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Borrowing in a post-Covid world

When looking at finance for businesses, the post-Covid period has remained a challenging time for the vast majority of businesses, but especially small ones.

Following the banking crisis in 2008, new sources of alternative and additional finance entered the market and over the years there was an expectation that all businesses with a viable request would find the funds needed from one source or another.

The big issue which has always remained is not just whether the businesses know about all the sources, but also how to access them. The word ‘discouraged’ still features heavily as businesses don’t believe they will succeed in applying for financial support and therefore do without.

This is surprising and disappointing as there have been large numbers of initiatives and projects that have been designed to ease that problem.

Whatever they are called and wherever they are based, the initiatives have increased over the years under the wider banner of business support provided by the public and private sector and academia: accelerators, growth hubs, innovation centres, local authorities, chambers of commerce and universities in addition to targeted local community-based programmes.

There have been so many changes in the sources of finance and types of finance available including local grant schemes, angel funding, debt, and equity. I am far from certain that the wider support network is fully aware of what is available now and where to go for help. This creates an ongoing problem in a fragmented referral network.

After the avalanche of government support and funding to help SMEs to survive and recover, it is not at all surprising that access to appropriate finance now re-emerges as an issue with tough economic conditions and increased interest rates.

Some businesses prospered in Covid, and some small businesses even used the helpful terms of the Bounce Back Loan Scheme as a method of retaining funds for the inevitable rainy day or to build a war chest to take opportunities for growth. Many though were in survival mode and positive news appeared from the March 24 budget that the British Business Bank Recovery Loan Scheme is to be extended to March 2026, rebranded as the Growth Guarantee Scheme.

Businesses still do need funds to survive, and many have used their reserves both from the business and personally are finding life in searching for funds more difficult. As usual when the economy tightens, the banks have reduced their appetite at lower debt levels, especially below £250,000.

Many businesses are unable to meet lenders’ initial requirements for financial information, both past and future. Covid lending, especially the Bounce Back Loans, has distorted the market. It is no longer as simple as putting in a self-certification and seeing funds in the bank account in one day.

Those that borrowed simply to survive lockdown today face a sterner challenge as lenders will be looking at businesses which have recently struggled to produce profits and have borrowed more to survive. The lenders will be looking to forecasts rather than making decisions on past performance. It does seem from our own experiences that smaller businesses are struggling to produce these promptly, and those that have borrowed heavily to survive need to seek help in looking at the alternatives including restructuring of existing debt.

Businesses, according to recent surveys, look for a very speedy response in seeking funding support. This is usually found online but there are dangers. The emergence of algorithm-based decision making has, in my view, led to decisions to lend not being based upon the business proposition but more on the asset base of the individuals concerned. We are seeing far too many businesses that do not spend enough time looking at the terms of the loans that they are offered including the period of repayment and too many that do not firstly take any advice on the sources available and serviceability of the loans. Our experience reveals businesses have been offered loans over far too shorter term and in some cases at eye watering interest rates. Examples of Wonga-type lending is appearing in the business sector at 35%-45%

So where does a small, ambitious business go for help and guidance in seeking both support and funding?

The starting point is the website of the British Business Bank which has details of support programmes, grants, and details of types of finance and the actual funders throughout the UK. For smaller loans of up to £150,000, community development finance institutions might not only provide the answer but could be the gateway to other help.

Accountants, corporate finance teams and commercial finance brokers should also be explored as a major part of the jigsaw.

The good news is that there are funds available for borrowers who meet the most important criteria of all that of showing the ability to repay.

Their total needs now might be met by a number of providers working together.