

SME FINANCE MONITOR

The past, present and future of
SME access to finance

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The SME Finance Monitor

This survey was commissioned to provide a robust and respected independent source of information on the demand for, and availability of, finance for SMEs in the UK.

Almost **150,000 SME interviews** have been conducted since the survey started in Q2 2011, across 31 waves of interviewing.

The report and supporting data is made available to **all** interested parties as a basis for decision making and strategy setting. It is used by Government, the Bank of England, the banks, trade bodies and academics.

Find out more at www.sme-finance-monitor.co.uk

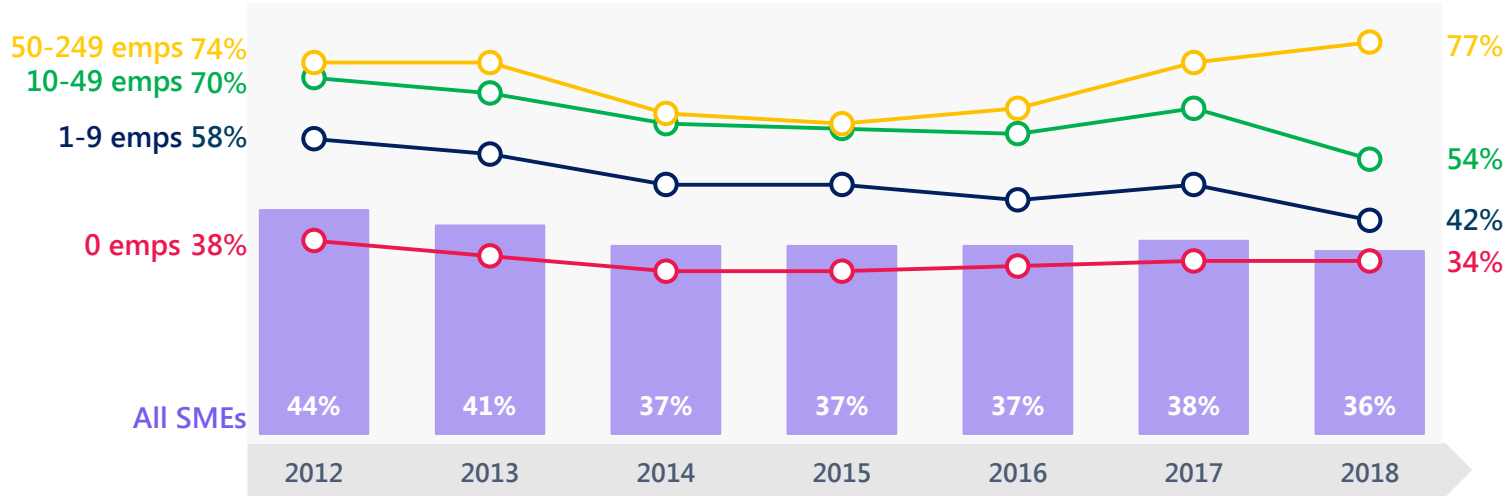
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The study covers:

- Borrowing events in the past 12 months
- The appetite for new/renewed facilities
- The outcome of applications made
- Reasons for not borrowing
- Future plans, including demand for future finance
- Awareness of Taskforce, and other initiatives such as the Business Growth Fund

A minority of SMEs use external finance and the proportion has declined over time (with some signs of an increase from Q4 2018)

Annual time series: Currently using external finance

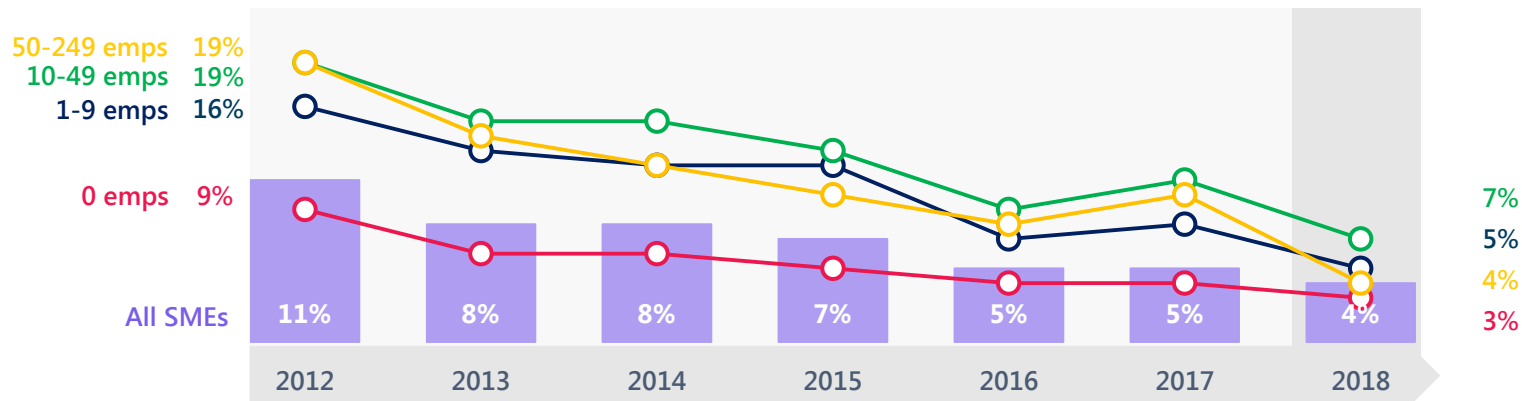


Overall use of external finance is driven by the behaviour of 0 employee SMEs. Their use of external finance fell from 38% in 2012 to 32% in 2014 and has been stable since (34% 2018). Use of finance fell 2017-18 for those with 1-9 employees (49% to 42%) and 10-49 employees (64% to 54%) but increased for the largest SMEs (73% to 77%).

Use of finance in 2018 was 34-36% for Q1-3 but 41% for Q4 2018 and has remained at 4 in 10 at the start of 2019

Demand for new/renewed finance remained low, despite the new Type 1 event definition and a wider range of products included

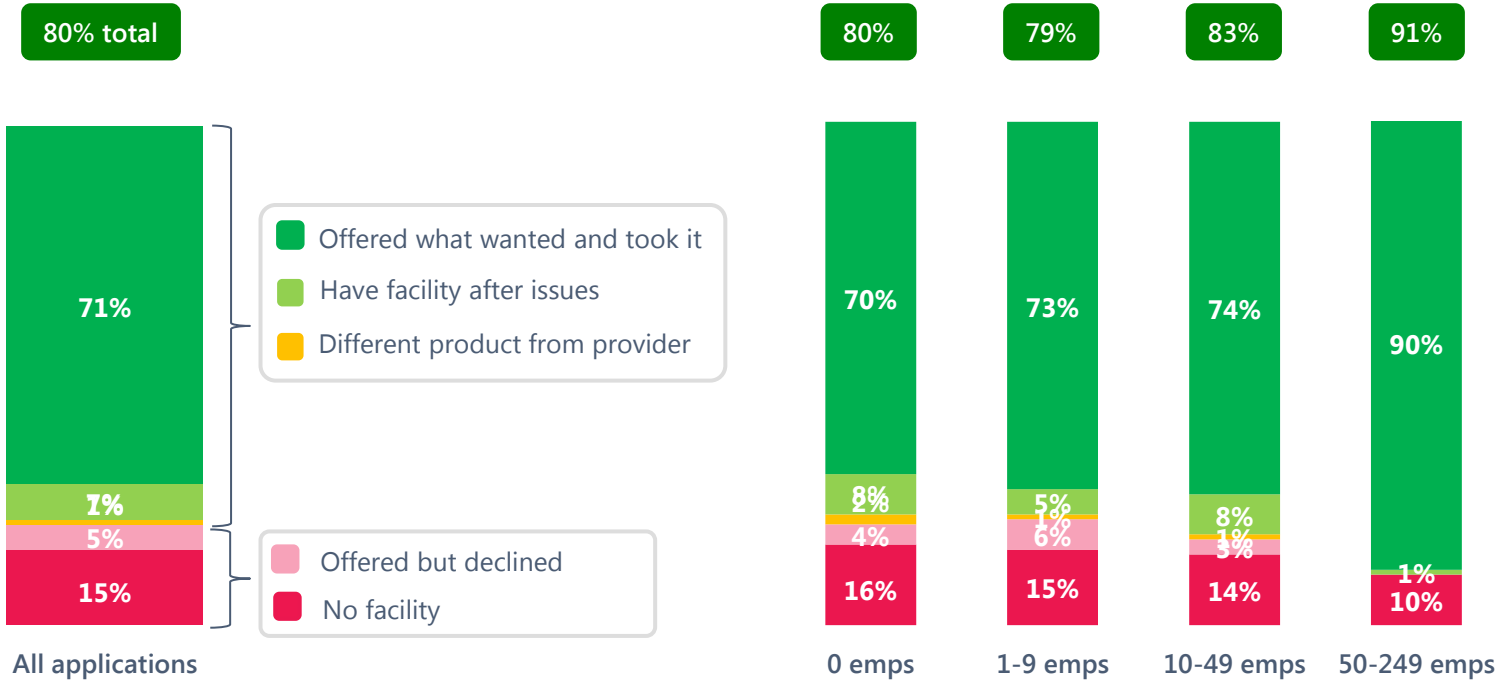
Annual time series: Type 1 applications for new or renewed funding



Using the new questions, 4% of SMEs reported a Type 1 borrowing event, with relatively little variation by size of SME

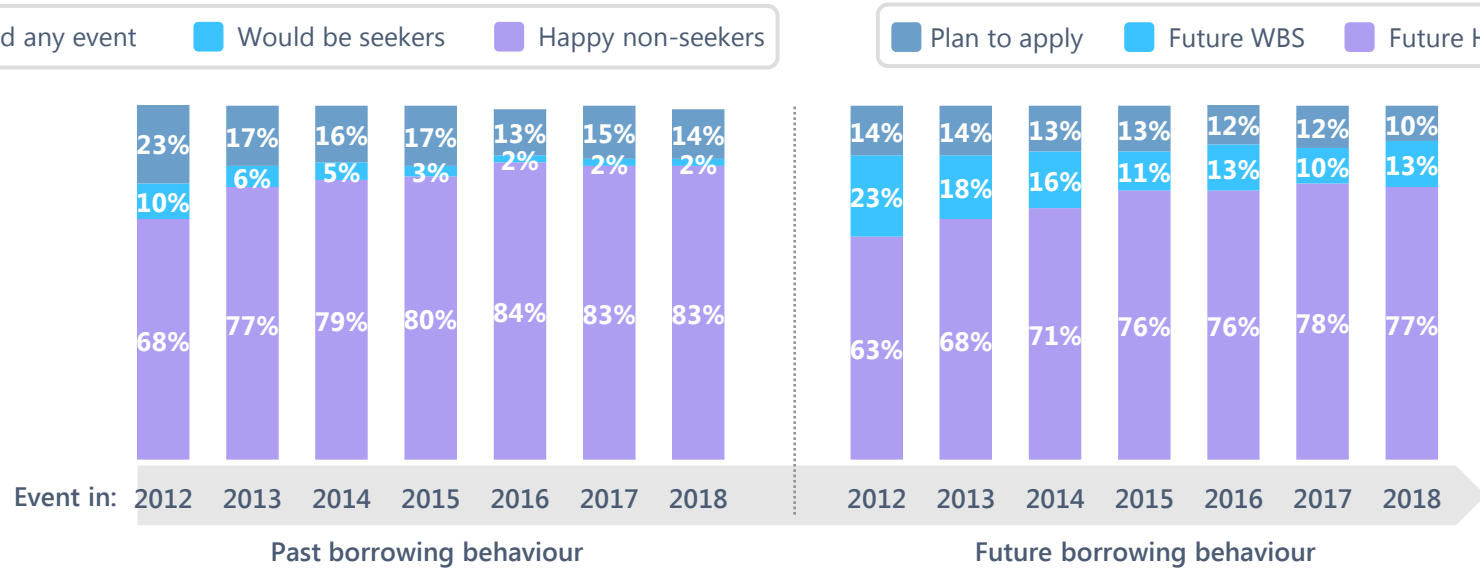
If they apply, most SMEs are successful: 80% of all applications ended in a facility, while 15% were declined by the provider

Global success rate: all applications reported in 2018



Most SMEs have been, and expect to be 'Happy non-seekers' of finance. 2% were Would-be seekers of finance, while 13% expect to be

Annual time series: Borrowing profile in 12 months prior to and 3 months after interview

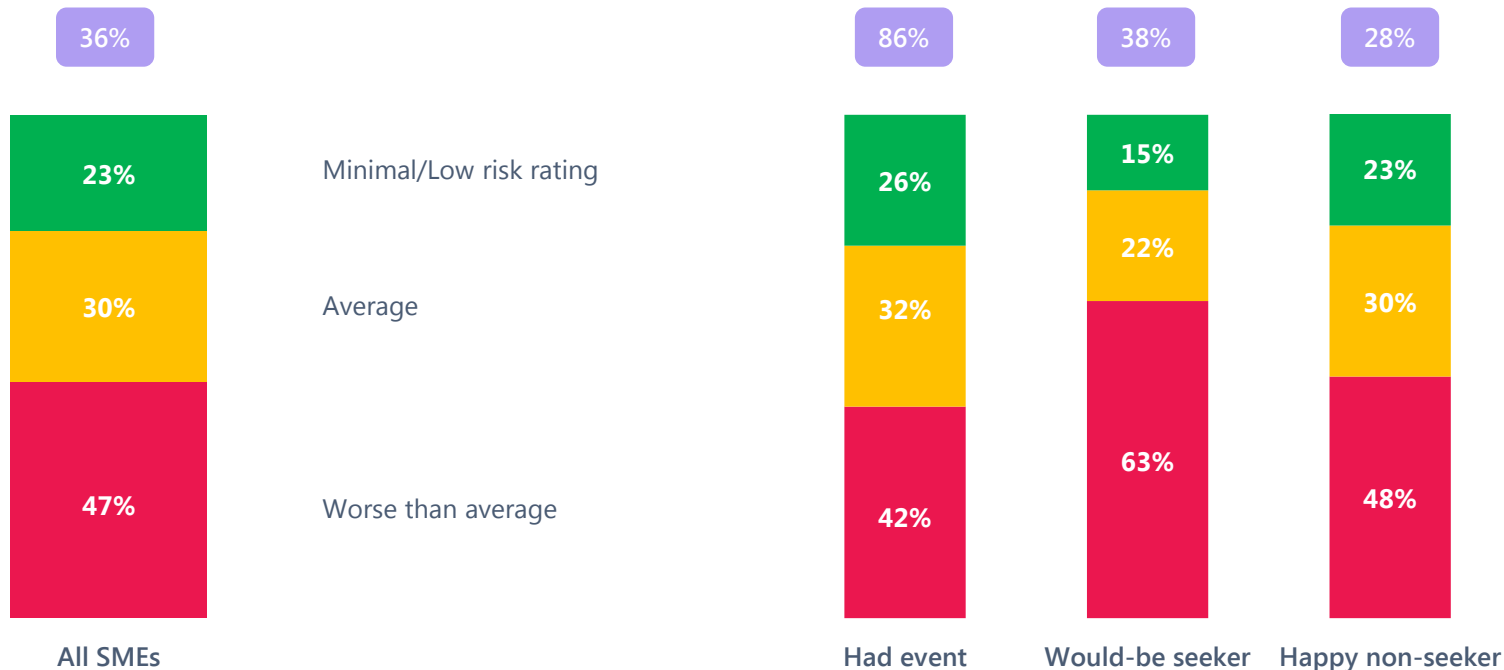


The proportion of Happy non-seekers remains the largest group of SMEs, overall and once the PNBs are excluded. Finance events have declined overall, both actual and planned

Happy non-seekers have a similar risk profile to those who have had an 'event' but are less likely to be already using finance. Would-be seekers have a somewhat poorer risk rating.

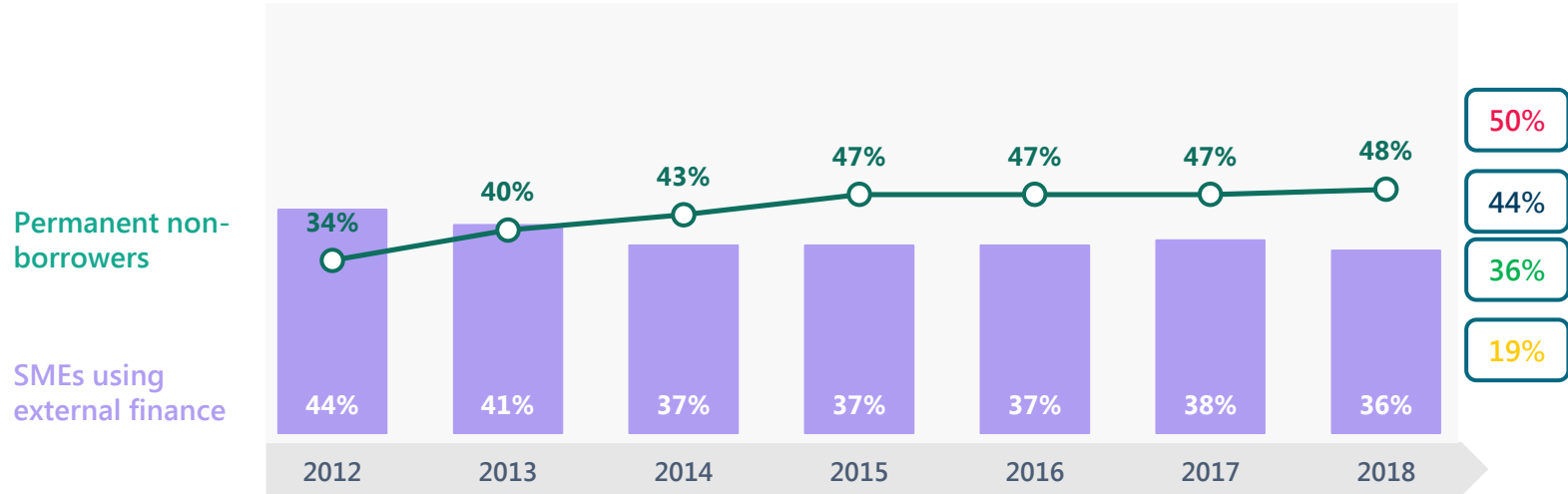
Risk rating: all SMEs with a rating 2018 and current use of finance

Using finance:



'Permanent non-borrowers' are not using finance and show no inclination to do so. Since 2015, almost half of SMEs have met this definition, including 1 in 5 with 50-249 employees

Annual time series: Currently using external finance and Permanent non-borrowers



The 'Permanent non-borrowers' (a sub-set of the Happy non-seekers) are not using external finance and show no inclination to do so. They are as likely to have a minimal/low risk rating (23%) as other SMEs, to be profitable and to hold £10,000 or more in credit balances, but they are somewhat less likely to be ambitious, innovative or international

Why the low demand for finance?

Alternative sources of funds

Attitudes to risk and finance

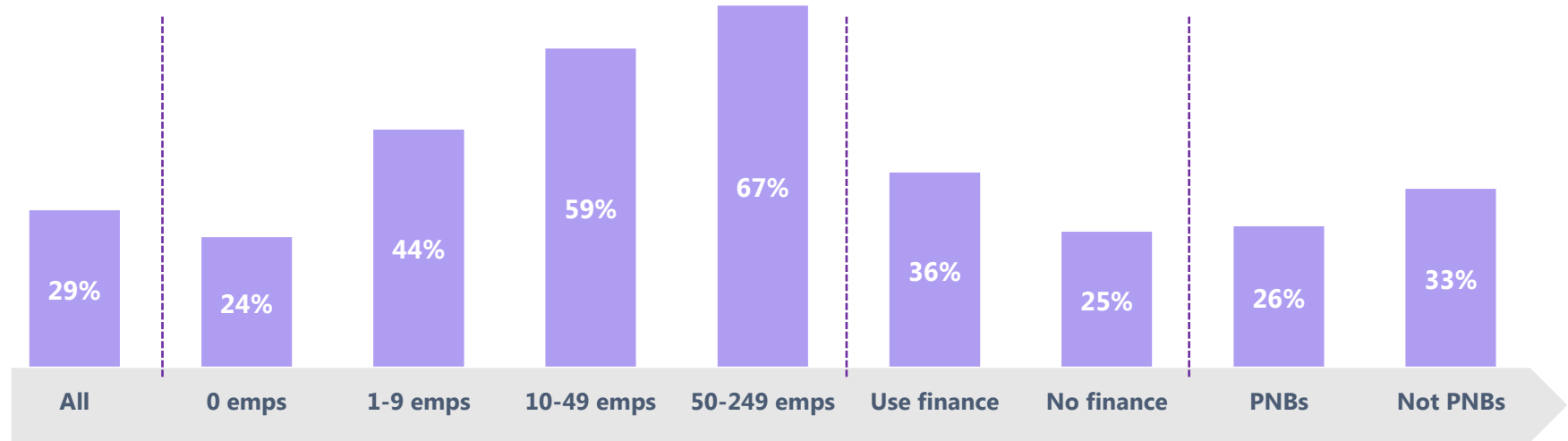
Growth and related activities

Concern about the future

Awareness of alternative forms of finance

Some have other sources of funds: 29% of all SMEs said their need for finance was reduced by either the £10,000+ of credit balances they held or by trade credit

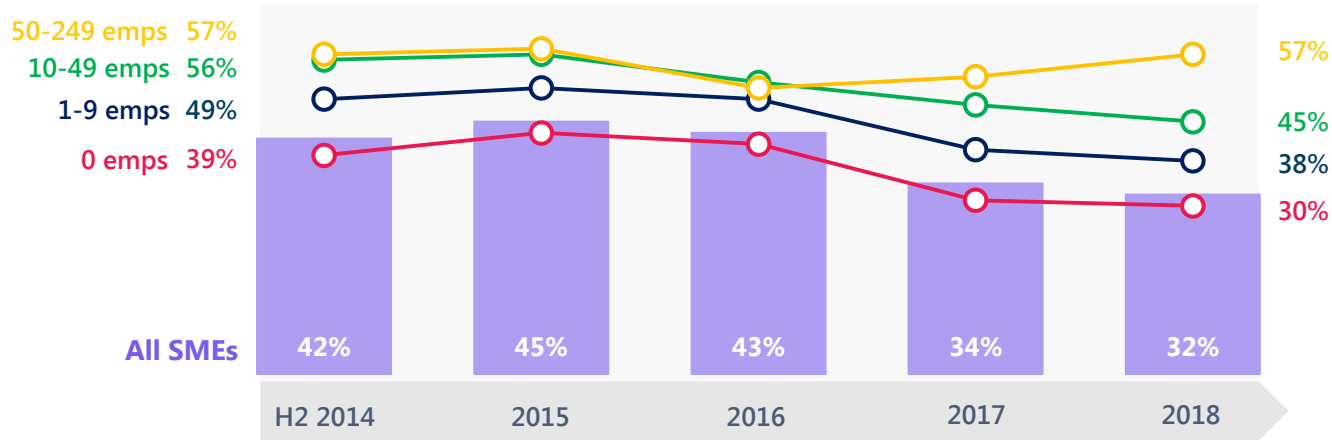
Need for finance reduced by £10k + credit balances and/or trade credit YEQ4 2018



34% of SMEs use trade credit and 23% hold more than £10,000 in credit balances. Larger SMEs, those already using finance and those who were not PNBs were more likely to report a reduced need for finance due to these credit balances and/or trade credit

Attitudinally, in 2018 the largest SMEs were happier to borrow to grow than in 2016, in contrast to smaller SMEs where appetite for finance remains lower than before

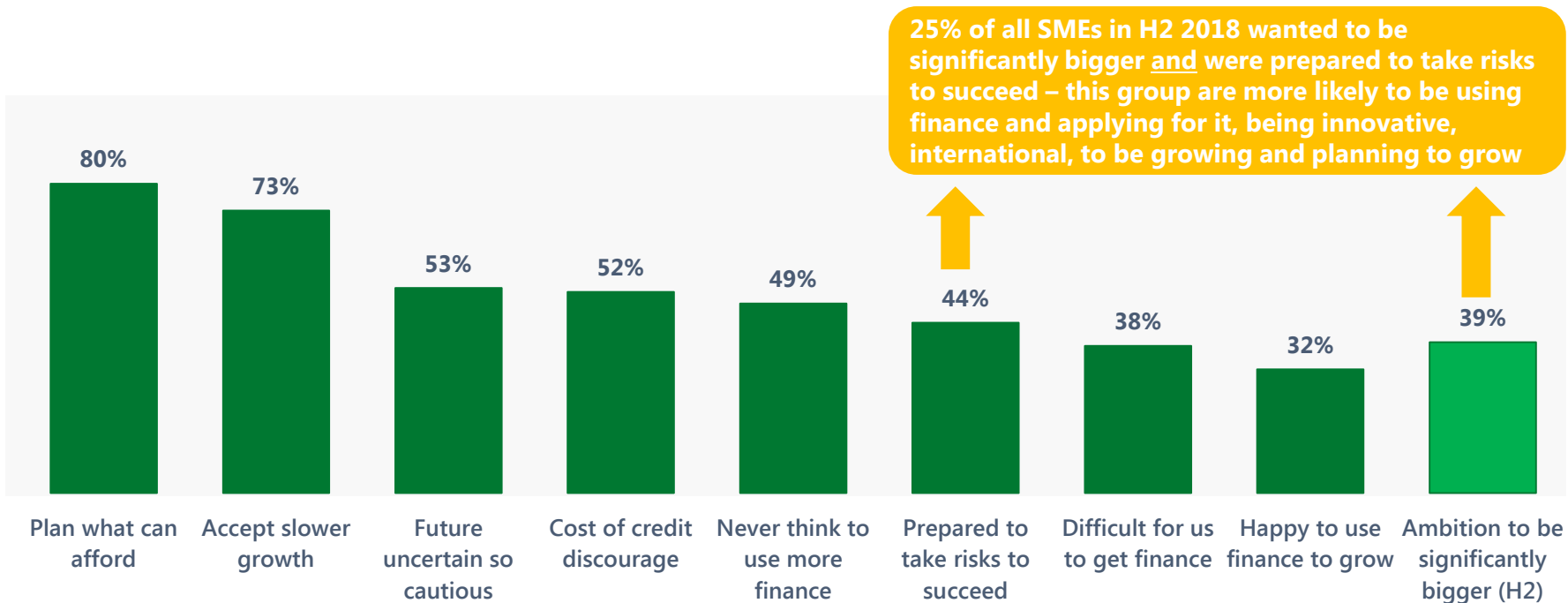
Annual time series: Happy to use finance to help business grow



Between 2014, when this was first asked, and 2016, a steady 4 in 10 SMEs agreed they would be happy to borrow to grow. This had reduced to 32% by 2018 and across all size bands with the exception of those with 50-249 employees

More broadly, SMEs are more than twice as likely to make plans based on what they can afford (80%) as they are to be happy to borrow to help the business grow (32%)

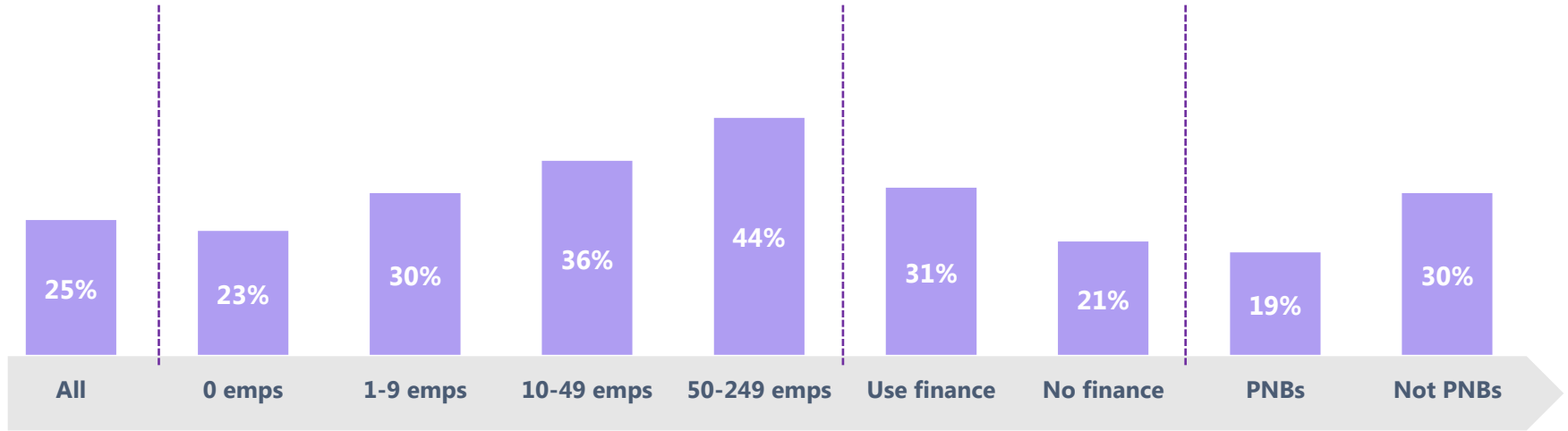
All attitudes to finance YEQ4 2018 - % agree



Most views are stable over recent waves, but the proportion finding the future uncertain increased from 51% in H1 2018 to 56% in H2 2018.

“Ambitious risk takers” are seen more amongst larger SMEs, those using finance and those who do not meet the definition of a PNB

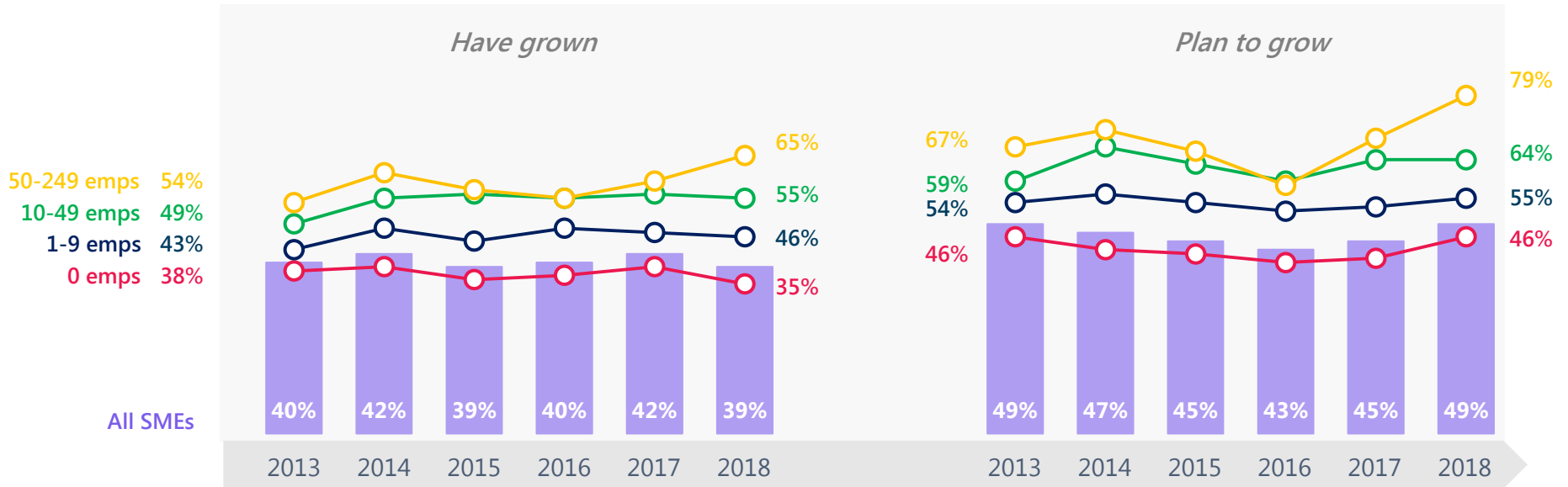
Ambition to be significantly bigger and will take risks to succeed – H2 2018



By sector, this group ranged in size from 31% in Wholesale/Retail and 30% in Manufacturing to 17% in both Agriculture and Construction

A consistent 4 in 10 SMEs have grown. The proportion planning to grow declined 2013-2016 but has started to increase again

Annual time series: % reporting growth in previous 12 months / expecting growth in next 12 months



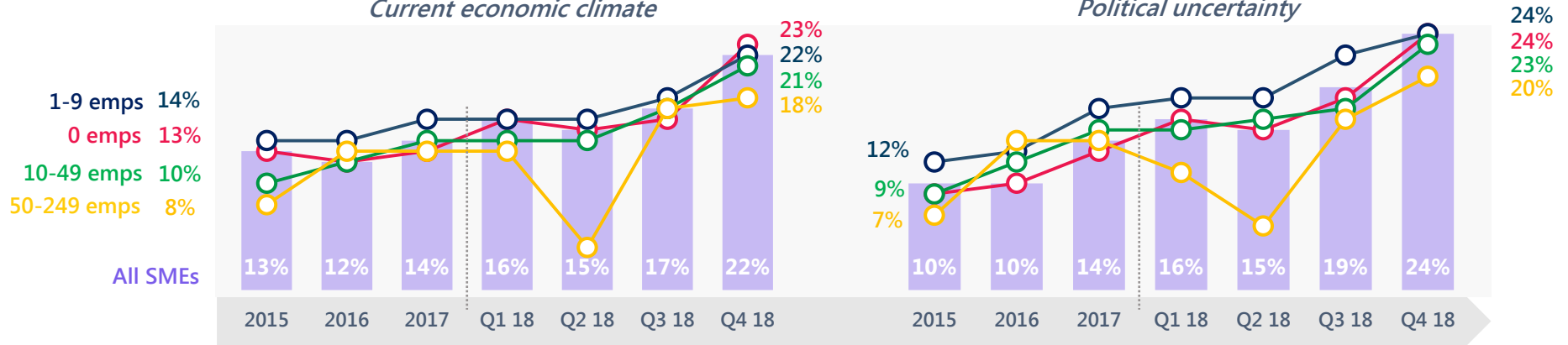
Other prompts for finance: the proportion of SMEs that have innovated has fallen from 40% in 2012 to 33% in 2018 and slightly fewer SMEs are planning growth related activities (currently around 1 in 3)

Uncertainty about the future: Levels of concern about the economic climate and political uncertainty increased during 2018

Time series: 8-10 major barriers– by size of SME

Current economic climate

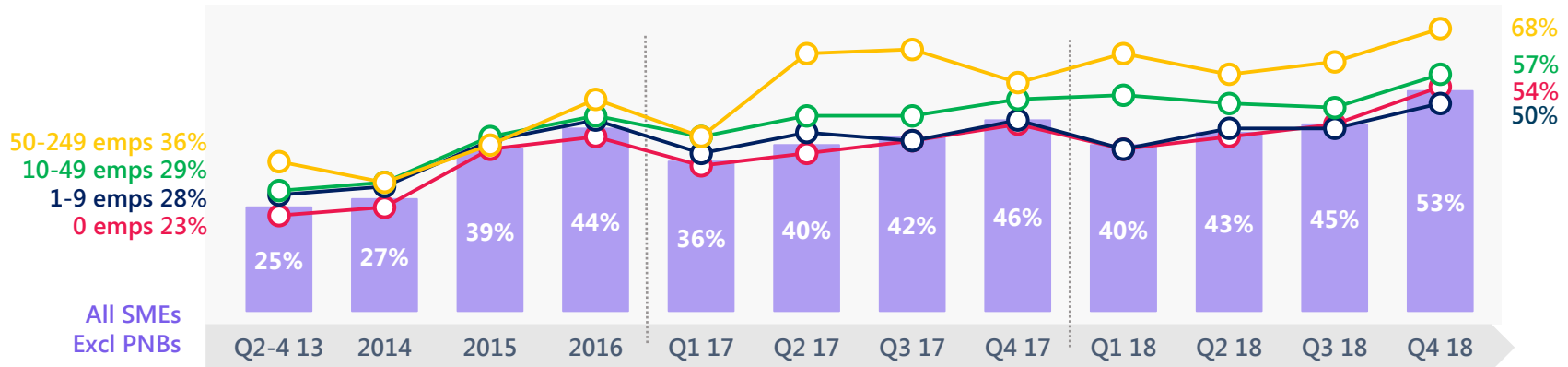
Political uncertainty



Concern about the economic climate and political uncertainty increased in the second half of 2018 both overall and across all sizes of SME and for those trading internationally

Awareness of alternatives – awareness of “crowd funding” improved during 2018 across all sizes of SME

Time series: Awareness of crowd funding* – excluding PNBs.



From Q1 2017, awareness of crowd funding is the net of those aware of either equity crowd funding or peer to peer to lending platforms. Awareness dipped somewhat in Q1 2018 amongst smaller SMEs but then increased steadily across the year.

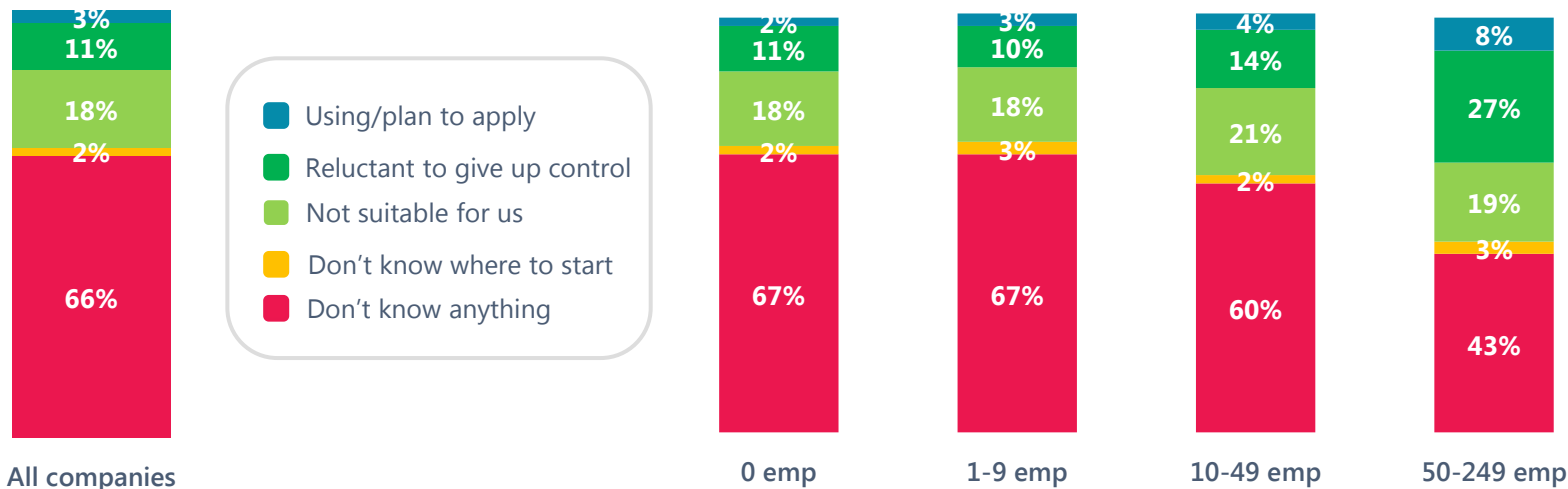
Awareness for crowd funding compares with 39% of all SMEs aware of Start-up Loans, 22% aware of the Business Growth Fund and 19% aware of EFGS. 43% had heard of Funding Circle.

Two thirds of SME companies said they knew nothing about equity finance and many of the rest felt that it was not suitable for them.

Awareness & consideration of equity finance – YEQ4 2018

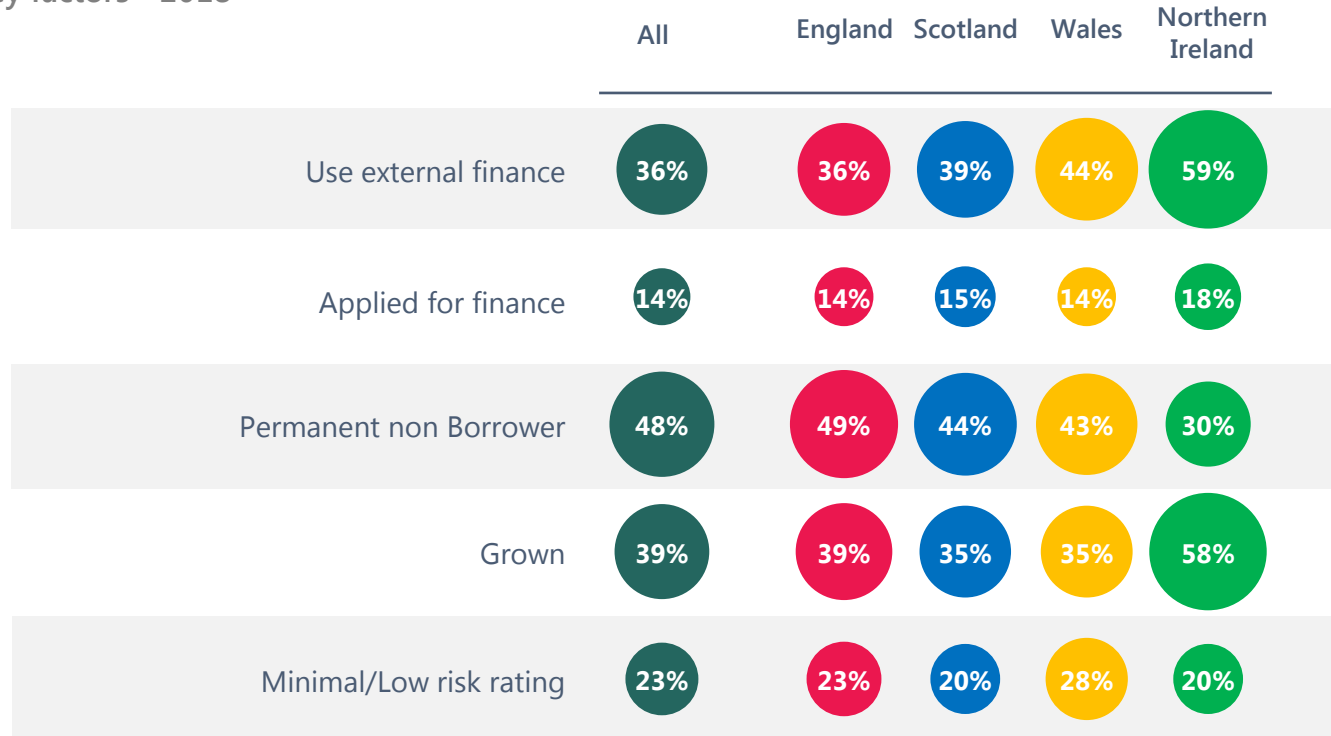


SMEs that are companies were offered a description of equity finance and asked which phrase best described their current view of it as a form of finance. 66% knew nothing about it and amongst those who did, many felt it was not suitable for them.



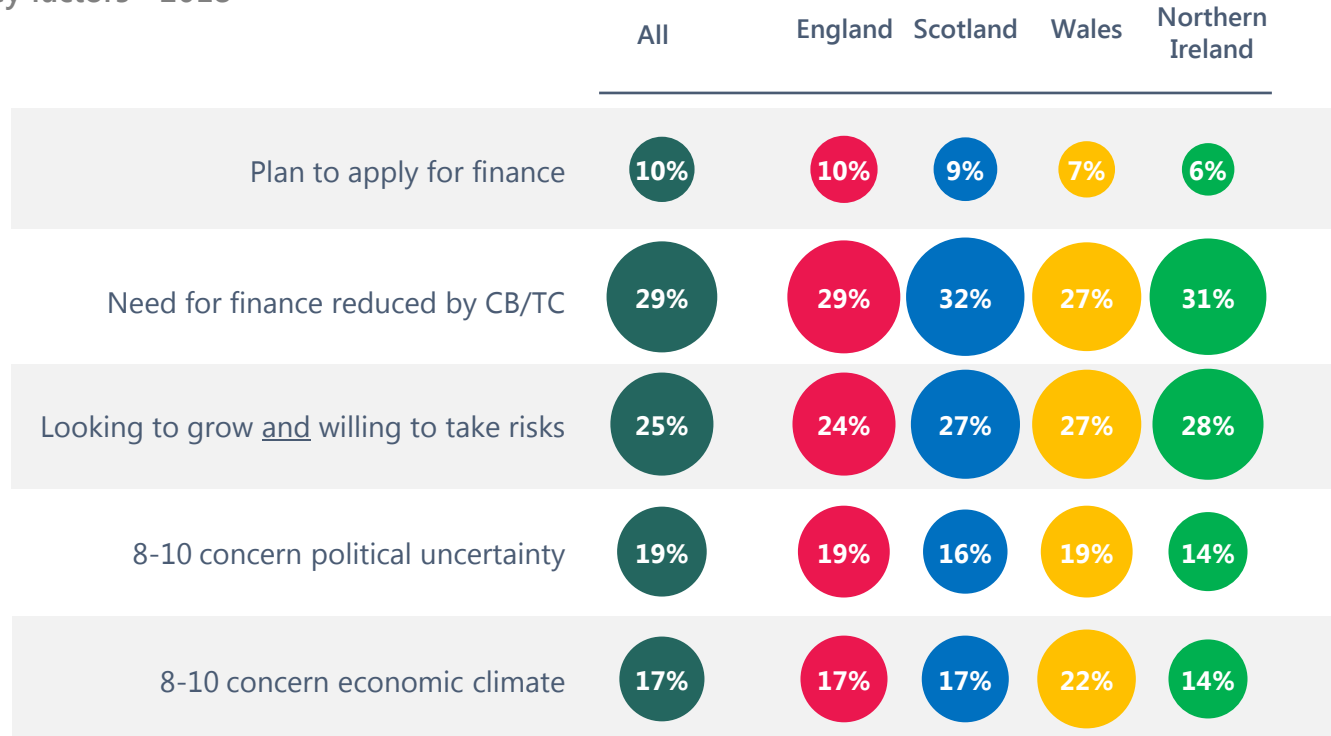
The regional perspective: SMEs in Northern Ireland are more likely to have grown and to be using finance, and less likely to be a Permanent non-borrower

Key factors - 2018



SMEs in Northern Ireland are also more ambitious for the future and less concerned about the economy/political uncertainty – but less likely to be planning to apply for finance

Key factors - 2018



A current assessment of SMEs

Across the whole of the SME Finance Monitor 2018 report, there are a number of positive and negative indicators for SMEs

Positive:

- Profitability stable
- Higher proportion plan to grow
- Most applicants for finance are successful
- Less discouragement for WBS
- Awareness of finance initiatives slightly higher
- Quarter of SMEs want to be bigger and are prepared to take risks – they are more innovative and using finance
- High levels of trust in main bank

Negative:

- Fewer reporting growth into 2019 (and more reporting decline in 2018)
- Fewer have been innovative and fewer planning growth related activities
- Attitudinally cautious about both finance and the future
- Increased concern about political uncertainty and the economic climate
- Fewer employers with EU staff and more concern about migration changes
- More concern and less appetite for finance from international SMEs

