

5. Financial context – how are SMEs funding themselves? (Part 1)



This chapter provides

an overview of the types of external finance being used by SMEs, including the use of core and other forms of finance, crowd funding and the use of personal funds.



Key findings

36% of SMEs were using external finance YEQ2 2018, increasing by size of SME from 33% of those with 0 employees to 74% of those with 50-249 employees.

- The figure for H1 2018 (34%) was somewhat lower than for 2017 as a whole (38%), despite the inclusion of a range of new forms of funding including crowd funding, asset based lending and single invoice finance.
- This lower use was seen across all sizes of SMEs (except those with 50-249 employees) and amongst older SMEs.
- 1% of SMEs were using any of the new forms of finance added to the questionnaire from Q1 2018 with the exception again of the largest SMEs where 17% were using them (13% making use of 'other loans').

Use of core finance (loans, overdrafts and credit cards) was more stable overall. In H1 2018, core finance was used by 30% of SMEs, compared to 31% in 2017, while use of other forms of finance was lower than previously seen (11% v 18% in 2017) and will be monitored over time. 23% of SMEs only used core finance.

28% of SMEs in H1 2018 reported an injection of personal funds into the business and this proportion has been stable since 2014.

- 15% chose to inject the funds and 13% felt that they had to.
- Smaller SMEs, Starts and those with a worse than average risk rating remained more likely to report an injection of funds.



Financial context

This is the first of what are now two chapters on current use of external finance, in its many forms, and attitudes towards finance. This chapter reflects the changes made to the questionnaire from Q1 2018 with an extended list of the types of finance that could be used by SMEs.

This chapter also covers the role of personal finance (whether as a borrowing facility or an injection of personal funds), while the second chapter covers some of the wider context, including the Permanent non-Borrowers, use of trade credit and attitudes to finance.

Use of external finance – an overview

SMEs were asked some initial questions about their use of external finance:

- Which of a specified list of sources they were currently using – this list was extended in Q1 2018
- If they were not using finance currently whether they had used any form of external finance in the past 5 years.

From Q1 2018, in addition to the forms of finance that have been recorded since the start of the SME Finance Monitor, SMEs were also asked whether they were using any of the following forms of finance:

- Finance through crowd funding or peer to peer lending
- Asset based lending
- Selective or single invoice finance
- Any other loan
- Any other overdraft facility

Use of these other forms of finance is reported below, but was limited. Overall 1% of SMEs reported using any of these new forms of finance, with little variation by size with the exception of the largest SMEs, where 17% of those with 50-249 employees were using one or more (with 13% making use of ‘other loans’).

SMEs are no longer asked about ‘Loans from any other 3rd party’ (used by 2% of SMEs in 2017).

The new definition of use of external finance, including these additional codes, has been used in all analysis from Q1 2018 onwards, unless otherwise stated.



Use of external finance for YEQ2 2018 was 36%, virtually unchanged from the 37-38% reported from 2014 to 2017. This was though lower than in earlier years (in 2012, 44% of SMEs used external finance) and more details on use of finance over time are provided later in this chapter.

The table below shows that larger SMEs remained more likely to be using some form of external finance:

Use of external finance in last 5 years YEQ2 18 – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	18,005	3603	5802	5800	2800
Use now	36%	33%	44%	60%	74%
Used in past but not now	3%	3%	3%	3%	1%
Not used at all	61%	65%	53%	37%	25%

Q14/15 All SMEs - new definition from Q1 2018

Analysis by recent quarter showed use of external finance in 2018 to date was somewhat lower than seen in 2017 (despite additional types of finance codes being added), with 35% reporting use of finance in Q2 2018 itself:

Use of external finance in last 5 years

Over time – all SMEs By date of interview	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q2 2018
Unweighted base:	4500	4500	4500	4500	4507	4505	4500	4500	4500
Use now	36%	34%	46%	36%	40%	38%	39%	34%	35%
Used in past but not now	3%	3%	2%	4%	3%	3%	3%	2%	2%
Not used at all	61%	63%	52%	61%	56%	59%	58%	64%	63%

Q14/15 All SMEs - new definition from Q1 2018



As the table below shows, the lower usage of finance in 2018 was seen across all size bands with the exception of those with 50-249 employees:

Currently use external finance

Over time – all SMEs

By date of interview – row percentages	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q2 2018
All	36%	34%	46%	36%	40%	38%	39%	34%	35%
0 emp	31%	31%	44%	31%	35%	34%	35%	31%	32%
1-9 emps	50%	42%	50%	47%	52%	47%	49%	39%	40%
10-49 emps	61%	53%	61%	63%	64%	63%	67%	56%	53%
50-249 emps	64%	64%	66%	71%	76%	75%	69%	67%	85%

Q14/15 All SMEs - new definition from Q1 2018

The table below shows use of finance by risk rating for recent quarters. Those with a minimal risk rating remained somewhat more likely to be using external finance, while those with a low external risk rating were less likely to be using external finance in Q2 2018 (32%):

Currently use external finance

Over time – all SMEs

By date of interview – row percentages	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q2 2018
All	36%	34%	46%	36%	40%	38%	39%	34%	35%
Minimal	48%	41%	52%	47%	50%	44%	49%	47%	45%
Low	50%	39%	46%	43%	49%	47%	42%	41%	32%
Average	35%	40%	46%	33%	39%	34%	40%	35%	36%
Worse than average	33%	31%	43%	33%	38%	38%	37%	29%	34%

Q14/15 All SMEs , base varies slightly each quarter- new definition from Q1 2018



Over recent quarters to the end of 2017, older SMEs trading for 10 years or more had been more likely to be using external finance, but this was not the case in the first half of 2018. Around 3 in 10 SMEs trading for 2-9 years have typically used external finance, whilst use of finance amongst Starts has been more variable (58% for Q2 2018):

Currently use external finance

Over time – all SMEs

By date of interview – row percentages	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q2 2018
All	36%	34%	46%	36%	40%	38%	39%	34%	35%
Starts	27%	32%	48%	33%	39%	46%	48%	36%	58%
2-5 years	34%	30%	41%	37%	33%	34%	29%	31%	27%
6-9 years	33%	34%	51%	34%	35%	34%	34%	32%	36%
10-15 years	40%	42%	42%	39%	44%	37%	43%	32%	32%
More than 15 years	42%	35%	46%	36%	44%	38%	39%	35%	26%

Q14/15 All SMEs , base varies slightly each quarter- new definition from Q1 2018

The table below shows use of external finance over time, declining from 44% in 2012 to 37% in 2014 and then remaining stable to 2017, followed by a drop to 34% for the first half of 2018. This latest change was due to lower use of finance in 2018 amongst all sizes of SMEs (notably those with 1-49 employees) with the exception of those with 50-249 employees where it was stable.

Almost half of SMEs can be described as Permanent non-borrowers (defined in the next chapter), with no use of, or apparent appetite for, finance. They have become an increasing proportion of SMEs over time and, once they were excluded, use of finance amongst

remaining SMEs increased rather than decreased between 2012 and 2017, from 65% to 72%, the highest level seen to date. It was then slightly lower in H1 2018 (67%) in line with the lower use of finance amongst SMEs overall.

The 2018 figures include the extra forms of external finance detailed at the start of this chapter. Analysis showed that less than 1% of all SMEs were using one of the new forms of finance but none of the other forms of finance that have been tracked over time. This means that the effect on the overall use of finance figures of including the new forms of finance is minimal.



Currently use external finance							
Over time – all SMEs							H1
By date of interview – row percentages	2012	2013	2014	2015	2016	2017	2018
All	44%	41%	37%	37%	37%	38%	34%
0 emp	38%	35%	32%	32%	33%	34%	31%
1-9 emps	58%	55%	49%	49%	46%	49%	39%
10-49 emps	70%	67%	61%	60%	59%	64%	54%
50-249 emps	73%	73%	63%	61%	64%	73%	76%
Minimal external risk rating	57%	50%	44%	47%	45%	48%	46%
Low	52%	51%	40%	47%	44%	45%	36%
Average	46%	42%	36%	38%	39%	37%	36%
Worse than average	41%	38%	35%	32%	34%	36%	32%
Agriculture	51%	44%	43%	44%	46%	50%	43%
Manufacturing	49%	44%	44%	39%	39%	43%	31%
Construction	41%	38%	33%	33%	38%	37%	33%
Wholesale/Retail	56%	50%	50%	45%	45%	48%	38%
Hotels & Restaurants	53%	47%	42%	44%	42%	43%	36%
Transport	47%	41%	38%	38%	36%	40%	35%
Property/ Business Services	41%	39%	34%	35%	33%	33%	28%
Health	32%	31%	28%	33%	32%	41%	48%
Other	38%	42%	33%	39%	38%	34%	34%
All excl PNBs	66%	68%	65%	70%	70%	72%	67%

Q14/15 All SMEs – new definition from Q1 2018



Use of core forms of finance

The overall use of finance figures already reported included use of the 'core' forms of finance often provided by banks (overdrafts, loans and/or credit cards). The table below shows the use of these forms of finance specifically across recent quarters when typically 3 in 10 SMEs had used one or more forms of core finance. The changes to the

forms of finance recorded from Q1 2018 still allow the previous 'core' net figures to be calculated. The new codes for use of other loans and overdrafts can then be added to this original 'core' definition to make the 'new core definition' shown below. This has had little impact on the net use of core finance products (from 30% to 31% in Q2 2018):

Use of external finance

Over time – all SMEs By date of interview	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q2 2018
Unweighted base:	4500	4500	4500	4500	4507	4505	4500	4500	4500
Bank overdraft	16%	14%	20%	13%	19%	21%	19%	16%	18%
Bank loan/Commercial mortgage	6%	6%	9%	5%	7%	7%	6%	9%	8%
• Bank loan	4%	5%	7%	4%	6%	6%	5%	7%	7%
• Comm. Mortgage	3%	1%	2%	2%	2%	2%	2%	2%	2%
Credit cards	17%	17%	21%	17%	18%	15%	16%	12%	14%
Any original core products	30%	29%	38%	27%	32%	32%	31%	28%	30%
Any other overdraft	-	-	-	-	-	-	-	*	*
Any other loan	-	-	-	-	-	-	-	*	1%
New core definition	-	-	-	-	-	-	-	29%	31%

Q15 All SMEs – new definition Q1 2018

The table above also shows that use of core finance (including commercial mortgages) was relatively stable in 2017 and early 2018. A longer term view in the table below shows how use of any of these forms of core finance declined from 36% in 2012 to 29% in 2014 and has been stable since. Within that stable position overall however, use of core finance amongst those with 50-249 employees has increased (to 72% in H1 2018), the highest level seen to date.



As with use of finance overall, these trends have been affected by the increase in Permanent non-borrowers. Once they were excluded, use of core finance has been stable since 2016 (currently 58%).

Currently use any core finance							
Over time – all SMEs							H1
By date of interview – row percentages	2012	2013	2014	2015	2016	2017	2018
All	36%	32%	29%	30%	30%	31%	30%
0 emp	31%	27%	25%	25%	27%	27%	27%
1-9 emps	48%	44%	40%	40%	37%	39%	34%
10-49 emps	62%	57%	50%	50%	50%	53%	47%
50-249 emps	67%	64%	55%	53%	57%	64%	72%
Minimal external risk rating	48%	42%	35%	39%	39%	39%	41%
Low	46%	43%	34%	39%	38%	38%	32%
Average	39%	34%	30%	31%	33%	30%	30%
Worse than average	31%	28%	26%	24%	26%	28%	27%
Agriculture	44%	37%	36%	36%	36%	40%	38%
Manufacturing	40%	35%	37%	31%	33%	35%	29%
Construction	34%	31%	25%	26%	32%	30%	28%
Wholesale/Retail	47%	39%	41%	36%	39%	39%	35%
Hotels & Restaurants	45%	38%	34%	37%	33%	36%	33%
Transport	36%	30%	29%	29%	28%	29%	29%
Property/ Business Services	33%	31%	26%	29%	27%	26%	24%
Health	25%	24%	22%	26%	27%	36%	44%
Other	30%	32%	25%	29%	30%	26%	30%
All excl PNBs	54%	53%	51%	55%	57%	57%	58%

Q15 All SMEs -new definition for Q1 2018



Use of all forms of external finance

The table below shows the full list of the different types of funding covered on the SME Finance Monitor and being used by SMEs. In order to incorporate the full range of finance now included, this table is based on Q1 and Q2 2018 only. It includes both the core forms of finance already reported and the other forms of finance on which data has been collected, some of which may also be obtained from the bank. Larger businesses continued to make use of a wider range of forms of funding:

External finance currently used H1 18 – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
<i>Unweighted base:</i>	9000	1800	2900	2900	1400
Core products (any)	30%	27%	34%	47%	72%
-Bank overdraft	17%	16%	20%	26%	51%
-Credit cards	13%	11%	15%	26%	40%
-Bank loan	7%	6%	9%	15%	34%
-Commercial mortgage	2%	1%	4%	6%	7%
-Any other overdraft*	*	*	*	*	2%
-Any other loan*	1%	1%	1%	1%	13%
Other forms of finance (any)	11%	8%	17%	31%	56%
-Leasing or hire purchase	7%	5%	11%	24%	52%
-Loans from directors, family & friends	3%	2%	5%	6%	10%
-Equity from directors, family & friends	1%	1%	2%	2%	3%
-Invoice finance	1%	1%	1%	4%	6%
-Grants	1%	1%	2%	3%	8%
-Crowd funding / peer to peer*	*	*	*	*	*
-Asset based lending*	*	-	*	1%	3%
-Selective/single invoice finance*	*	*	*	1%	1%
Any of these	34%	31%	39%	54%	76%
None of these	66%	69%	61%	46%	24%

Q15 All SMEs – new definition from Q1 2018*



Amongst SMEs with employees, 43% were using external finance – 37% were using any form of core finance and 20% any of the other forms of finance listed.

SMEs that import and/or export were asked about use of Export/Import finance. YEQ2 2018,

1% of such SMEs used these products, with limited variation by size of business (<1-2%).

SMEs that are companies were also asked about use of equity from other third parties such as Business Angels. 1% were using such finance, with little variation by size, age or risk rating, or over time.

The table below details the use of all of these forms of funding over recent quarters. Use of core finance has changed little since the new definition was introduced. Use of the other forms of finance is somewhat lower in 2018 to date and will be monitored over time:



Use of external finance

Over time – all SMEs By date of interview	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q2 2018
Unweighted base:	4500	4500	4500	4500	4507	4505	4500	4500	4500
Core products (any)*	30%	29%	38%	27%	32%	32%	31%	29%	31%
-Bank overdraft	16%	14%	20%	13%	19%	21%	19%	16%	18%
-Bank loan/Commercial mortgage	6%	6%	9%	5%	7%	7%	6%	9%	8%
-Bank loan	4%	5%	7%	4%	6%	6%	5%	7%	7%
-Comm. Mortgage	3%	1%	2%	2%	2%	2%	2%	2%	2%
-Credit cards	17%	17%	21%	17%	18%	15%	16%	12%	14%
-Any other overdraft*	-	-	-	-	-	-	-	*	*
-Any other loan*	-	-	-	-	-	-	-	*	1%
Other forms of finance (any)*	15%	14%	22%	17%	17%	17%	19%	12%	10%
-Leasing, hire purchase or vehicle finance	8%	6%	7%	8%	9%	10%	9%	8%	7%
-Loans from directors/family/friends	5%	3%	8%	4%	4%	4%	5%	3%	2%
-Equity from directors/family/friends	2%	2%	3%	1%	2%	1%	2%	1%	1%
-Invoice finance	2%	3%	4%	4%	3%	2%	3%	1%	1%
-Grants	1%	2%	5%	2%	2%	2%	3%	1%	1%
-Crowd funding/ peer to peer*	-	-	-	-	-	-	-	*	*
-Asset based lending*	-	-	-	-	-	-	-	*	*
-Selective/single invoice finance*	-	-	-	-	-	-	-	*	*
Any form of finance* – all SMEs	36%	34%	46%	36%	40%	38%	39%	34%	35%

Q15 All SMEs – new definition Q1 2018



The table below takes a longer term annual view of the use of these individual finance products, back to 2012. It shows slightly lower use of most products in H1 2018 compared to 2017:

Use of forms of finance							
Over time – all SMEs							H1
By date of interview	2012	2013	2014	2015	2016	2017	2018
Core products (any)*	36%	32%	29%	30%	30%	31%	30%
-Bank overdraft	22%	18%	16%	16%	16%	18%	17%
-Bank loan/Commercial mortgage	10%	8%	7%	7%	7%	6%	8%
-Credit cards	18%	18%	15%	16%	17%	16%	13%
-Any other overdraft*	-	-	-	-	-	-	*
-Any other loan*	-	-	-	-	-	-	1%
Other forms of finance (any)*	18%	18%	17%	17%	16%	18%	11%
-Leasing, hire purchase or vehicle finance	6%	8%	7%	7%	7%	9%	7%
-Loans/Equity from directors/family/friends	6%	9%	8%	8%	6%	5%	3%
-Invoice finance	3%	2%	3%	2%	3%	3%	1%
-Grants	1%	1%	2%	2%	2%	2%	1%
-Crowd funding/ peer to peer*	-	-	-	-	-	-	*
-Asset based lending*	-	-	-	-	-	-	*
-Selective/single invoice finance*	-	-	-	-	-	-	*
Any Finance	44%	41%	37%	37%	37%	38%	34%

Q15 All SMEs - new definition Q1 2018



The table below shows use of the ‘other’ forms of finance, by key demographics, over time. Usage changed very little between 2012 and 2017 (16-18%) due to consistent use amongst 0 employee SMEs. However in H1 2018, with a revised questionnaire, usage was somewhat lower, both overall and for SMEs with fewer than 50 employees. This will be monitored going forward:

Currently use other forms of finance							
Over time – all SMEs							H1
By date of interview – row percentages	2012	2013	2014	2015	2016	2017	2018
All	18%	18%	17%	17%	16%	18%	11%
0 emp	14%	14%	13%	13%	14%	14%	8%
1-9 emps	27%	27%	25%	26%	23%	25%	17%
10-49 emps	39%	39%	37%	37%	33%	40%	31%
50-249 emps	46%	50%	40%	36%	35%	44%	56%
Minimal external risk rating	26%	23%	21%	22%	20%	25%	14%
Low	21%	22%	18%	22%	20%	20%	12%
Average	17%	16%	15%	15%	16%	15%	12%
Worse than average	19%	17%	18%	15%	16%	17%	11%
Agriculture	20%	22%	21%	22%	24%	26%	14%
Manufacturing	19%	22%	17%	18%	18%	19%	10%
Construction	15%	14%	15%	13%	15%	17%	11%
Wholesale/Retail	23%	22%	21%	22%	19%	22%	13%
Hotels & Restaurants	23%	21%	20%	19%	20%	18%	11%
Transport	20%	22%	20%	20%	20%	22%	13%
Property/ Business Services	17%	16%	15%	15%	14%	14%	10%
Health	15%	13%	13%	15%	12%	15%	16%
Other	15%	18%	15%	19%	17%	17%	10%
All excl PNBs	27%	29%	30%	32%	31%	33%	22%

Q15 All SMEs – new definition Q1 2018



Since 2014 SMEs using leasing, HP and vehicle finance have been asked in more detail about the source of this funding. These questions have gone through several iterations and, from Q1 2017, SMEs using leasing, HP and vehicle finance have been asked a simplified question to understand the extent to which this funding came from their main bank/banking group.

The results for YEQ2 2018 for the new question are shown below and were consistent with previous data, with 27% using their bank to some extent for this finance and 73% using another provider.

As the table below shows, the largest SMEs were more likely to use their main bank for at least some of this finance:

Source of leasing/vehicle finance	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
YEQ2 18 – all SMEs using such finance					
<i>Unweighted base:</i>	4016	226	829	1634	1327
Any main bank/banking group	27%	24%	27%	36%	41%
-All through main bank / banking group	21%	21%	20%	26%	21%
-Some through main bank / banking group	6%	3%	7%	10%	21%
All through other provider	73%	76%	73%	64%	59%

Q15c (14x2) All SMEs using leasing or vehicle finance



Use of core and other forms of finance in combination

The table below shows how core and other forms of finance have been used individually or in combination since 2012. The figures for H1 2018 reflect the new list of products now being used. The proportion using only core forms of finance initially decreased from 26% to 20% of SMEs and has been broadly stable since 2014 (23% in H1 2018):

External finance currently used							H1
Over time - all SMEs	2012	2013	2014	2015	2016	2017	2018
<i>Unweighted base:</i>	<i>20,055</i>	<i>20,036</i>	<i>20,055</i>	<i>20,046</i>	<i>18,000</i>	<i>18,102</i>	<i>9000</i>
Only use core products	26%	23%	20%	20%	21%	21%	23%
Only use other forms of finance	8%	9%	8%	8%	7%	8%	4%
Use both forms of finance	10%	9%	9%	9%	10%	10%	7%
Use none of these forms of finance	56%	59%	63%	63%	62%	62%	66%

Q15 All SMEs

Between 2012 and 2017, the decline in the use of core finance was the main contributor to the increase in the proportion of SMEs using no finance, as the proportions using only other forms of finance, or both other and core forms of finance, remained more stable. In H1 2018 however, the proportion using only core finance increased slightly as did the proportion using no finance (to 66%), and there was a decline in the proportions using only other forms of finance, or both other and core forms of finance.



SMEs could use one or more of the forms of finance listed above, but most used just one if they used any (64% of SMEs using any external finance were only using one of the forms of finance listed, while 6% used 4 or more types of finance).

The table below shows the number of forms of finance used by all SMEs (including the 66% using no external finance). As this count is affected by the expanded list of products available for inclusion, data is shown for H1

2018 based on this new list (albeit the figures are not that different to those reported for 2017).

With the exception of those with 50-249 employees, around a quarter of SMEs in each size band used just one form of external finance. While almost none of the smallest SMEs (1%) were using 4 or more forms of finance, this proportion increased to 28% of those with 50-249 employees:

Forms of external finance currently used		0	1-9	10-49	50-249
H1 2018 – all SMEs	Total	emp	emps	emps	emps
Unweighted base:	9000	1800	2900	2900	1400
None	66%	69%	61%	46%	24%
1 form of finance	22%	22%	21%	23%	14%
2 forms of finance	8%	7%	10%	14%	17%
3 forms of finance	3%	2%	5%	10%	17%
4 or more forms of finance	2%	1%	3%	8%	28%

80% of those using a single form of finance were using one of the core products: 42% were using an overdraft, while 23% were using a credit card and 14% a loan/commercial mortgage.

2% of SMEs (H1 2018) said that they were using an additional form of external finance not on the list detailed in full above, increasing slightly by size (6% of those with 50-249 employees).

There was a difference in use of these other forms of finance by whether the SME was also using one of the *specified* forms of external

finance (6% for those also using any of the specified forms of external finance and 1% for those not). This means that 1% of **all** SMEs are classed as non-users of finance in this report (because they do not use any of the specified forms of external finance) but said at this question that they were using some other form of finance. The form of funding used is not known.



Personal elements to business finance

For smaller SMEs in particular there can be a ‘blurring’ between business and personal finance. This next section looks at the various ways in which personal funds have been used by SMEs, whether as finance for the business or through the use of a personal bank account. Most of this section of the questionnaire was unaffected by the changes made in Q1 2018.

Injections of personal funds

SMEs were asked whether personal funds had been injected into the business in the previous 12 months by the owner or any director, and whether this was something they had *chosen* to do or felt that they *had* to do.

The table below shows that in Q2 2018, 3 in 10 SMEs (29%) reported an injection of personal funds and that this was as likely to have been a choice (15%) as something they felt they had to do (14%). These figures are in line with other recent quarters:

Personal funds in last 12 months									
Over time – all SMEs	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
By date of interview	2016	2016	2016	2017	2017	2017	2017	2018	2018
Unweighted base:	4500	4500	4500	4500	4507	4505	4500	4500	4500
Inject personal funds – you <u>chose</u> to do to help the business grow and develop	14%	17%	20%	17%	15%	17%	16%	15%	15%
Inject personal funds – you felt you had no choice about this, that you <u>had</u> to do it	11%	8%	11%	12%	13%	14%	14%	13%	14%
Any personal funds	25%	25%	31%	29%	28%	31%	30%	28%	29%
Not something you have done	75%	75%	69%	71%	72%	69%	70%	72%	71%

Q15d All SMEs



The more detailed analysis below is based on the combined results YEQ2 2018 to provide robust base sizes for key sub-groups. Smaller SMEs, with fewer than 10 employees, remained much more likely to have received an injection of personal funds:

Personal funds in last 12 months		0	1-9	10-49	50-249
YEQ2 18 – all SMEs	Total	emp	emps	emps	emps
Unweighted base:	18,005	3603	5802	5800	2800
Inject personal funds – you <u>chose</u> to do to help the business grow and develop	16%	16%	15%	7%	4%
Inject personal funds – you felt you had no choice about this, that you <u>had</u> to do it	14%	14%	12%	6%	2%
Any personal funds	30%	30%	27%	13%	6%
Not something you have done	70%	70%	73%	87%	94%

Q15d All SMEs

Amongst SMEs with employees, 25% reported any injection of personal funds – 14% who chose to do so and 11% who felt that they had no choice.

Analysis by external risk rating showed that those with a worse than average external risk rating remained three times as likely to have received an injection of personal funds (38%), as those with a minimal external risk rating (13%):

Personal funds in last 12 months		Min	Low	Avge	Worse/ Avge
YEQ2 18 – all SMEs	Total				
Unweighted base:	18,005	3071	5419	4130	4086
Inject personal funds – you <u>chose</u> to do to help the business grow and develop	16%	7%	11%	14%	20%
Inject personal funds – you felt you had no choice about, that you <u>had</u> to do	14%	6%	10%	11%	18%
Any personal funds	30%	13%	21%	25%	38%
Not something you have done	70%	87%	79%	75%	62%

Q15d All SMEs



There was relatively little variation in injections of personal funds by sector, from 26% of those in Property / Business Services to 34% of those in the Other Community sector:

Personal funds in last 12 months

YEQ2 18 – all SMEs	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Hlth SWrk	Other Comm
Unweighted base:	1200	1500	3200	1800	1200	2003	3600	1502	2000
<u>Chose</u> to inject	15%	17%	14%	18%	17%	15%	15%	17%	17%
<u>Had</u> to inject	15%	13%	14%	13%	15%	18%	11%	10%	17%
Any funds	30%	30%	28%	31%	32%	33%	26%	27%	34%
Not put funds in	70%	70%	72%	69%	68%	67%	74%	73%	66%

Q15d All SMEs

A longer term look at the injection of personal funds shows how this became less likely between 2012 and 2014 (from 43% to 29% reporting an injection), and has been stable since. This was due predominantly to a drop in the proportion feeling that they *had* to inject funds (from 25% in 2012 to 15% in 2014 and stable since):

Personal funds in last 12 months								H1
Over time – all SMEs	2012*	2013	2014	2015	2016	2017	2018	
Unweighted base:	15,032	20,036	20,055	20,046	18,000	18,012	9000	
Inject personal funds – you <u>chose</u> to do to help the business grow and develop	17%	19%	14%	14%	17%	16%	15%	
Inject personal funds – you felt you had no choice about this, that you <u>had</u> to do it	25%	20%	15%	13%	11%	13%	13%	
Any personal funds	43%	38%	29%	28%	28%	29%	28%	
Not something you have done	57%	62%	71%	72%	72%	71%	72%	

Q15d All SMEs from Q2 2012

The proportion of *all* injections of funds that were ‘forced’ fell from 58% of all injections in 2012 to 39% in 2016 but increased slightly to 45% for 2017 and 46% for the first half of 2018.



The table below looks at the long term changes in injections of any personal funds, whether through choice or necessity, by key business demographics. Injections of personal funds have been stable at around 3 in 10 since 2014, with larger SMEs, those with a minimal risk rating and those who met the definition of a Permanent non-borrower always less likely to report an injection of funds:

Any personal funds in last 12 months							
Over time – all SMEs							H1
Row percentages	2012*	2013	2014	2015	2016	2017	2018
All	43%	38%	29%	28%	28%	29%	28%
0 emp	45%	40%	30%	29%	29%	31%	29%
1-9 emps	39%	36%	29%	26%	24%	28%	27%
10-49 emps	22%	19%	17%	16%	13%	14%	13%
50-249 emps	13%	11%	9%	8%	9%	7%	6%
Minimal external risk rating	20%	16%	17%	17%	13%	12%	13%
Low	29%	22%	21%	19%	18%	21%	17%
Average	36%	33%	25%	24%	25%	25%	27%
Worse than average	51%	46%	36%	33%	33%	38%	35%
Agriculture	41%	38%	27%	26%	27%	27%	28%
Manufacturing	42%	31%	30%	27%	23%	28%	31%
Construction	44%	38%	29%	25%	26%	25%	26%
Wholesale/Retail	43%	37%	27%	27%	28%	30%	32%
Hotels & Restaurants	47%	41%	33%	29%	30%	34%	30%
Transport	44%	40%	30%	31%	31%	37%	26%
Property/ Business Services	42%	41%	29%	27%	30%	27%	27%
Health	43%	37%	29%	27%	24%	29%	23%
Other	41%	37%	31%	34%	28%	33%	35%
PNBs	33%	29%	19%	19%	20%	21%	19%
All excl PNBs	48%	44%	37%	35%	35%	37%	37%

Q15d All SMEs



Returning to the current period, analysis by age of SME for YEQ2 2018 showed that the youngest, start-up businesses continued to be the most likely to have had an injection of personal funds (51%), and that this was more likely to have been a choice (30%) than a necessity (21%). For older businesses, an injection of personal funds was less likely to have happened at all but, where it had, a higher proportion of those injections were felt to have been a necessity:

Personal funds in last 12 months		2-5	6-9	10-15	15
YEQ2 18 – all SMEs	Starts	yrs	yrs	yrs	yrs+
Unweighted base:	1828	1736	2078	3077	9286
Inject personal funds – you <u>chose</u> to do to help the business grow and develop	30%	20%	12%	9%	10%
Inject personal funds – you felt you had no choice about this, that you <u>had</u> to do it	21%	17%	13%	10%	9%
Any personal funds	51%	37%	25%	19%	19%
Not something you have done	49%	63%	75%	81%	81%

Q15d All SMEs

Starts have always been more likely to report an injection of funds. In 2012, 68% of Starts reported receiving an injection of funds, dropping to 43% in 2015 but then starting to increase to 49% in 2017 and 51% for year ending Q2 2018.

Those using a *personal* account for their business banking were slightly more likely to

have put personal funds in at all (35% v 28% of those with a business account YEQ2 2018).

SMEs currently using external finance were more likely to have received an injection of personal funds (40% YEQ2 2018) than those not currently using external finance (23%) and were also more likely to say they had felt that there had been no choice (21% v 10%).



Analysed by their overall financial behaviour in the previous 12 months, the small group of Would-be seekers (who had wanted to apply for finance but felt that something had stopped them) remained much more likely to have received an injection of personal funds:

Personal funds in last 12 months		Had an event	Would-be seeker	Happy non-seeker
YEQ2 18 – all SMEs	Total			
<i>Unweighted base:</i>	18,005	4017	251	13,704
Inject personal funds – you <u>chose</u> to do to help the business grow and develop	16%	19%	32%	14%
Inject personal funds – you felt you had no choice about, that you <u>had</u> to do	14%	27%	35%	10%
<i>Any personal funds</i>	30%	46%	67%	24%
Not something you have done	70%	54%	33%	76%

Q15d All SMEs

As already reported, the proportion of SMEs that had seen an injection of personal funds declined from 43% when the question was first asked in 2012 to 29% in 2014 and has been stable since:

- This was also true amongst those that had had a borrowing event (from 52% in 2012 to 46% YEQ2 2018) and amongst Happy non-seekers (37% to 24%).
- However, there was an increase in injections of personal funds amongst the small group of Would-be seekers of finance, (62% in 2012 to 72% in 2017, and 67% YEQ2 2018) and so this group has become more likely than its peers to have seen an injection of personal funds.



Use of personal accounts and accounts at other banks

Most SMEs used a business bank account (85% excluding DK answers).

Of the 15% that used a personal account, almost all (93%) were 0 employee businesses. So whilst 18% of 0 employee SMEs used a personal account for their business banking, amongst those with employees the figure was 4%.

SMEs more likely to be using a personal account included those in the Health sector (24%) and Starts (19%). Those with a minimal (6%) or low (8%) external risk rating were less likely to be using a personal account.

In most years around 1 in 5 SMEs used a personal account, the slight exception being 2014 when 1 in 7 SMEs used them. The figure for 2017 (16%) was at the lower end of the range seen and the figure for H1 2018 is slightly lower again (14%).

YEQ2 2018, SMEs using a personal account were:

- Less likely to be using external finance (26% used external finance, compared to 38% of those using a business account) and somewhat less likely to have had a borrowing event (10% v 17%).
- Somewhat more likely to have put personal funds into the business (35% v 28% of those with a business account) or to be a Permanent non-borrower (55% v 47%).

In H1 2018, 99% of SMEs reported that they only used one bank for their business banking, with little difference by size. Multi-banking remained rare in this market:

Use one bank							H1
Over time - row percentages	2012	2013	2014	2015	2016	2017	2018
All	99%	99%	99%	98%	99%	99%	99%
0 emps	99%	99%	99%	99%	99%	99%	99%
1-9 emps	98%	99%	98%	98%	99%	98%	99%
10-49 emps	97%	98%	97%	97%	97%	98%	98%
50-249 emps	97%	98%	97%	98%	97%	97%	95%



Finance facilities in a personal name

Those using core finance have previously been asked whether any of those loan, overdraft or credit card facilities were in their personal name, rather than that of the business. In 2017, a quarter of those using such facilities (26%) said that one or more facilities were in their personal name. This varied relatively little across the quarters in which the question had been asked.

From Q1 2018, the question was broadened. SMEs were still asked about the loans and/or overdrafts they used but were then asked about any other forms of finance, not just credit cards specifically. As a result the figures below are a proportion of all those using finance, not just those using ‘core’ finance as previously. As core forms of finance are more

likely to be in a personal name than other forms of finance, all the percentages are lower.

As the table below shows, 18% of SMEs using finance had any facility in a personal name, the equivalent of 6% of all SMEs. This varied by size of business and was predominantly concentrated amongst the smaller SMEs. Amongst SMEs using finance, a fifth of those with 0 employees had some facility in their personal name (21%) compared to 1% of those with 50-249 employees. SMEs with these facilities, and who also had an average or worse than average risk rating, were more likely to have a facility in their own name (19% and 22%), than those with a minimal or low risk rating (7% and 10%):

Have element of finance in personal name

H1 2018 – row percentages	Of those using finance	Equivalent % of all SMEs
Total	18%	6%
0 employees	21%	6%
1-9 employees	15%	6%
10-49 employees	5%	2%
50-249 employees	1%	1%
Minimal risk rating	7%	3%
Low risk rating	10%	4%
Average risk rating	19%	7%
Worse than average risk rating	22%	7%

Q15bsu All SMEs using finance excluding DK



Those operating their business banking through a personal account were less likely to be using any finance (22% for H1 2018, compared to 36% of those operating through a business bank account). However, if they *did* use the relevant forms of external finance, then the majority (77%) said that some or all of the facilities that they had were in their personal name. Those with a business account who used finance were much less likely to say that any of the facilities were in their personal name (12%).

As a result, amongst all SMEs, those using a personal account for their business were four

times as likely to have a facility in their personal name as those using a business account (17% of all those using a personal account had a facility in their personal name compared to 4% of all those using a business account and 6% of SMEs overall).

SMEs using loans, overdrafts or any other finance were also asked about each individual type of facility they hold, as well as whether any of these facilities were in a personal name. In all instances, those with 0 employees were much more likely to have a facility in a personal name:

Facilities in a personal name H1 2018 (excl DK)

Overdrafts	<p>11% of all SMEs with an overdraft said it was in a personal name, of which 89% were 0 employee SMEs. 3% said they had overdrafts in both personal and business names.</p> <p>14% of 0 employee SMEs with an overdraft said that it was in a personal name. This declined by size to 6% of those with 1-9 employees, 2% of those with 10-49 employees and 1% of those with 50-249 employees.</p>
Loans	<p>14% of all SMEs with a loan said it was in a personal name, of which 80% were 0 employee SMEs. 2% said they had loans in both personal and business names.</p> <p>18% of 0 employee SMEs with a loan said that it was in a personal name. This declined by size to 10% of those with 1-9 employees, 3% of those with 10-49 employees and 1% of those with 50-249 employees.</p>
All other finance	<p>17% of SMEs using any other form of finance said it was in a personal name, of which 78% were 0 employee SMEs. 4% said they had facilities in both personal and business names.</p> <p>22% of 0 employee SMEs using other forms of finance said that it was in a personal name. This declined by size to 13% of those with 1-9 employees, 3% of those with 10-49 employees and <1% of those with 50-249 employees.</p>