more modest. Lending to UK non-financial companies increased by 6% in Q2 2020 (decreasing by 1% in Q3)—a smaller increase than in Q4 2017. SMEs that accessed CBILS also typically borrowed a significantly smaller proportion of their turnover than BBLS recipients.

Most SMEs are confident about servicing their existing debt. Some 46% of Funding Circle customers said they used their loan to build a cash buffer which is largely still in place, while the proportion of SMEs concerned about their ability to repay their loans has fallen from its pandemic peak.

The majority—73%—of Funding Circle's SME customers expect to require further finance. More than eight out of 10 SMEs will use this funding for investment and growth. The proportion of SMEs happy to use finance to meet their growth aspirations is at its highest level since 2016.

The data in this report indicates the emergence of two broad groups of SMEs. The smallest SMEs, particularly those that may have used BBLS to access finance for the first time, may be struggling and require further targeted support. There is also a broader group of SMEs that retain the capacity and need for further finance.

THE ECONOMIC IMPACT OF LENDING THROUGH FUNDING CIRCLE

Funding Circle has significantly grown its economic impact. In total, lending through Funding Circle supported a £7.6 billion contribution to UK GDP, an 85% increase since our last report in 2018. This in turn supported 102,000 jobs, and generated £2.1 billion in taxes during a period when revenues have fallen.

Funding Circle's Covid-19 response had a significant impact in itself. Government-guaranteed lending supported a £4.5 billion contribution to UK GDP, 42,000 jobs and generated £1.4 billion in taxes.

Funding Circle's economic impact is not restricted to the UK. It also supported US SMEs through the Government's Paycheck Protection Programme (PPP). In 2020, lending through Funding Circle's US platform supported a $3.1 billion contribution to US GDP and supported 33,000 US jobs.

Globally, in 2020 lending through Funding Circle supported £10 billion in GDP—a 54% increase on 2018—while sustaining 135,000 jobs.

£10 billion

Contribution to global GDP supported by Funding Circle's UK and US markets in 2020.

A 54% increase on 2018.

FUNDING CIRCLE'S ECONOMIC IMPACT IN 2020

GLOBAL IMPACT

	GDP CONTRIBUTION	EMPLOYMENT	TAX REVENUES
Global	£10.0 billion	135,000 jobs	£2.8 billion
2018 → 2020	54% increase	17% increase	40% increase
UK	£7.6 billion	102,000 jobs	£2.1 billion
US	$3.1 billion	33,000 jobs	$0.9 billion

EVERY £1 MILLION LENT THROUGH FUNDING CIRCLE ...

... contributes **£2.4 million** to GDP

... supports **33 jobs**

... and generates **£0.7 million** in taxes.

IN 2020 ...

SMEs went online, for good: **86%** of first-time online users will come back to Funding Circle first in future.

Funding Circle reached communities in most-need: **14%** of lending helped SMEs in the 10% of local authorities with lowest wages.

SMEs have ambitious growth aspirations: **73%** expect to need further funding.

1. COVID-19 IMPACT ON THE UK'S SMES

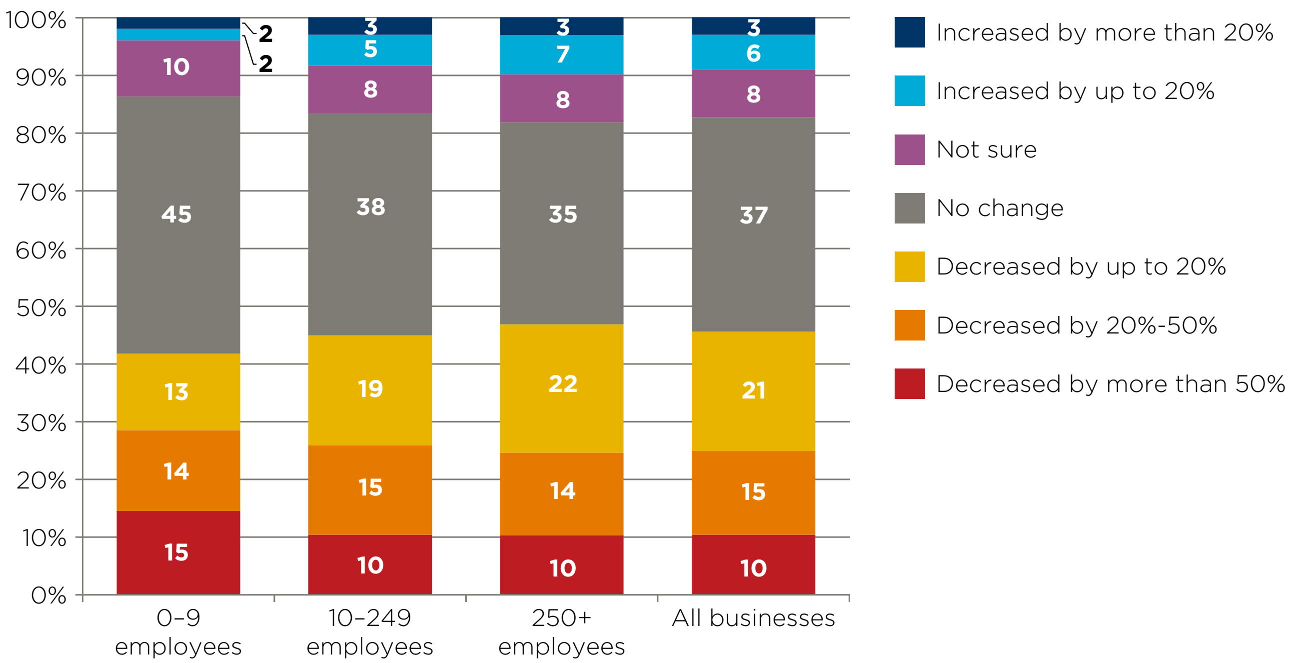
1.1 SMES HAVE SHOWN RESILIENCE IN ADAPTING TO COVID-19 CHALLENGES

Covid-19 significantly impacted the UK SME community in 2020. Lockdowns, social distancing restrictions and supply chain disruptions affected SMEs' ability to operate. Many paused or curbed their operations, particularly in the retail and hospitality sectors. While the majority of SMEs continued to operate, many had to implement social distancing rules in the workplace. Others had to transition to new remote working arrangements.

These restrictions have not impacted all SMEs equally. Turnover figures provide evidence of the varying impact Covid-19 has had on different groups of SMEs. Over one-third of SMEs surveyed reported lower turnover than expected for the time of year. However, a similar portion had earned about the same as expected pre-Covid-19, while a relatively small proportion experienced an increase in turnover (Fig. 1).[1]

Despite these challenging conditions, SMEs have demonstrated their resilience and ability to adapt. Many developed or increased their online presence, and made deliveries to customers' homes. Others diversified into new goods and services, or adopted digital technologies to facilitate working from home. The vast majority—an average of 78%—of SMEs remained open for trading between June and December 2020, according to the ONS Business Impact of Covid-19 survey (Fig. 2).

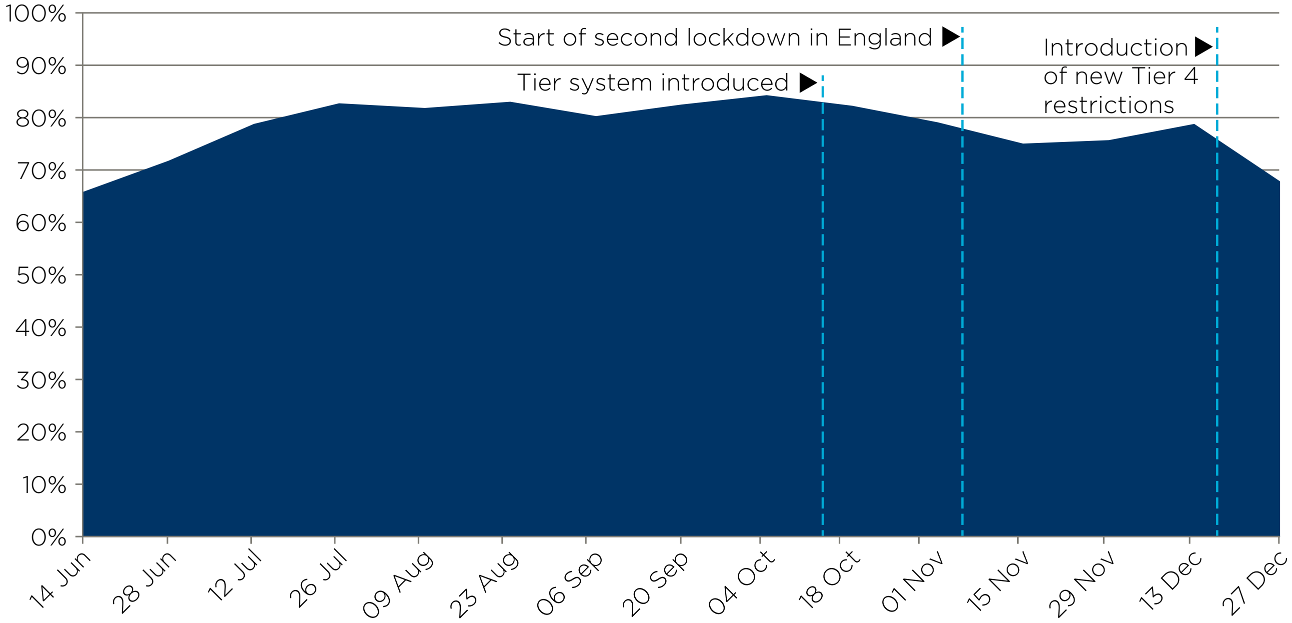
Fig. 1: Impact on SME businesses' typical turnover for the time of year, September–December 2020



Source: ONS; BEIS; Oxford Economics

[1] The results shown are the average responses to Waves 14–21 of the ONS Business Insights and Conditions Survey, covering the period between the 7th September and 27th December 2020 (during which the structure of the question and reporting of results was consistent).

Fig. 2. Percentage of SMEs trading, June–December 2020



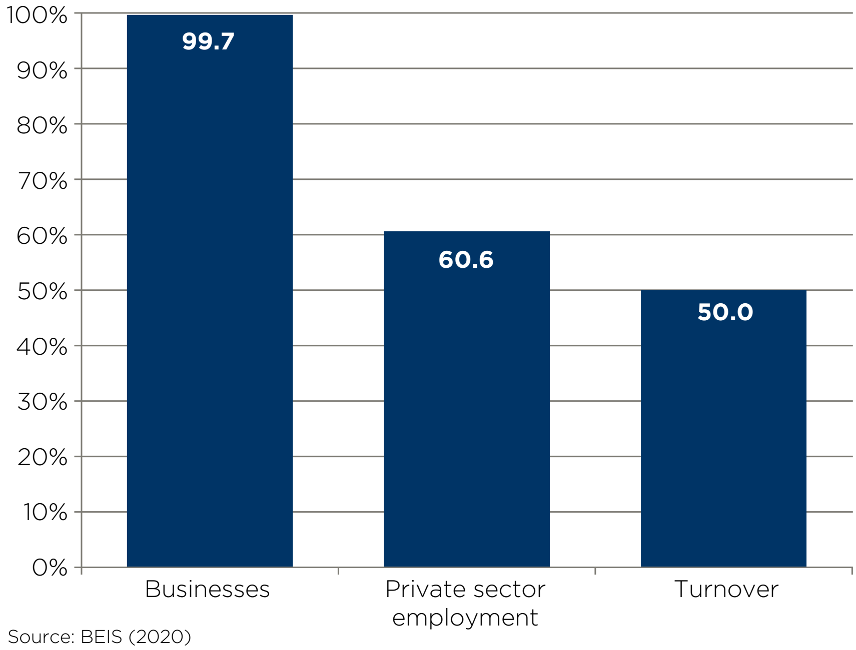
Source: ONS; Oxford Economics

1.2 THE RESPONSE TO THE PANDEMIC REFLECTS THE IMPORTANCE OF SMES

Small businesses have long been of key strategic importance to the UK economy. They have accounted for much of its growth and 70% of all new jobs created since 2010, according to the Bank of England.[2] At the start of 2020, SMEs made up 99.7% of all UK businesses. They provide 61% of private sector employment—more than 50% when including the non-profit and public sectors—alongside 50% of all turnover generated across the country (Fig. 3).[3]

Fig. 3: SMEs role in the UK economy at the start of 2020

Share of UK total



Source: BEIS (2020)

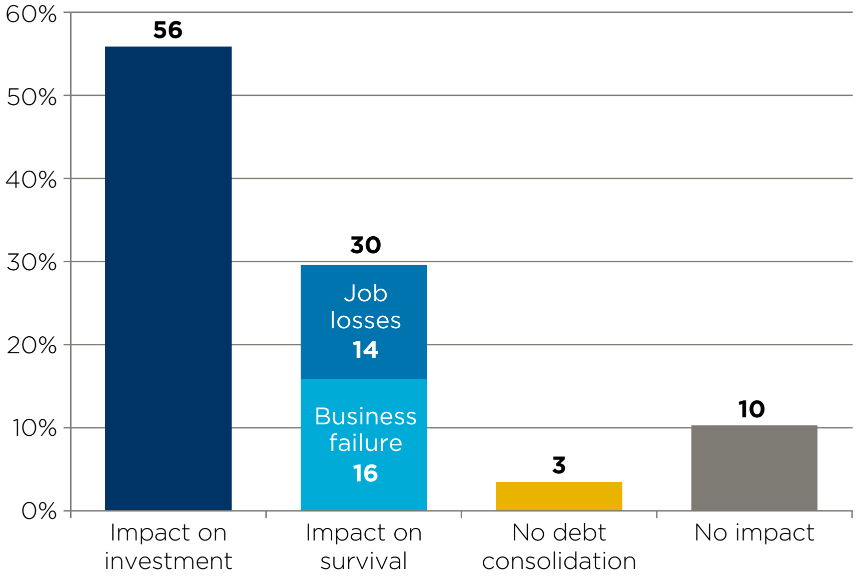
[2] Bank of England (2019) 'Future of Finance'
[3] Department for Business, Energy and Industrial Strategy (2020) 'Business Population Estimates for the UK and regions 2020.'

Their importance has been reflected by the speed and strength of the Government's response. Measures included the Job Retention Scheme (furlough), which at its peak supported the wages of 5.5 million, or 41% of, SME employees.[4] Support was also given through the Small Business Grants Fund and income support schemes for the employed and self-employed.

Crucial access to SME finance was provided through two flagship government-guaranteed loan schemes. The CBILS and BBLS were quickly set up to support lender confidence.[5] As of January 2021, £20.8 billion in loans had been approved through CBILS, and £44.7 billion through BBLS.[6]

Fig. 4: Business impact if CBILS funding hadn't been secured

Share of Funding Circle CBILS recipients



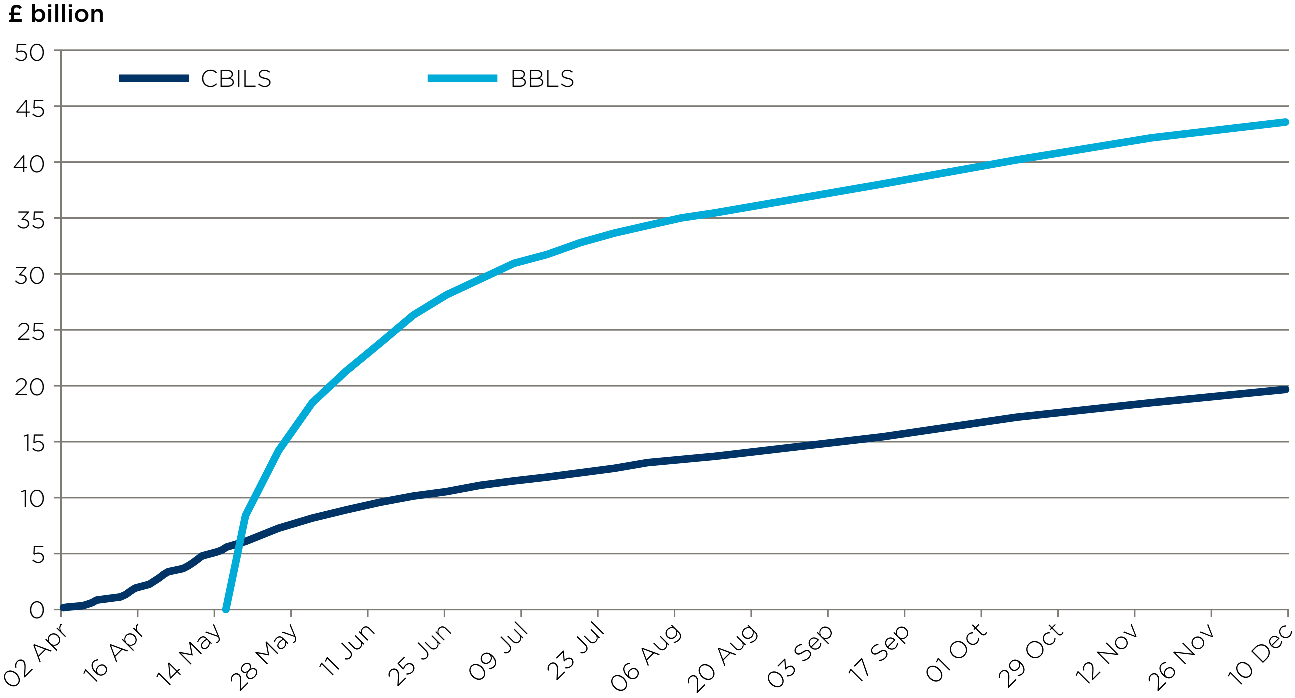
Source: Funding Circle customer survey, 2021

These two loan schemes broadly served two different groups of SMEs. Through an 80% partial guarantee and a full credit assessment, CBILS ensured lenders were able to continue providing finance between £50,000 and £5 million. This funding has largely been used by SMEs to invest, adapt and grow their business. In a January 2021 survey of Funding Circle borrowers, more than half said their investment plans would have been impacted without a CBILS loan (Fig. 4).[7]

Initially, SMEs could only access CBILS funding through their high-street bank. To help a wider range of businesses to quickly access funding, BBLS was introduced in May. With a 100% guarantee and no credit assessment, the scheme allowed lenders to rapidly provide up to £50,000 of finance to the smallest SMEs.[8] A sizeable injection of emergency lending was delivered in the scheme's initial weeks (Fig. 5).

[4] Department for Business, Energy and Industrial Strategy (2020) 'Business Population Estimates for the UK and regions 2020.'
[5] The Coronavirus Business Interruption Loan Scheme (CBILS) is a demand-led scheme offering lending to smaller businesses with turnover of up to £45m. It offers an 80% partial guarantee with a credit assessment. Term loans and revolving credit facilities are available from £50k to £5m. Government payments cover interest and lender-levied fees under CBILS for the first 12 months. The Bounce Back Loan Scheme (BBLS) is a demand-led scheme that targets small and micro businesses, providing loans from £2k up to £50k. Lenders have a 100% government-backed guarantee and no credit assessment is required. Standardised applications reduce processing time. Businesses can obtain a six-year term loan at a government set interest rate of 2.5% a year.
[6] HM Treasury (2020) 'HM Treasury coronavirus (COVID-19) business loan scheme statistics'
[7] 'Impact on investment' includes those who reported the impact of not receiving the CBILS loan would be a missed opportunity (19%), reduced investment (16%), less or no job creation (8%), weaker profit growth (6%), no investment made (5%), and no profit growth (2%).
[8] British Business Bank (2020) 'New Bounce Back Loan Scheme opens for smallest UK Businesses'

Fig. 5: Value of CBILS/BBLS loan approvals

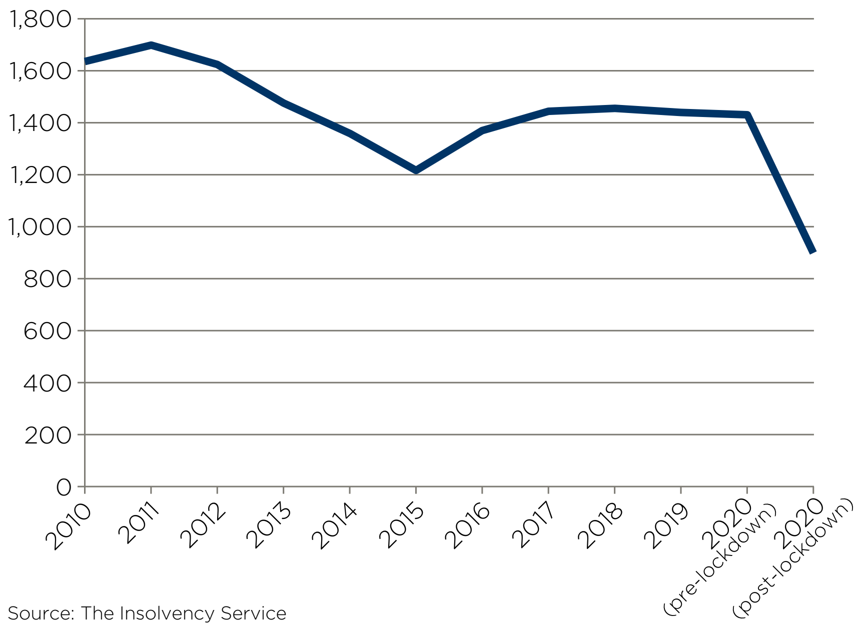


Source: HM Treasury

Unlike CBILS—which largely allowed business-as-usual lending to continue at normal levels—most BBLS funding went to smaller, first-time borrowers, according to evidence given by the banking industry to the Treasury Select Committee.[9] As Chapter 3 will explore in more detail, this meant the majority of additional SME lending in 2020 has been concentrated in the smallest cohort of SMEs.

These support measures have so far been effective in limiting the number of insolvencies among UK businesses. The monthly average number of insolvencies since 23 March 2020 (post-lockdown) was the lowest of the past decade, and 38% lower than in 2019 (Fig. 6).

Fig. 6: Average monthly UK insolvencies



Source: The Insolvency Service

[9] Treasury Select Committee (Dec 2020) 'Formal meeting (oral evidence session): Economic impact of coronavirus'

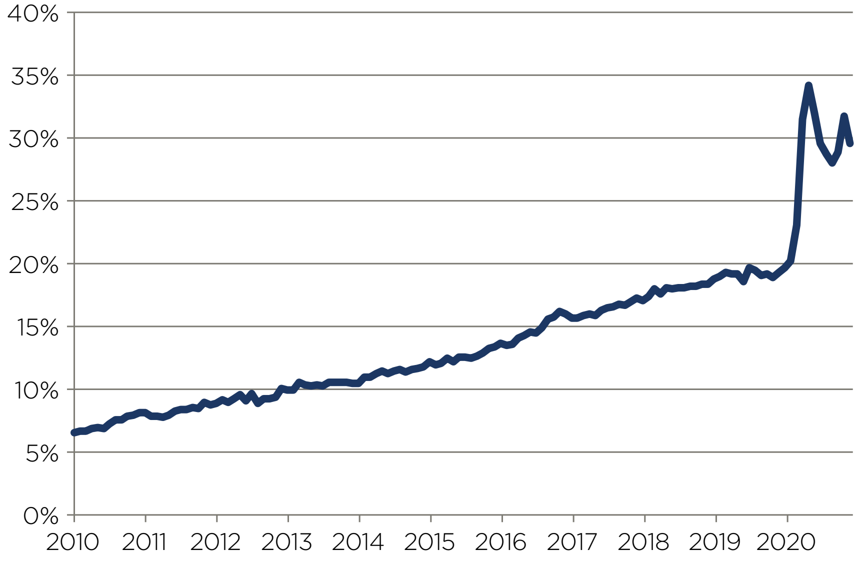
1.3 COVID-19 HAS ACCELERATED THE ADOPTION OF ONLINE BORROWING

2020 changed the way we did everything. From online deliveries to video conferencing, Covid-19 forced us all to spend more time online. This accelerated long-term trends in mass online adoption; the share of retail sales conducted online was 47% higher in 2020 than the previous year (Fig. 7).[10]

This was no different for SMEs. With guidance to avoid non-essential visits to high-streets—on top of further reductions in the number of bank branches—more SMEs turned to accessing finance online. Searches for 'online business loans' increased 20 times their 2019 weekly average in the week following the introduction of CBILS (Fig. 8). Across 2020 as a whole, the volume of online searches was 5.3 times higher than it was 2019.

Fig. 7: Online share of the value of UK retail sales (excluding fuel)

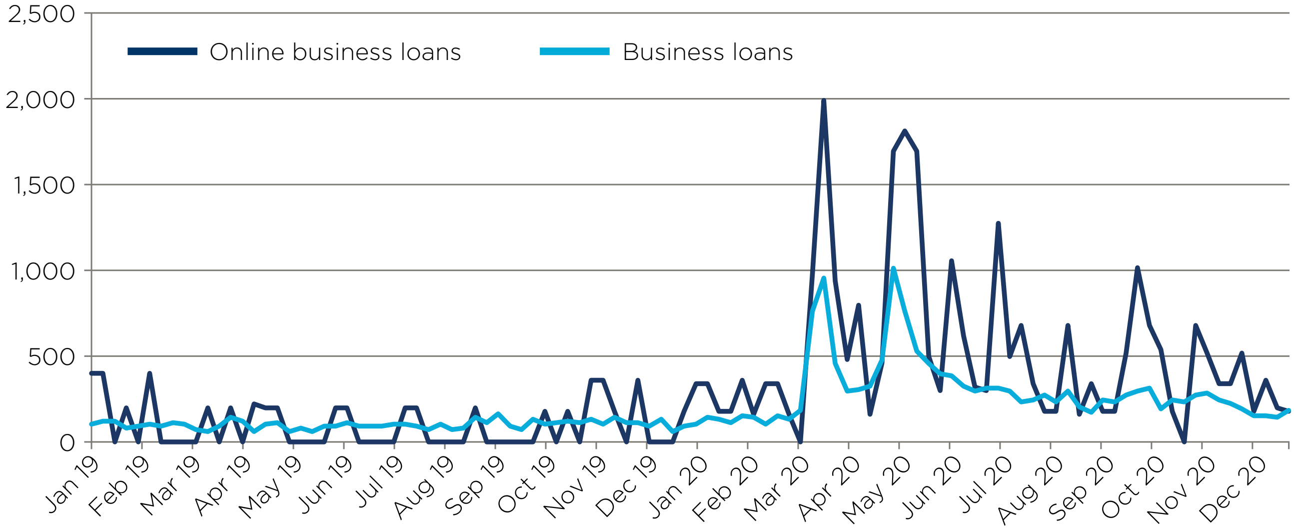
Percentage share



Source: ONS

Fig. 8: Online searches for business loans in the UK

Index, 2019 average = 100



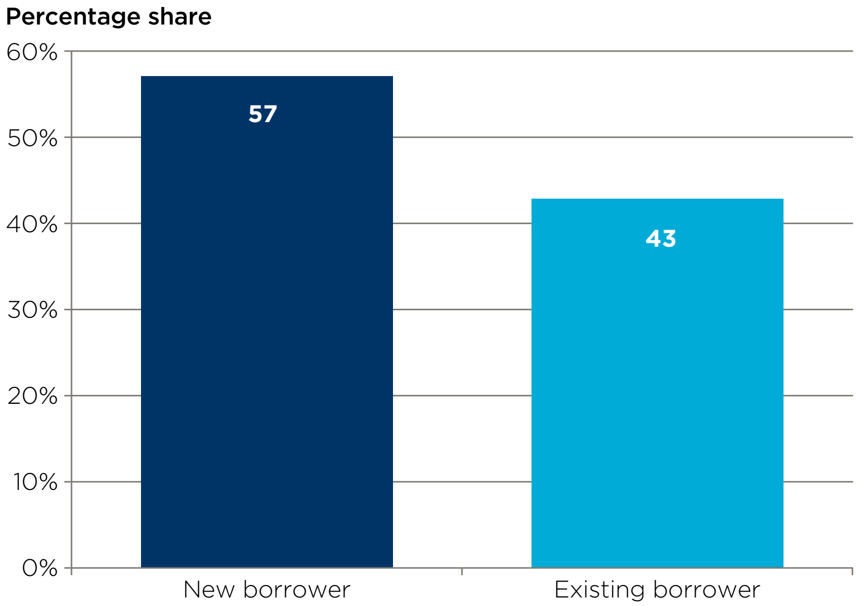
Source: Google Trends

[10] ONS (2021) 'Retail Sales Index internet sales'

Funding Circle and other FinTech lenders have benefited from the switch to online borrowing. As businesses sought finance in 2020, many found that FinTech providers, including lending platforms, offered them the speed and simplicity they needed. Of the SMEs that accessed loans through Funding Circle, almost six out of 10 were first-time users of the platform (Fig. 9).

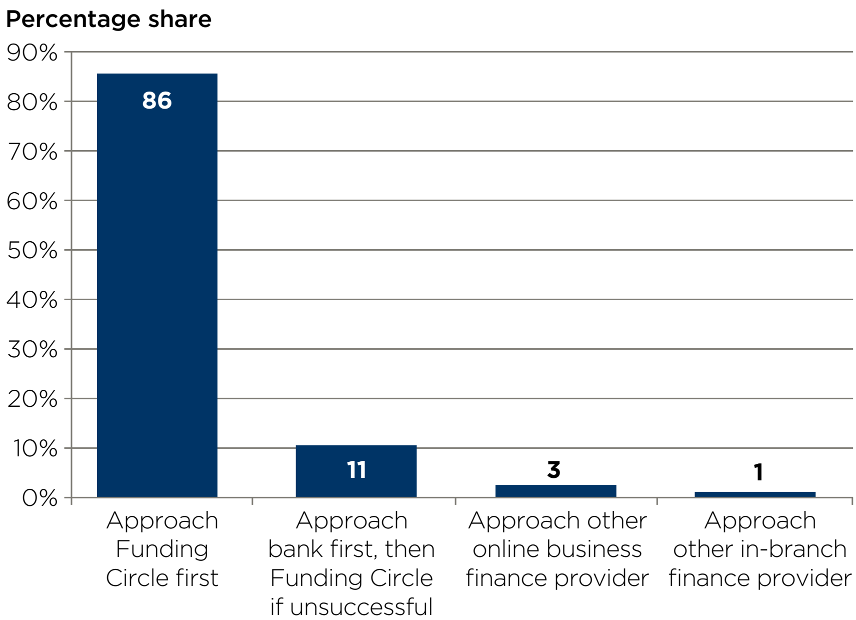
Once SMEs switch to using online finance, they tend to not look back. Survey evidence shows customers that used Funding Circle to access online finance for the first time were highly likely to return in future. Some 86% of first-time online borrowers would approach the platform first—as would 89% of all 2020 borrowers (Fig. 10). This suggests the increased interest in online business loans in 2020 will result in a longer-term shift in appetite for online borrowing.

Fig. 9: Share of new and existing Funding Circle CBILS borrowers



Source: Funding Circle customer survey, 2021

Fig. 10: What first-time online borrowers are likely to do next time they require finance



Source: Funding Circle customer survey, 2021

CASE STUDY: BIRD AND BLEND

Mike Turner and Krisi Smith are the co-founders of Bird & Blend Tea Co—an independent, award-winning tea company based in Brighton. With shops across the UK and an online store, when the pandemic hit they adapted their operations to comply with social distancing regulations. A Funding Circle CBILS loan provided both a cashflow buffer and allowed them to drive forward their growth plans. They employed 80 members of staff when the pandemic hit, and now employ 100.

"Once the first lockdown was announced, we briefly had to close our warehouse and back of house operations. Following that, our online orders increased massively, so there was a challenge trying to source new stock.

Our Funding Circle experience was quick, easy and fast. The initial decision was super quick—within about 24 hours."


BLUE
MOJITEA
NEARLY NIRVANA*
DOZY GIRL
DECKCHAIR DREAMING
LIQUOR-LICIOUS LIQUORICE
ALL THINGS NICE
ENCHANTED NARNIA
FRUIT SALAD
BEARS LIKE
PEPPY MINT
COLD WEATHER WARRIOR
SALTED CARAMEL LEBKUCHEN

2. FUNDING CIRCLE'S SUPPORT FOR SMES IN 2020

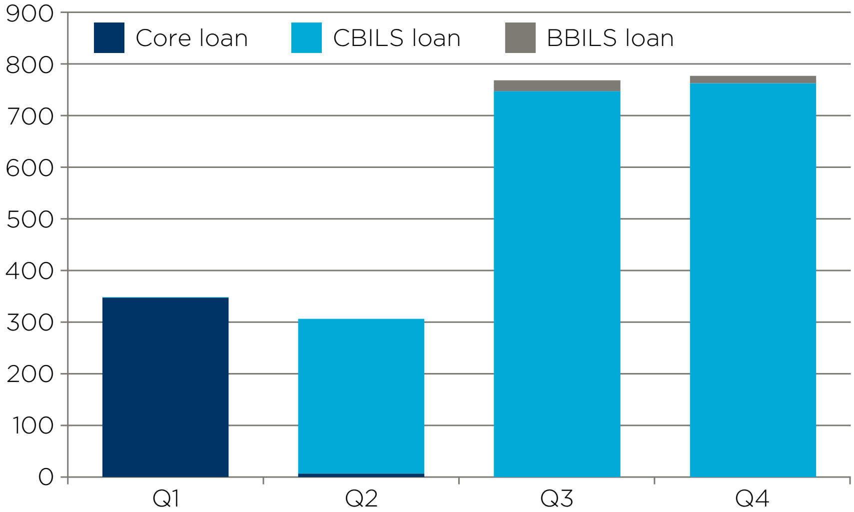
2.1 FUNDING CIRCLE PLAYED A KEY ROLE IN PROVIDING FUNDING TO SMES DURING THE PANDEMIC

Like the small businesses it serves, Funding Circle had to adapt to the changing SME financing landscape in 2020. As one of the first FinTech lenders to receive CBILS accreditation, the platform shifted focus from its core unsecured term loans in order to help as many SMEs as possible. Over the last nine months of the year, the vast majority of loans approved by Funding Circle were through CBILS, with a small number of BBLS loans issued to existing customers (Fig. 11). At £2.1 billion, the total value of loans originated by the platform in 2020 was 36% higher than in 2019.[11]

Funding Circle has played a key role in providing government-guaranteed finance. In February 2021, £2.6 billion of CBILS lending had been approved through Funding Circle, making it the third largest CBILS lender. Nearly 17,000 loans had also been approved, representing 27% of all CBILS loans since the platform started participating in the scheme.

Fig. 11: Loans originated through Funding Circle in 2020

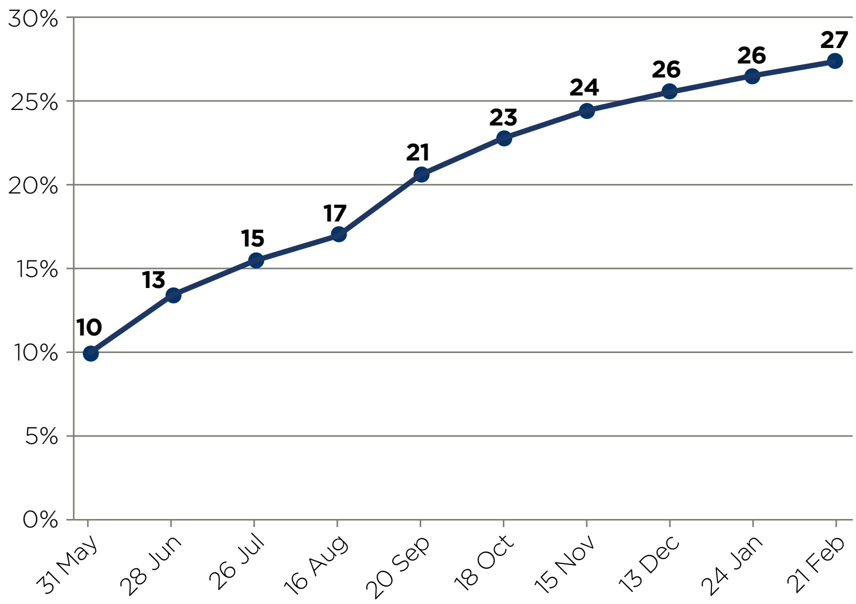
£ million



Source: Funding Circle

Fig. 12: Funding Circle's share of CBILS approvals

Percentage share



Source: Funding Circle

[11] Funding Circle (2020) 'Half Year 2020 results'

2.2 FUNDING CIRCLE HAS PROVIDED A FASTER AND SIMPLER WAY OF ACCESSING CBILS FUNDING

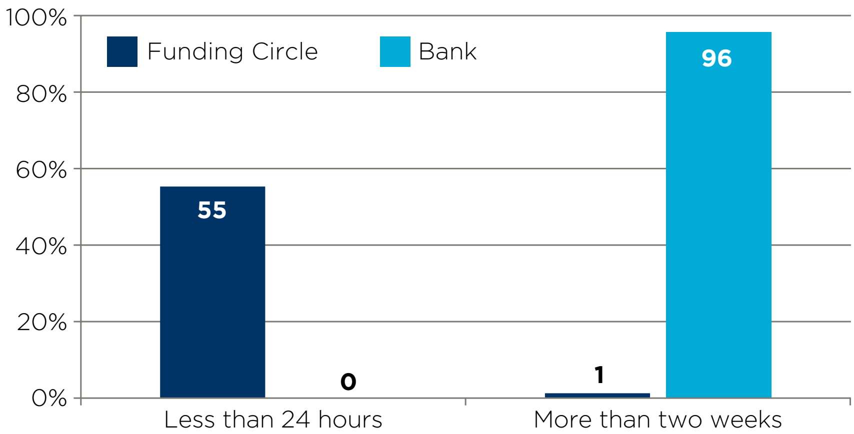
Initially, CBILS was only available through high-street banks. With a partial guarantee, lenders were required to carry out a full credit assessment on each applicant. This caused delays, and left many SMEs awaiting funding at a crucial time. This can be seen with 27% of businesses still waiting to hear the outcome of their bank application, when surveyed by BVA BDRC between May and June.[12]

Funding Circle provided SMEs with a fast and simple route to access CBILS, once accredited in April. Historically, Funding Circle's SME focus and use of technology has allowed it to process SME loans in hours and days, rather than weeks and months. This was further strengthened by the introduction of its Instant Decision Lending platform at the end of 2019. The new technology, which now serves 50% of UK loan applications, reduced application times on average to six minutes, and decision times to nine seconds.[13]

Survey evidence shows 96% of CBILS recipients who applied for a bank loan before turning to Funding Circle waited at least two weeks to receive a decision from the bank (Fig. 13).[14] In contrast, 55% of Funding Circle applicants received their decision within 24 hours.

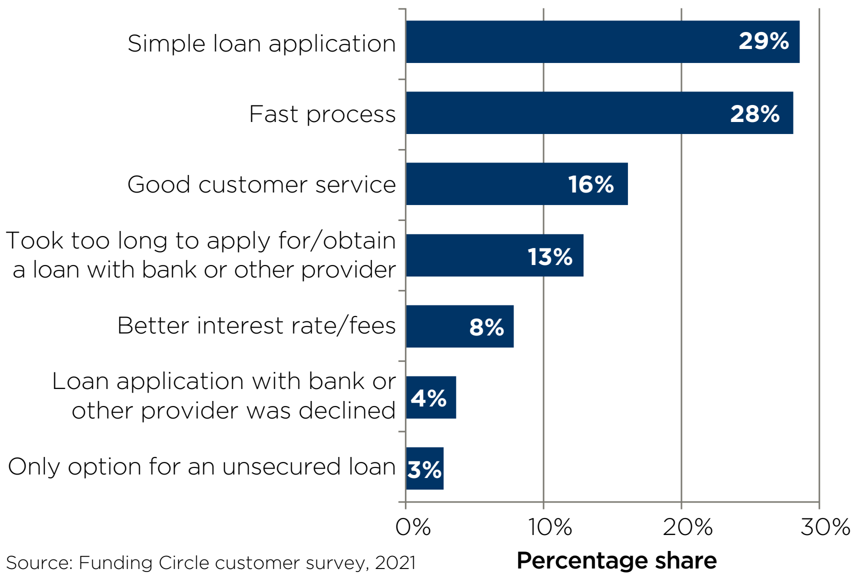
The simplicity and speed of Funding Circle's application process continues to be cited as the two most popular reasons for choosing the platform. Only 4% of SMEs took a loan through Funding Circle because their application was declined by another provider (Fig. 14).

Fig. 13: 2020 Lending decision times, Funding Circle vs banks



Source: Funding Circle customer survey, 2021

Fig. 14: Main reason for borrowing through Funding Circle in 2020



Source: Funding Circle customer survey, 2021

[12] BVA BDRC (2020) 'SME Finance Monitor Q2 2020.' Data from page 70.
[13] Funding Circle (2020) 'Half Year 2020 results'
[14] Funding Circle Survey (2021): 96% of CBILS recipients who said they didn't take a bank loan as the process took too long, said they were waiting at least two weeks for a decision.

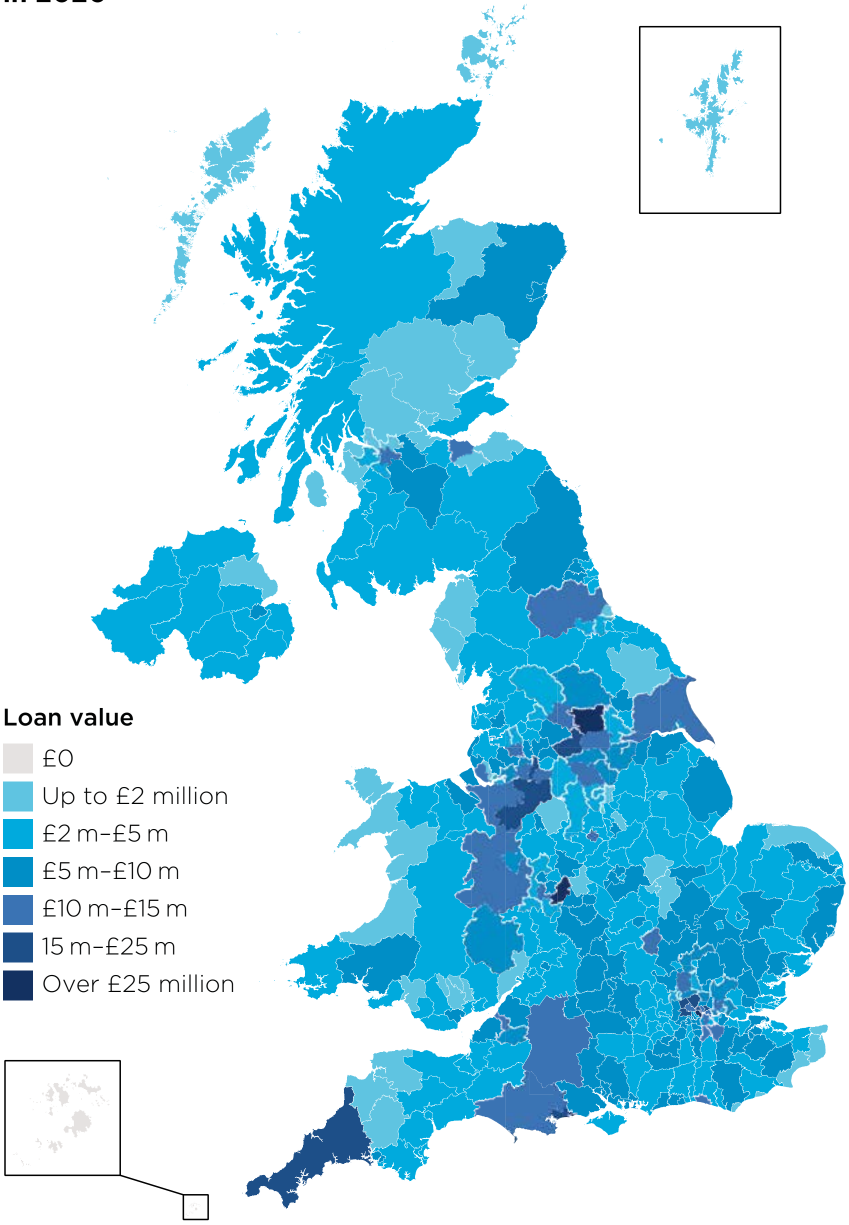
2.3 FUNDING CIRCLE IS HELPING SMES INVEST IN LOCAL COMMUNITIES ACROSS THE UK

In 2020, SMEs from every corner of the UK accessed finance through Funding Circle. Loans through the platform were issued to small businesses in 378 of the UK's 379 local authority districts: from the far south-west of England, to the north of Scotland—the only exception being the Isles of Scilly.[15]

On average, in 2020 Funding Circle facilitated more than £2 million of lending to businesses located in each local authority. This has helped SMEs to not just protect jobs and survive, but also to invest in their business, thrive and create further employment opportunities in their local community. Continuing to provide SMEs from all parts of the country with access to the finance they need to grow will accelerate the economic recovery, and help the UK to build back better.

Online loan platforms have delivered a greater share of CBILS funding to businesses outside of London.[16] When compared to overall scheme lending, Funding Circle is over-represented in the East of England and Yorkshire and the Humber: by 1.6 and 1.4 percentage points respectively. A greater share of funding also went to businesses in the North West and West Midlands, by 1.0 percentage point each (Fig. 16).

Fig. 15: Value of loans originated per local authority district in 2020

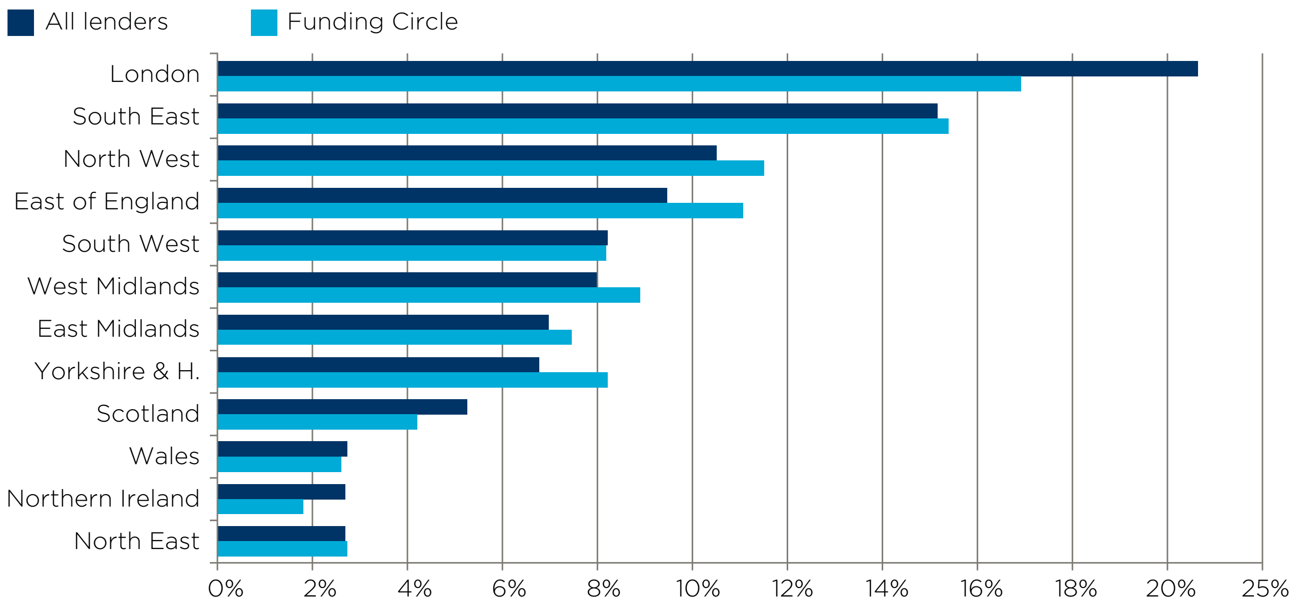


Source: Funding Circle

[15] UK Business Count (2020). The Isles of Scilly had 195 registered SMEs in 2019, just 0.004% of the UK's total. This is by far the lowest of any local authority district—the next lowest is 1,100 SMEs.

[16] HM Treasury (2021) 'Billions of pounds of support helps businesses up and down the country'.

Fig. 16: Share of CBILS lending by nation and region

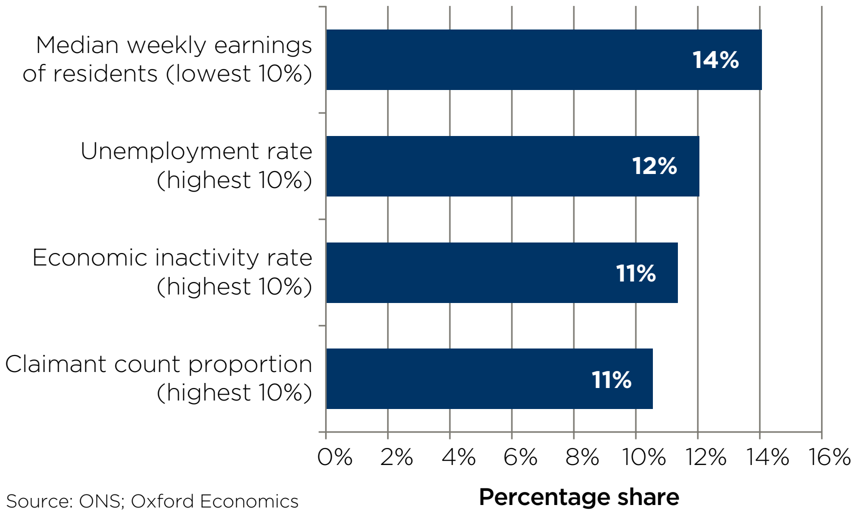


Source: Funding Circle; HM Treasury; Oxford Economics

This investment is reaching communities that will benefit most from it. A higher proportion of Funding Circle's lending went to SMEs located in local authorities experiencing social and economic challenges (Fig. 17).[17] For example, in 2020 businesses located in the top 10% of local authorities where residents have the:

- *Lowest average weekly earnings* received 14% of Funding Circle's lending
- *Highest unemployment rate* received 12% of Funding Circle's lending
- *Highest proportion of economically inactive residents* received 11% of Funding Circle's lending

Fig. 17: Share of Funding Circle's 2020 lending to local authority areas experiencing social deprivation



Source: ONS; Oxford Economics

17 ONS (2020) 'Local area data; LI01 Local labour market indicators by unitary and local authority'

2.4 FUNDING CIRCLE'S FULL ECONOMIC IMPACT IN THE UK

At the end of 2020, we estimate the loans under Funding Circle's management supported a total contribution to UK GDP of £7.6 billion. We also calculate that 102,300 jobs were supported by lending through the platform, alongside £2.1 billion in associated tax revenues.

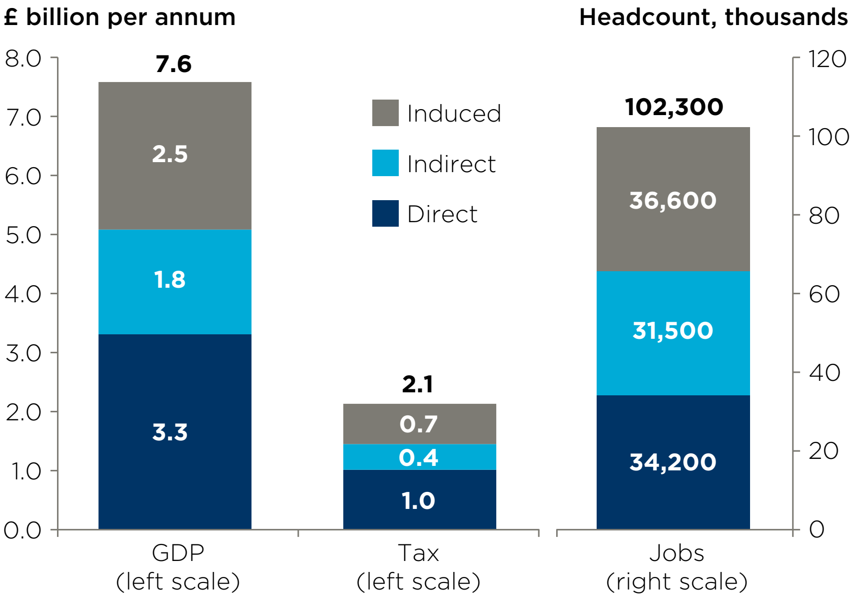
Lending through Funding Circle is estimated to have directly supported a £3.3 billion contribution to UK GDP, and 34,200 jobs. Scaling up our UK SME survey results, we find that Funding Circle clients generated £86.7 billion in annual revenue, and 6.8% of this can be apportioned to their Funding Circle loans, based on the loans' share of these companies' liabilities. Of this loan-related revenue, the firms' employment, capital costs and net profits accounted for some £3.3 billion. Together, these form the 'direct' contribution to GDP as a result of loans through Funding Circle. We calculate that 34,200 jobs and £1.0 billion in tax revenues were also directly supported by these loans.

But the economic impact of the lending through Funding Circle extends beyond its direct contribution to the UK economy. We calculate the *"indirect impact"*, which captures the activity stimulated by Funding Circle clients' procurement from their UK supply chains. We estimate these SMEs spent £2.1 billion on purchases from other domestic businesses, supported by their Funding Circle loan. This sizeable spend supported a £1.8 billion contribution to GDP and 31,500 jobs. We estimate this activity supported £440 million in tax revenues to the UK Exchequer.

In addition, further economic activity is supported through spending by Funding Circle clients' employees and by workers in their supply chains. This is known as the *"induced impact"*. We estimate this wage-induced spending supported a £2.5 billion contribution to UK GDP. It also sustained 36,600 jobs across the country, along with £690 million in tax revenues.

It can also be said that lending through Funding Circle has a GDP multiplier of 2.3—meaning for every £100 in GDP that lending through Funding Circle directly supports, a further £130 in GDP is supported elsewhere in the economy.

Fig. 18: Total economic impact of Funding Circle in the UK, 2020



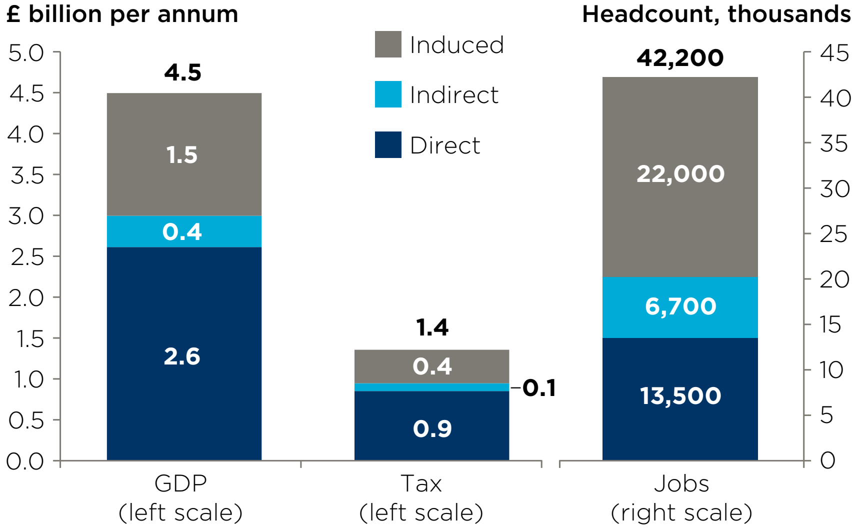
Source: Oxford Economics

Note: totals may not sum due to rounding.

Our results point to significant growth in Funding Circle's economic impact. Compared to our 2018 report, its contribution to GDP is 85% larger, when it was calculated to have contributed £4.1 billion. This increase in total GDP contribution in turn supported 42% more jobs (72,000), and generated 110% more in tax revenue (£1 billion).

Funding Circle's Covid-19 response has supported a sizeable economic impact in itself. Its CBILS and BBLS loans supported a substantial contribution to the economy: from the SME recipients directly, in their supply chains and communities, and in the wider UK economy. In total, we calculate that government-guaranteed loans under Funding Circle management at the end of 2020 contributed £4.5 billion to UK GDP, and supported 42,200 jobs (Fig. 19). The economic activity facilitated by this lending also supported £1.4 billion in annual tax revenues.

Fig. 19: Total economic impact of Funding Circle's UK government-guaranteed lending, 2020



Source: Oxford Economics

Note: totals may not sum due to rounding.

Fig. 20: Funding Circle's UK Economic Impact, 2018–2020

	2018	2020	Increase
GDP contributed (£ billion)	4.1	7.6	85%
Jobs supported	71,900	102,300	42%
Tax generated (£ billion)	1.0	2.1	110%

Source: Oxford Economics


Liverpool Cheese Company Ltd.

CASE STUDY: LIVERPOOL CHEESE COMPANY

In 2006, Vickie Anderson and partner Ian Tomlinson opened a shop in Liverpool to share their passion for cheese. Before the pandemic, only a small proportion of their cheeses were sold online. As with many SMEs, Covid-19 changed that. Vickie was able to use a Funding Circle CBILS loan to improve her website, invest in a new van and take her business to her customers. Now delivering more than 200 cheeses across the UK, when the second lockdown started Vickie was able to close the store and operate entirely online.

“I’m a cheesemonger so I love helping people choose their cheeseboard. Now I am doing a lot more logistics, but I can’t complain!

The CBILS loan through Funding Circle has really helped us adapt to the situation. The experience has been great. The process is simple, straightforward and fast.”

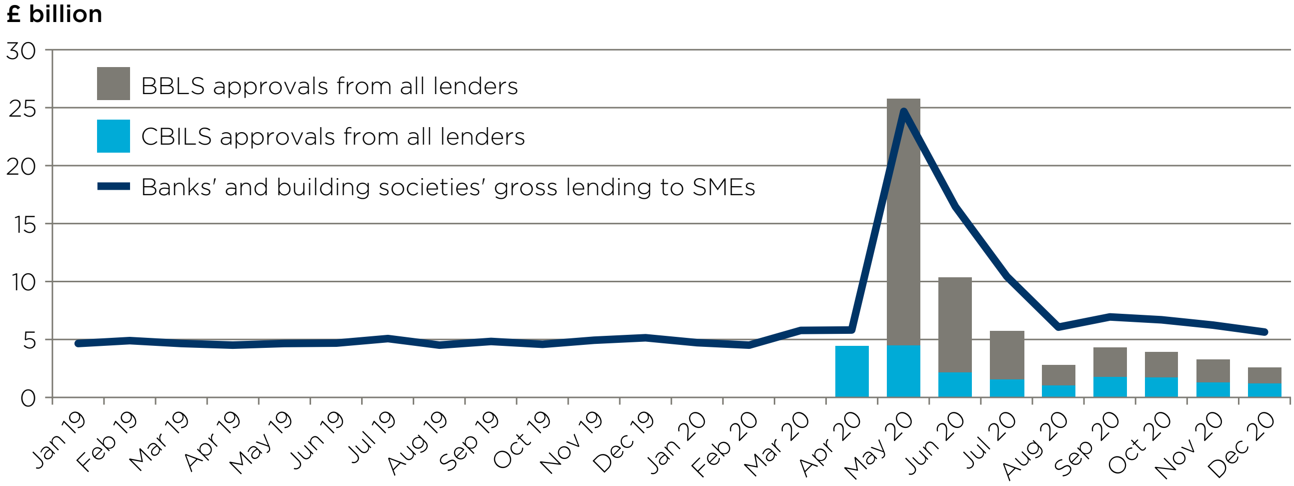
3. LOOKING TO THE FUTURE

3.1 LENDING TO THE SMALLEST SMES HAS RISEN, BUT FIRMS HAVE INCREASED THEIR CASH POSITION AND THE MAJORITY ARE CONFIDENT ABOUT SERVICING THEIR DEBT

2020 saw a significant increase in overall lending volumes to SMEs. This growth was driven almost entirely by loans through BBLS (Fig. 21). As discussed in Chapter 1, CBILS helped maintain normal levels of business-as-usual lending. However, most BBLS funding went to the smallest cohort of SMEs, who were typically taking on finance for the first time.[18] Between April and December lenders approved £43.5 billion in BBLS to SMEs, more than double the £19.6 billion approved through CBILS.

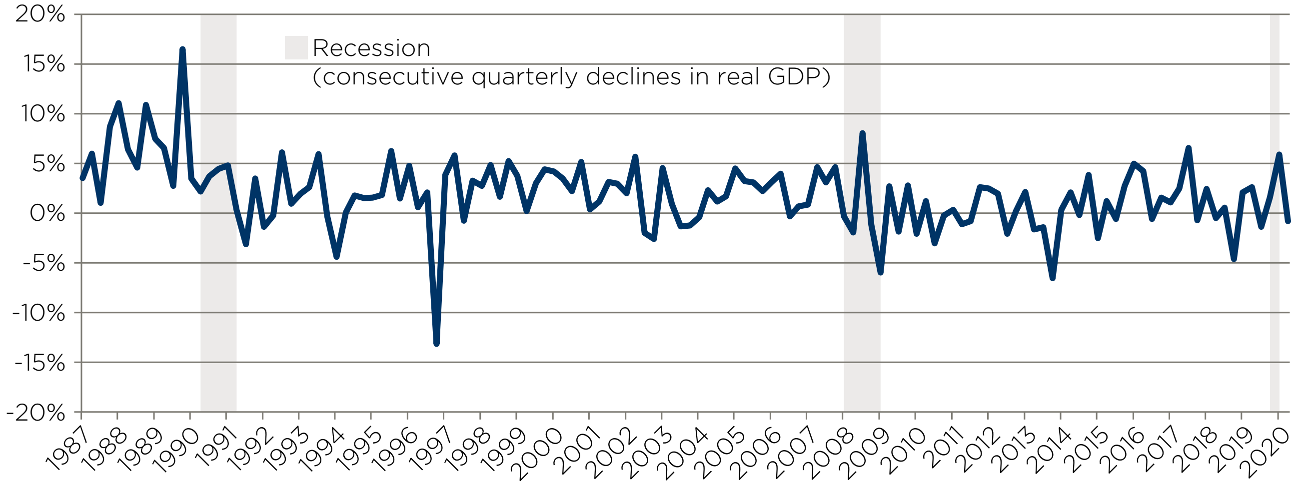
Debt levels of the wider business population have remained stable historically. While lending to non-financial companies increased by 6% in Q2 2020 (and then decreased by 1% in Q3), this is not excessively large in historical terms, and was actually exceeded by the growth seen in Q4 2017 (Fig. 22).[19]

Fig. 21: Gross SME lending, 2019–2020



Source: Bank of England; HM Treasury

Fig. 22: Quarterly growth in gross lending to private non-financial corporations



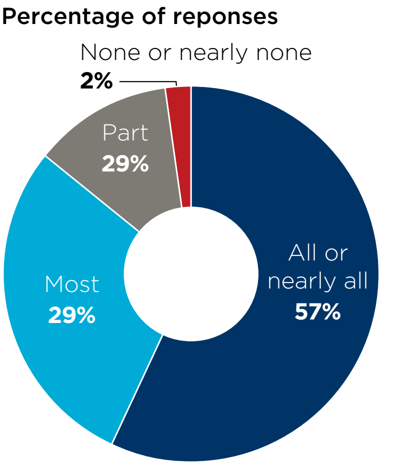
Source: ONS

[18] Treasury Select Committee (Dec 2020) 'Formal meeting (oral evidence session): Economic impact of coronavirus'
[19] Data includes all UK private non-financial corporations.

Further evidence that additional debt has been concentrated in the smallest cohort of SMEs can be seen in the loan-to-turnover ratio of loan scheme recipients. Despite a maximum loan size of £50,000, the majority of BBLS users borrowed more than 20% of their turnover (Fig. 23). While CBILS loans were larger in size, they were smaller in relative terms; the average Funding Circle loan was approximately 9% of the borrower's turnover.[20]

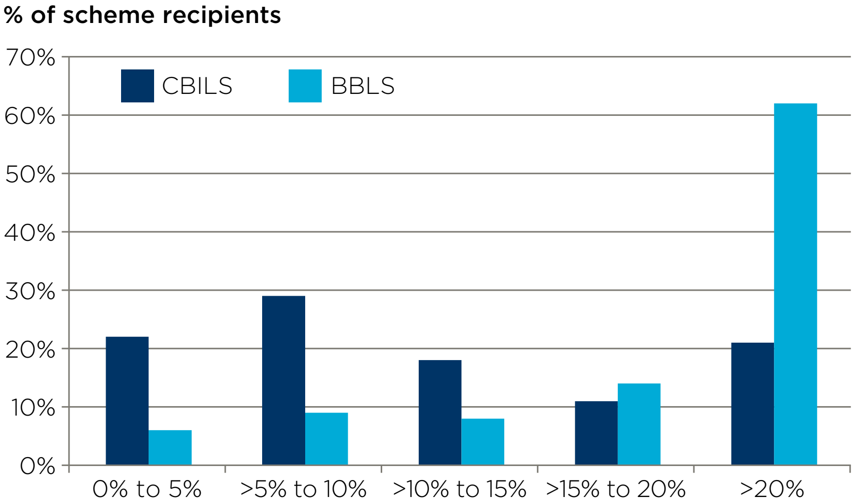
Many SMEs have used CBILS funding to build up a cash buffer. Some 46% of survey respondents said the main purpose of their loan was to build up cash against the potential impacts of Covid-19 (43% used their loan to mitigate the impact of Covid-19 restrictions, and 11% for a variety of other reasons).[21] Of these businesses, 86% said they still had the majority of this buffer in place (Fig. 24).

Fig. 24: How much cash buffer Funding Circle's CBILS customers still have in place



Source: Funding Circle customer survey, 2021

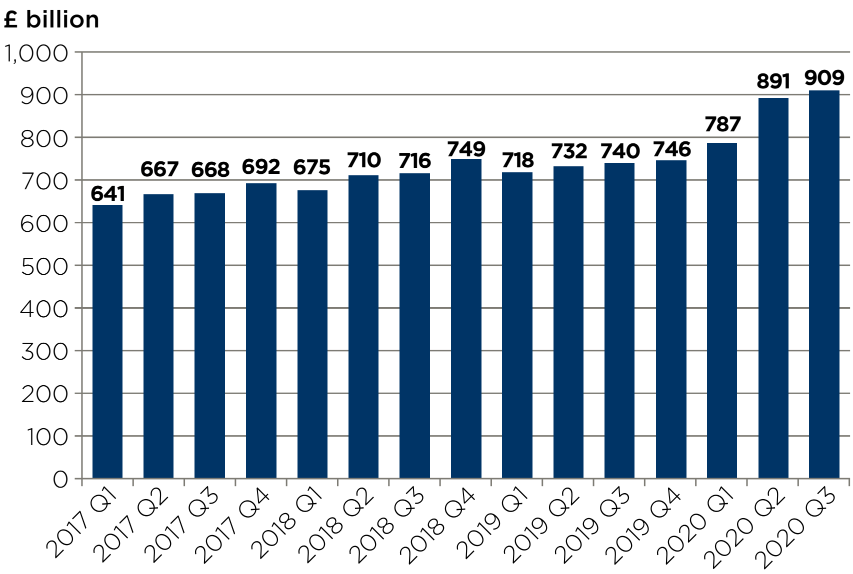
Fig. 23: Proportion of turnover borrowed through CBILS and BBLS



Source: British Business Bank

This trend is reflected in the cash position of the wider business population. In Q3 2020, the cash holdings (currency and deposits) of all private non-financial companies rose 23% year-on-year to more than £900 billion (Fig. 25).[22] If more businesses—both big and small—are holding their debt in cash, they will be in a stronger position to service that debt.

Fig. 25: Cash holdings of private non-financial companies (current prices)



Source: ONS

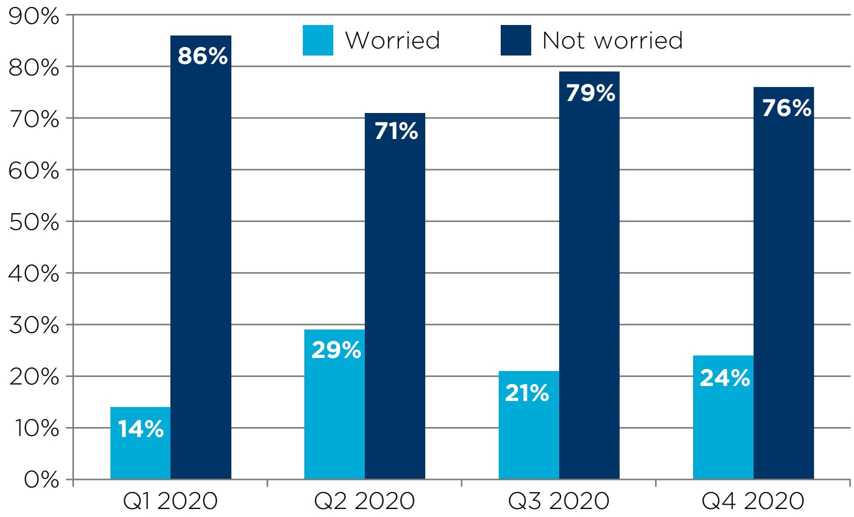
[20] Funding Circle data.
[21] Funding Circle Survey (2021).
[22] ONS data on private non-financial corporations' holdings of currency and deposits at end of period.

The proportion of SMEs concerned about their ability to repay finance has fallen from its pandemic peak. The majority of SMEs—76% of those interviewed in Q4 2020—that accessed finance are confident they will be able to repay their loans over the next 12 months, according to the BVA BDRC survey (Fig. 26). While this is below the 86% recorded before the full impact of the March lockdown, it is an improvement on the levels seen during the peak of the crisis.

This suggests there is a group of SMEs—typically the smallest businesses that may have used BBLS to access finance for the first time—that are concerned about their ability to service their debts and may require further targeted support. However, the broader population of SMEs have kept their indebtedness levels relatively more stable, and are confident in their ability to service it.

Fig. 26: SMEs concerned about ability to repay finance over next 12 months

Percentage share



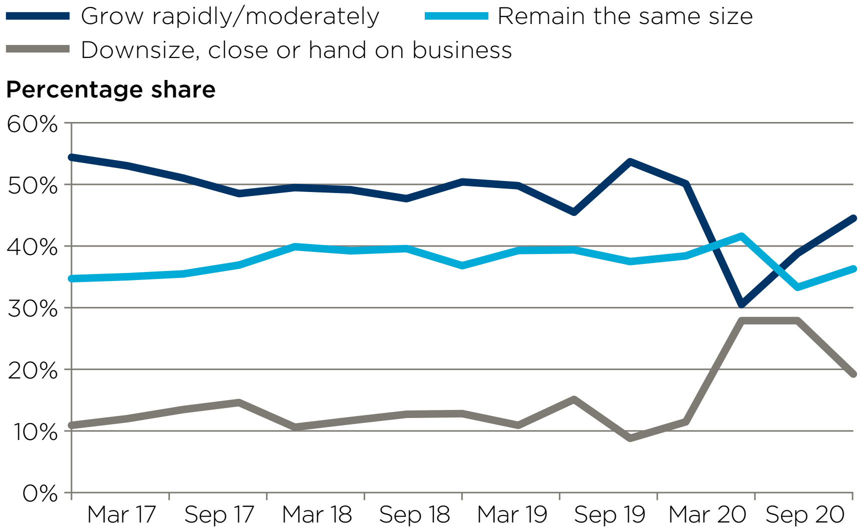
Source: BVA BDRC

3.2 ACCESS TO FINANCE WILL BE REQUIRED FOR SMES TO INVEST AND POWER THE ECONOMIC RECOVERY

British SMEs have ambitious growth aspirations. Some 45% of SMEs plan to grow either moderately or rapidly, according to a Federation of Small Business survey in Q3 2020 (Fig. 27). This has increased through 2020.

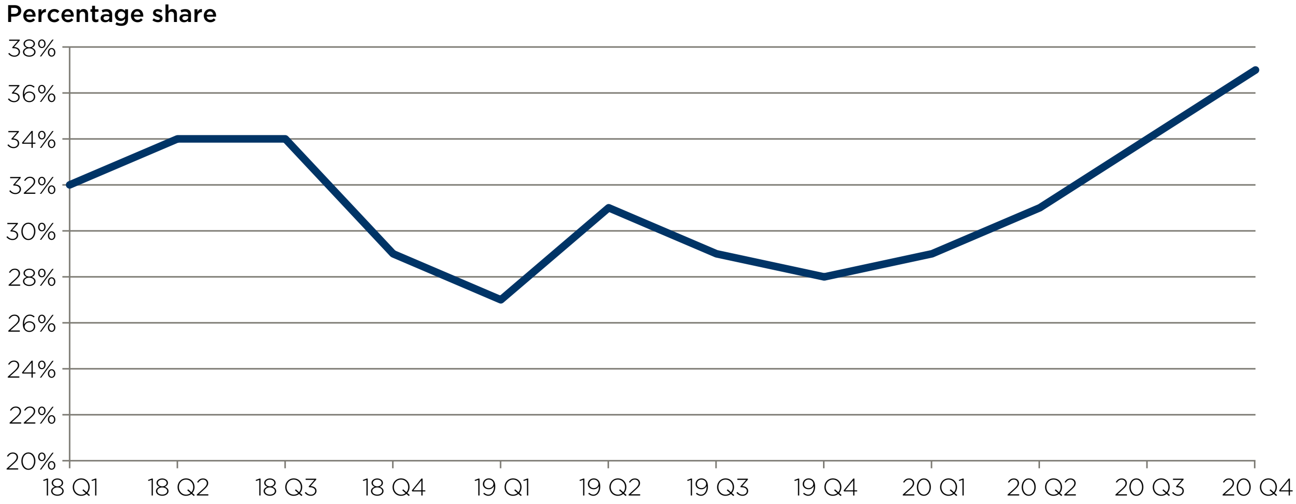
The increasing demand for SME finance can also be seen in the share of SMEs happy to use finance to meet their growth aspirations (Fig. 28). This is at the highest level it has been since 2016.

Fig. 27: SME growth aspirations over the next 12 months



Source: Federation of Small Business

Fig. 28: Share of SMEs happy to use finance to grow

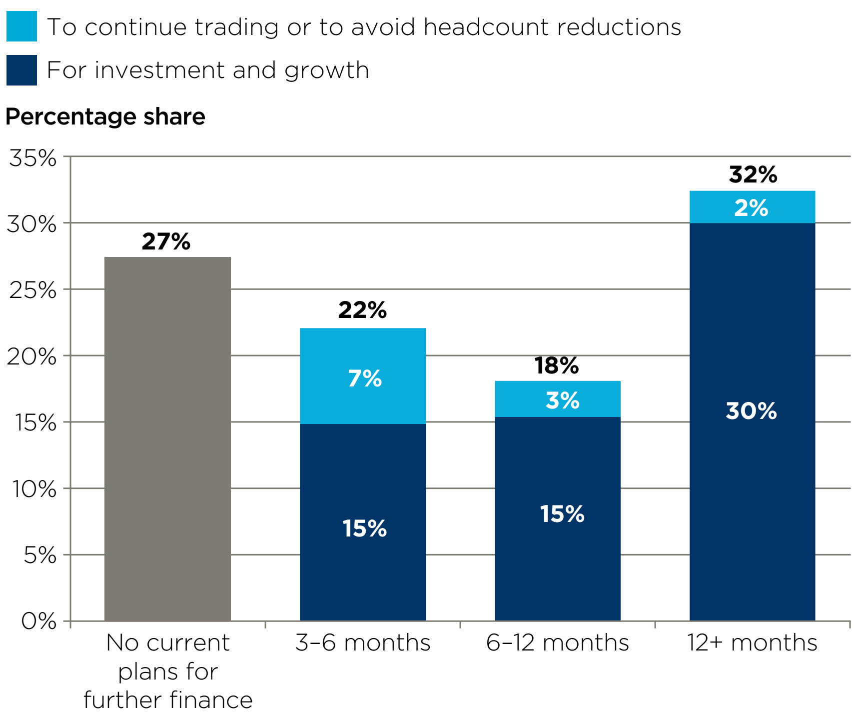


Source: BVA BDRC

The majority of Funding Circle's SME customers expect to require further finance to fund their investment and growth. Some 73% of respondents expected to require future finance, with 40% expecting to need this within the next 12 months (Fig. 29). More than eight out of ten of these SMEs would use this funding for investment and growth.

The data suggests a significant proportion of the UK's SMEs have the capacity, need, and desire to invest and grow their business. Simple and fast access to finance will be imperative if SMEs are to do this, and in turn power the UK economy as it continues to recover from Covid-19.

Fig. 29: SMEs expectations for future financing needs



Source: Funding Circle customer survey, 2021

CASE STUDY: FASHIONIZER

Debbie Leon has been designing bespoke, luxury uniforms since 1993. With many of her clients in the hospitality and spa industries closed due to Covid-19, Debbie quickly switched to making face masks. Needing cash flow to help the business navigate the initial lockdown period, she approached her bank for a CBILS loan. By the time she heard back from them—almost a full two months later—she had already received a Funding Circle CBILS loan.

“We started losing business in Asia and the Middle East first, so we saw it coming. We adapted quickly; starting on the 16th March, we switched to making fabric face masks.

Since I’d previously had a Funding Circle loan, I knew the service was fast and efficient, and I was delighted when I found out they were offering CBILS loans.”

APPENDIX: METHODOLOGY

ESTIMATING THE ECONOMIC IMPACTS

In 2020 a proportion of Funding Circle's small business customers in the UK were asked to complete a survey about their loans and business. To enable Oxford Economics to carry out the economic impact study for this report, survey respondents were asked about their company's latest annual revenue, purchases from other firms, share of imports in those purchases, and employment levels.

Direct impacts

The direct "gross value added" contribution to GDP of these respondents was taken to be the difference between their 2020 revenues and the value of their purchases from other firms that year. Their direct employment was taken straight from the survey answers.

The "Funding Circle share" of those values then had to be calculated. Each company that responded to the survey was matched with its record in Funding Circle's entire loan book, as adjusted to capture only loans under management and not in default at the end of 2020. This enabled the value of the company's outstanding loan, and industrial sector, to be identified.

The industrial sector was used to split each firm's value added between employment costs and the "gross operating surplus" (i.e. capital costs plus net profits—equivalent to earnings before tax, interest, and depreciation in company accounts). This required sector-by-sector data from the national accounts, adjusted to be more specific to smaller firms by taking into account relevant ratios from national statistical agencies' data.

The gross operating surplus was then used to estimate the size of each company's balance sheet (i.e. its net value plus all outstanding liabilities), using a balance-sheet-to-gross-earnings multiple of three. This ratio was chosen as being within the various ranges recommended by experts in the field—although it is towards the lower end of the scale, to reflect the small size of the firms involved. The ratio of each firm's Funding Circle loan to its estimated balance sheet size was then used to scale down from total direct value and jobs, to the share supported by Funding Circle's financing.

The gross value added and employment impacts for the sample of firms surveyed were then scaled up, to arrive at impacts for the entire Funding Circle loan book. Revenues, purchases from other firms, and business taxes paid were also scaled up in the same way. Direct tax contributions of all kinds were worked out from direct gross value added, using various tax-to-income and tax-to-spending ratios derived from national accounts and tax authority data.

Indirect and induced impacts

Next, the indirect and induced impacts were calculated. The pattern of firms by industrial sector, both in the survey and across the entire loan book, was reasonably similar to that of the wider business sector, excepting the relative absence of mining and energy firms. The pattern of economy-wide procurement found in the official "input-output table", by type of product purchased and domestic-versus-imported supplier split, was therefore adjusted to exclude non-business entities, and mining and energy firms, and applied to our estimate of Funding Circle borrowers' total purchases from other firms. The share of imports in that total was checked against the share indicated by the survey results, and found to be very similar.

The pattern of procurement from domestic suppliers, excluding imports, was then fed into Oxford Economics' economic impact models, which are based on the entire pattern of transactions between industrial sectors (as found in an input-output table). The direct employment costs of Funding Circle's borrowers were also fed in. The indirect and induced gross value added, employment, and tax impacts were then calculated within the model, which also incorporates the latest gross value added-to-jobs, tax-to-income, and tax-to-spending ratios, on a refined industry-by-industry basis.

The results show the economic contribution supported by lending through Funding Circle per annum, based on all loans under its management at the end of 2020. They are <u>not</u> cumulative, so do not show the economic impact of Funding Circle since its creation.

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Oxford Economics was founded in 1981 as a commercial venture with Oxford University's business college to provide economic forecasting and modelling to UK companies and financial institutions expanding abroad. Since then, we have become one of the world's foremost independent global advisory firms, providing reports, forecasts and analytical tools on more than 200 countries, 250 industrial sectors, and 7,000 cities and regions. Our best-in-class global economic and industry models and analytical tools give us an unparalleled ability to forecast external market trends and assess their economic, social and business impact.

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