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

External finance: 42% of SMEs were using external finance YEQ2 2019, increasing by size of SME from 40% of those with 0 employees to 77% of those with 50-249 employees. After a period of stability 2015 to 2018, use of finance increased in H1 2019 to 46%, from 36% in 2018, the highest level seen to date on the SME Finance Monitor

- The largest increases in use of finance 2018 to H1 2019 were amongst the smaller SMEs: 34% to 43% for those with 0 employees and 42% to 51% for those with 1-9 employees. There was a smaller increase for those with 10-49 employees (54% to 59%) and no change for those with 50-249 employees (77% in both periods)
- There was increased use in H1 2019 of core forms of finance (39% from 32%): 23% of all SMEs were using a bank overdraft (up from 19% in 2018) while 19% were using credit cards (up from 14%) and 9% were using a bank loan/commercial mortgage (unchanged from 2018). 30% of all users of external finance were only using core finance in H1 2019, the highest proportion to date
- There was also an increase in H1 2019 in the 'other' forms of finance recorded (16% from 12%), with the key change for leasing/HP (from 7% to 11%)

Personal funds: 27% of SMEs reported an injection of personal funds YEQ2 2019, with 15% having chosen to inject funds to help the business grow and 12% feeling that they had had no choice

- Smaller SMEs remained more likely to have had an injection of funds: 29% of those with 0 employees and 26% of those with 1-9 employees, compared to 13% and 5% of those with 10-49 and 50-249 employees respectively
- Starts (44%) and the small group meeting the definition of a Would-be seeker of finance (62%) remained more likely to have had an injection of funds

- In 2012, 43% of SMEs reported an injection of funds, declining to 28% in 2015 and broadly stable since. This was due primarily to fewer SMEs feeling they had to inject funds (25% in 2012 compared to 11-13% since 2015)

Personal banking: 13% of SMEs used a personal bank account for their business banking, almost all of them 0 employee SMEs. 20% of all SMEs using external finance said that they had one or more facilities in a personal name

- Typically, SMEs using a personal bank account have been much less likely to use external finance than those using a business bank account (29% v 38% in 2018). However in H1 2019 this was not the case with 43% of SMEs using a personal bank account also using finance compared to 46% of those using a business bank account
- 20% of all SMEs using finance had one or more facilities in a personal name, the equivalent of 8% of all SMEs. 9% of all SMEs with an overdraft said it was in their personal name, 10% of all SMEs with a loan and 18% of all SMEs using any other form of finance
- Personal facilities were more likely to be held by smaller SMEs using finance (24% of 0 employee SMEs using finance had a personal facility v 2% of those with 50-249 employees) and particularly for those using a personal bank account (77% of such SMEs using finance had a personal facility)

FINANCIAL CONTEXT

This is the first of what are now two chapters on external finance in its many forms. They reflect the changes made to the questionnaire from Q1 2018 including an extended list of the types of finance that SMEs could say they were using.

This first chapter covers current use of external finance as well as the role of personal finance (whether as a borrowing facility or an injection of personal funds), 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.
- If they were not using any 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 reported 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 fairly limited. 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 2019 was 42%, an increase from the 36-38% reported annually from 2014 to 2018 and more in line with the 44% reported in 2012. 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 (albeit, as reported later, the recent increase has come from the smaller SMEs):

Use of external finance in last 5 years YEQ2 19 – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*18,002*	*3602*	*5800*	*5800*	*2800*
Use now	42%	40%	48%	56%	77%
Used in past but not now	2%	2%	3%	3%	1%
Not used at all	55%	58%	50%	41%	22%

Q14/15 All SMEs - new definition from Q1 2018

Analysis by recent quarter showed that for Q1-3 2018 use of external finance was somewhat lower than seen in 2017 (despite additional types of finance being included). In Q4 2018, 41% reported using external finance and the proportion increased further in Q2 2019 (49%):

Use of external finance in last 5 years

Over time – all SMEs By date of interview	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Q1 2019	Q2 2019
Unweighted base:	*4507*	*4505*	*4500*	*4500*	*4500*	*4502*	*4500*	*4500*	*4500*
Use now	40%	38%	39%	34%	35%	36%	41%	42%	49%
Used in past but not now	3%	3%	3%	2%	2%	2%	3%	2%	2%
Not used at all	56%	59%	58%	64%	63%	61%	56%	55%	49%

Q14/15 All SMEs - new definition from Q1 2018

The increase in use of finance in Q2 2019 was due to more of the smaller SMEs using external finance. The largest SMEs with 50-249 employees remained the most likely to be using finance, but somewhat less likely than they had been in Q2 and Q3 2018:

Currently use external finance

Over time – all SMEs By date of interview – row percentages	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Q1 2019	Q2 2019
All SMEs	**40%**	**38%**	**39%**	**34%**	**35%**	**36%**	**41%**	**42%**	**49%**
0 emp	35%	34%	35%	31%	32%	33%	39%	40%	46%
1-9 emps	52%	47%	49%	39%	40%	43%	46%	46%	56%
10-49 emps	64%	63%	67%	56%	53%	53%	54%	57%	61%
50-249 emps	76%	75%	69%	67%	85%	82%	72%	76%	78%

Q14/15 All SMEs - new definition from Q1 2018

The table below shows use of finance by risk rating for recent quarters. The increase in use of finance in Q2 2019 was seen most markedly in those with a minimal risk rating (40% to 59%) or a worse than average risk rating (41% to 53%):

Currently use external finance

Over time – all SMEs By date of interview – row percentages	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Q1 2019	Q2 2019
All SMEs	**40%**	**38%**	**39%**	**34%**	**35%**	**36%**	**41%**	**42%**	**49%**
Minimal	50%	44%	49%	47%	45%	42%	48%	40%	59%
Low	49%	47%	42%	41%	32%	37%	45%	49%	50%
Average	39%	34%	40%	35%	36%	32%	37%	39%	41%
Worse than average	38%	38%	37%	29%	34%	37%	42%	41%	53%

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

During 2018 Starts became increasingly likely to be using external finance, to 70% in Q4 2018 and a further increase to Q2 2019 (75%). In Q2 2019, use of finance increased across all sizes of business and there is now little to choose by age of business amongst those trading for 2 years or more:

Currently use external finance

Over time – all SMEs By date of interview – row percentages	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Q1 2019	Q2 2019
All SMEs	**40%**	**38%**	**39%**	**34%**	**35%**	**36%**	**41%**	**42%**	**49%**
Starts	39%	46%	48%	36%	58%	54%	70%	72%	75%
2-5 years	33%	34%	29%	31%	27%	32%	38%	34%	42%
6-9 years	35%	34%	34%	32%	36%	31%	39%	39%	44%
10-15 years	44%	37%	43%	32%	32%	35%	35%	35%	45%
More than 15 years	44%	38%	39%	35%	26%	32%	30%	34%	41%

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

The table below shows use of external finance on an annual basis over the longer term, initially declining from 44% in 2012 to 37% in 2014 and then remaining stable until H1 2019 when 46% of SMEs reported using finance, the highest figure recorded on the SME Finance Monitor to date.

- This increase was seen predominantly amongst those with 0 or 1-9 employees with use of finance for SMEs with 50-249 employees unchanged.
- There were also significant increases for those with a low or worse than average risk rating and those in Construction, Manufacturing or Hotels & Restaurants.
- 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 became an increasing proportion of SMEs over time and, once they were excluded, use of finance amongst remaining SMEs increased between 2012 and 2017, from 66% to 72%. It was then stable in 2018 (70%) before increasing again in H1 2019 to 78%, also the highest proportion seen to date on the SME Finance Monitor.

Currently use external finance Over time – all SMEs By date of interview – row percentages	2012	2013	2014	2015	2016	2017	2018	H1 2019
All SMEs	**44%**	**41%**	**37%**	**37%**	**37%**	**38%**	**36%**	**46%**
0 emp	38%	35%	32%	32%	33%	34%	34%	43%
1-9 emps	58%	55%	49%	49%	46%	49%	42%	51%
10-49 emps	70%	67%	61%	60%	59%	64%	54%	59%
50-249 emps	73%	73%	63%	61%	64%	73%	77%	77%
Minimal external risk rating	57%	50%	44%	47%	45%	48%	46%	49%
Low	52%	51%	40%	47%	44%	45%	38%	49%
Average	46%	42%	36%	38%	39%	37%	35%	40%
Worse than average	41%	38%	35%	32%	34%	36%	35%	48%
Agriculture	51%	44%	43%	44%	46%	50%	46%	54%
Manufacturing	49%	44%	44%	39%	39%	43%	34%	46%
Construction	41%	38%	33%	33%	38%	37%	34%	49%
Wholesale/Retail	56%	50%	50%	45%	45%	48%	43%	52%
Hotels & Restaurants	53%	47%	42%	44%	42%	43%	39%	51%
Transport	47%	41%	38%	38%	36%	40%	37%	46%
Property/ Business Services	41%	39%	34%	35%	33%	33%	31%	38%
Health	32%	31%	28%	33%	32%	41%	49%	53%
Other	38%	42%	33%	39%	38%	34%	37%	44%
All excl PNBs	66%	68%	65%	70%	70%	72%	70%	78%

Q14/15 All SMEs – new definition from Q1 2018

SUMMARY USE OF CORE AND OTHER FORMS OF FINANCE

The overall use of finance figures already reported include use of the ‘core’ forms of finance often provided by banks (overdrafts, loans (including commercial mortgages) and/or credit cards) and a range of ‘other’ forms of finance available to SMEs. As with overall use of finance, use of core finance in H1 2019 was higher than previously seen, at 39%.

Detailed breakdowns by type of product are provided later in this chapter.

The changes to the forms of finance recorded from Q1 2018 still allow the previous ‘core’ net figures to be calculated and the new codes for use of ‘other’ loans and overdrafts can then be added to make the ‘new core definition’ shown below. The changes have had little impact on the net use of core finance products (increasing the proportion from 41% under the old definition to 42% under the new definition in Q2 2019).

The longer term view provided in the table below shows how use of *any* of these forms of core finance declined from 36% in 2012 to 29% in 2014, remained stable 2015 to 2017 and then increased to the 39% reported for H1 2019.

The increase in use in H1 2019 was seen more amongst the smaller SMEs, those with a worse than average risk rating and those in the Construction sector.

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 increased from 51% in 2014 to 67% in H1 2019:

Currently use any core finance Over time – all SMEs By date of interview – row percentages	2012	2013	2014	2015	2016	2017	2018	H1 2019
All SMEs	**36%**	**32%**	**29%**	**30%**	**30%**	**31%**	**32%**	**39%**
0 emp	31%	27%	25%	25%	27%	27%	29%	37%
1-9 emps	48%	44%	40%	40%	37%	39%	36%	43%
10-49 emps	62%	57%	50%	50%	50%	53%	46%	51%
50-249 emps	67%	64%	55%	53%	57%	64%	70%	72%
Minimal external risk rating	48%	42%	35%	39%	39%	39%	41%	43%
Low	46%	43%	34%	39%	38%	38%	34%	42%
Average	39%	34%	30%	31%	33%	30%	31%	35%
Worse than average	31%	28%	26%	24%	26%	28%	30%	41%
Agriculture	44%	37%	36%	36%	36%	40%	40%	42%
Manufacturing	40%	35%	37%	31%	33%	35%	31%	38%
Construction	34%	31%	25%	26%	32%	30%	29%	44%
Wholesale/Retail	47%	39%	41%	36%	39%	39%	37%	45%
Hotels & Restaurants	45%	38%	34%	37%	33%	36%	36%	43%
Transport	36%	30%	29%	29%	28%	29%	30%	38%
Property/ Business Services	33%	31%	26%	29%	27%	26%	27%	34%
Health	25%	24%	22%	26%	27%	36%	45%	46%
Other	30%	32%	25%	29%	30%	26%	32%	37%
All excl PNBs	54%	53%	51%	55%	57%	57%	61%	67%

Q15 All SMEs -new definition for Q1 2018

The table below shows summary 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. In 2018, with a revised questionnaire, usage was somewhat lower, both overall and for SMEs with fewer than 50 employees, but it was back in line for H1 2019:

Currently use other forms of finance Over time – all SMEs By date of interview – row percentages	2012	2013	2014	2015	2016	2017	2018	H1 2019
All SMEs	**18%**	**18%**	**17%**	**17%**	**16%**	**18%**	**12%**	**16%**
0 emp	14%	14%	13%	13%	14%	14%	9%	12%
1-9 emps	27%	27%	25%	26%	23%	25%	18%	23%
10-49 emps	39%	39%	37%	37%	33%	40%	28%	32%
50-249 emps	46%	50%	40%	36%	35%	44%	49%	36%
Minimal external risk rating	26%	23%	21%	22%	20%	25%	14%	21%
Low	21%	22%	18%	22%	20%	20%	14%	20%
Average	17%	16%	15%	15%	16%	15%	11%	13%
Worse than average	19%	17%	18%	15%	16%	17%	12%	16%
Agriculture	20%	22%	21%	22%	24%	26%	15%	28%
Manufacturing	19%	22%	17%	18%	18%	19%	11%	17%
Construction	15%	14%	15%	13%	15%	17%	11%	13%
Wholesale/Retail	23%	22%	21%	22%	19%	22%	16%	21%
Hotels & Restaurants	23%	21%	20%	19%	20%	18%	12%	19%
Transport	20%	22%	20%	20%	20%	22%	14%	20%
Property/ Business Services	17%	16%	15%	15%	14%	14%	10%	13%
Health	15%	13%	13%	15%	12%	15%	12%	12%
Other	15%	18%	15%	19%	17%	17%	10%	15%
All excl PNBs	27%	29%	30%	32%	31%	33%	22%	27%

Q15 All SMEs – new definition Q1 2018

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 by SMEs since 2012. The figures for 2018 and H1 2019 reflect the new list of products now being used. The proportion using only core forms of finance initially decreased from 26% in 2012 to 20% of SMEs in 2014. After a period of stability 2015-2017, sole use of core finance was somewhat higher in 2018 (25%) and increased again in H1 2019 (30%), the highest level seen to date on the Monitor:

External finance currently used Over time - all SMEs	2012	2013	2014	2015	2016	2017	2018	H1 2019
Unweighted base:	*20,055*	*20,036*	*20,055*	*20,046*	*18,000*	*18,012*	*18,002*	*9000*
Only use core products	26%	23%	20%	20%	21%	21%	25%	30%
Only use other forms of finance	8%	9%	8%	8%	7%	8%	5%	6%
Use both forms of finance	10%	9%	9%	9%	10%	10%	7%	10%
Use none of these forms of finance	56%	59%	63%	63%	62%	62%	64%	54%

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 at all, as the proportions using only other forms of finance, or both other and core forms of finance, remained more stable.

In 2018 however, both the proportion using only core finance and the proportion using no finance at all increased slightly. As a result there was a slight decline in the proportions using only other forms of finance (from 8% to 5%), or both other and core forms of finance (from 10% to 7%). The figures for these latter groups in H1 2019 are more in line with other years.

DETAILED 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 since Q1 2018 and being used by SMEs YEQ2 2019. It includes both the core forms of finance and the other forms of finance about 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 YEQ2 19 – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*18,002*	*3602*	*5800*	*5800*	*2800*
Core products (any)	**37%**	**35%**	**41%**	**49%**	**70%**
-Bank overdraft	22%	21%	24%	27%	46%
-Credit cards	17%	16%	18%	27%	40%
-Bank loan	8%	7%	10%	14%	26%
-Commercial mortgage	2%	1%	4%	6%	10%
-Any other overdraft*	*	*	*	*	2%
-Any other loan*	1%	1%	1%	1%	6%
Other forms of finance (any)	**14%**	**11%**	**22%**	**28%**	**39%**
-Leasing or hire purchase	9%	7%	14%	22%	33%
-Loans from directors, family & friends	3%	3%	6%	5%	6%
-Equity from directors, family & friends	1%	1%	3%	3%	3%
-Invoice finance	1%	1%	1%	4%	6%
-Grants	1%	1%	2%	2%	3%
-Crowd funding / peer to peer*	*	*	1%	1%	1%
-Asset based lending*	*	*	1%	1%	4%
-Selective/single invoice finance*	*	*	*	1%	1%
Any of these	*42%*	*40%*	*48%*	*56%*	*77%*
None of these	*58%*	*60%*	*52%*	*44%*	*23%*

Q15 All SMEs – new definition from Q1 2018*

Amongst SMEs with employees, 50% were using external finance – 43% were using any form of core finance and 23% any of the other forms of finance listed.

SMEs that import and/or export were asked about use of Export/Import finance. YEQ2 2019, 1% of such SMEs used these products, with limited variation by size of business (1-3%).

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' forms of finance was stable until Q4 2018 when 36% reported using such finance, with higher use of overdrafts and credit cards, and there was a further increase in Q2 2019 (to 42%), again led by use of overdrafts and credit cards.
- Since the new definitions were introduced in Q1 2018, use of 'other' forms of finance had been fairly stable but at somewhat lower levels than previously seen, but was higher in Q2 2019 (18%, with increased use of leasing/hp and loans from directors).

Use of external finance

Over time – all SMEs By date of interview	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Q1 2019	Q2 2019
Unweighted base:	*4507*	*4505*	*4500*	*4500*	*4500*	*4502*	*4500*	*4500*	*4500*
Core products (any)*	32%	32%	31%	29%	31%	32%	36%	37%	42%
-Bank overdraft	19%	21%	19%	16%	18%	20%	22%	22%	25%
-Bank loan/Commercial mortgage	7%	7%	6%	9%	8%	9%	9%	9%	9%
-Bank loan	*6%*	*6%*	*5%*	*7%*	*7%*	*8%*	*8%*	*8%*	*7%*
-Comm. Mortgage	*2%*	*2%*	*2%*	*2%*	*2%*	*2%*	*2%*	*2%*	*2%*
-Credit cards	18%	15%	16%	12%	14%	14%	16%	17%	20%
-Any other overdraft*	-	-	-	*	*	*	*	1%	*
-Any other loan*	-	-	-	*	1%	1%	1%	1%	1%
Other forms of finance (any)*	17%	17%	19%	12%	10%	12%	13%	14%	18%
-Leasing, hire purchase or vehicle finance	9%	10%	9%	8%	7%	7%	8%	10%	11%
-Loans from directors/family/friends	4%	4%	5%	3%	2%	3%	3%	2%	5%
-Equity from directors/family/friends	2%	1%	2%	1%	1%	1%	2%	1%	1%
-Invoice finance	3%	2%	3%	1%	1%	1%	1%	1%	1%
-Grants	2%	2%	3%	1%	1%	1%	1%	1%	1%
-Crowd funding/ peer to peer*	-	-	-	*	*	*	*	*	*
-Asset based lending*	-	-	-	*	*	*	*	*	*
-Selective/single invoice finance*	-	-	-	*	*	*	1%	*	*
Any form of finance – all SMEs*	*40%*	*38%*	*39%*	*34%*	*35%*	*36%*	*41%*	*42%*	*49%*

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. In H1 2019, SMEs were more likely to be using 'core' finance than had been seen before on the SME Finance Monitor (39%) while use of 'other' forms of finance increased compared to 2018 to be back in line with previous years (16%):

Use of forms of finance Over time – all SMEs By date of interview	2012	2013	2014	2015	2016	2017	2018	H1 2019
Core products (any)*	36%	32%	29%	30%	30%	31%	32%	39%
-Bank overdraft	*22%*	*18%*	*16%*	*16%*	*16%*	*18%*	*19%*	*23%*
-Bank loan/Commercial mortgage	*10%*	*8%*	*7%*	*7%*	*7%*	*6%*	*9%*	*9%*
-Credit cards	*18%*	*18%*	*15%*	*16%*	*17%*	*16%*	*14%*	*19%*
*-Any other overdraft**	-	-	-	-	-	-	*	*
*-Any other loan**	-	-	-	-	-	-	*1%*	*1%*
Other forms of finance (any)*	18%	18%	17%	17%	16%	18%	12%	16%
-Leasing, hire purchase or vehicle finance	*6%*	*8%*	*7%*	*7%*	*7%*	*9%*	*7%*	*11%*
-Loans/Equity from directors/family/friends	*6%*	*9%*	*8%*	*8%*	*6%*	*5%*	*4%*	*5%*
-Invoice finance	*3%*	*2%*	*3%*	*2%*	*3%*	*3%*	*1%*	*1%*
-Grants	*1%*	*1%*	*2%*	*2%*	*2%*	*2%*	*1%*	*1%*
*-Crowd funding/ peer to peer**	-	-	-	-	-	-	*	*
*-Asset based lending**	-	-	-	-	-	-	*	*
*-Selective/single invoice finance**	-	-	-	-	-	-	*	*
Any Finance	*44%*	*41%*	*37%*	*37%*	*37%*	*38%*	*36%*	*46%*

Q15 All SMEs - new definition Q1 2018

SMEs could use one or more of the forms of finance listed above, but most used just one if they used any (62% of SMEs using any external finance were only using one of the forms of finance listed, while 5% used 4 or more types of finance).

The table below shows the number of forms of finance used by all SMEs for YEQ2 2019 (including the 58% using no external finance). As this count is affected by the expanded list of products available for inclusion, data is shown from Q1 2018 onwards based on this new list (albeit the figures are not that different to those reported for 2017).

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 14% of those with 50-249 employees:

Forms of external finance currently used YEQ2 2019 – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*18,002*	*3602*	*5800*	*5800*	*2800*
None	58%	60%	52%	44%	23%
1 form of finance	26%	26%	26%	26%	23%
2 forms of finance	10%	10%	12%	15%	25%
3 forms of finance	4%	3%	6%	8%	15%
4 or more forms of finance	2%	1%	4%	7%	14%

80% of those using a single form of finance YEQ2 2019 were using one of the core products: 42% were using an overdraft, while 26% were using a credit card and 11% a loan/commercial mortgage.

The table below shows how the number of products being used has changed since Q1 2018 when the new product list was introduced. Between Q3 2018 and Q2 2019, the proportion of SMEs using no finance declined by 13 percentage points (from 64% to 51%). Over the same period, the proportion using one product increased by 9 percentage points and the proportion using 2 or more products increased by 4 percentage points, so not all of the increase in use of any finance was in SMEs now using one financial product:

Number of forms of finance Over time – all SMEs By date of interview	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Q1 2019	Q2 2019
Unweighted base:	*4500*	*4500*	*4502*	*4500*	*4500*	*4500*
No finance used	66%	65%	64%	59%	58%	51%
1 form of finance	21%	23%	21%	25%	27%	30%
2 or more forms of finance	13%	12%	15%	16%	16%	19%

2% of SMEs (YEQ2 2019) said that they were using an additional form of external finance not on the list detailed in full above, increasing slightly by size (5% 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 (4% for those also using any of the specified forms of external finance and 1% for those not).
- This means that less than 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.

USE OF LEASING, HP AND VEHICLE FINANCE

Since 2014 SMEs using leasing, HP and/or 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 these forms of 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 2019 for the revised question are shown below. 30% of SMEs using leasing, HP and/or vehicle finance used their main bank to some extent for this finance. The largest SMEs remained more likely to use their main bank for at least some of this finance:

Source of leasing/vehicle finance YEQ2 19 – all SMEs using such finance	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*3525*	*275*	*912*	*1365*	*973*
Any main bank/banking group	30%	32%	26%	29%	40%
-All through main bank / banking group	*24%*	*27%*	*20%*	*21%*	*25%*
-Some through main bank / banking group	*6%*	*6%*	*6%*	*8%*	*15%*
All through other provider	70%	68%	74%	71%	60%

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

Some analysis over time is now possible. The table below shows that the proportion of SMEs using leasing/vehicle finance who did so through their bank (in whole or in part) increased from 21% in 2017 to 33% in 2018 but was slightly lower in H1 2019 (29%). The initial increase was due to more of the smaller SMEs using their bank for leasing/hp in 2018 but in H1 2019 the proportion of SMEs with 1-9 or 10-49 employees using the bank was somewhat lower:

Any bank involvement

Over time – all SMEs using leasing By date of interview – row percentages	2017	2018	H1 2019
All	**21%**	**33%**	**29%**
0 emp	20%	33%	32%
1-9 emps	20%	32%	23%
10-49 emps	28%	34%	27%
50-249 emps	40%	39%	38%

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

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.

PERSONAL ELEMENT - 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.

In Q2 2019, almost 3 in 10 SMEs (28%) 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 (13%). These figures are in line with other recent quarters:

Personal funds in last 12 months

Over time – all SMEs By date of interview	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Q1 2019	Q2 2019
Unweighted base:	*4507*	*4505*	*4500*	*4500*	*4500*	*4502*	*4500*	*4500*	*4500*
Inject personal funds – you chose to do to help the business grow and develop	15%	17%	16%	15%	15%	18%	14%	14%	15%
Inject personal funds – you felt you had no choice about this, that you had to do it	13%	14%	14%	13%	14%	11%	13%	12%	13%
Any personal funds	***28%***	***31%***	***30%***	***28%***	***29%***	***29%***	***27%***	***26%***	***28%***
Not something you have done	72%	69%	70%	72%	71%	71%	73%	74%	72%

Q15d All SMEs

A longer term look at the injection of personal funds shows how such injections became less likely between 2012 and 2014 (from 43% to 29% of SMEs reporting an injection). This was due predominantly to a decline in the proportion feeling that they had to inject funds (from 25% in 2012 to 13% in 2015). From 2015 onwards, the proportion injecting personal funds has been stable (28-29%), but was slightly lower in H1 2019 (26%):

Personal funds in last 12 months Over time – all SMEs	2012*	2013	2014	2015	2016	2017	2018	H1 2019
Unweighted base:	*15,032*	*20,036*	*20,055*	*20,046*	*18,000*	*18,012*	*18,002*	*9000*
Inject personal funds – you chose to do to help the business grow and develop	17%	19%	14%	14%	17%	16%	16%	14%
Inject personal funds – you felt you had no choice about this, that you had to do it	25%	20%	15%	13%	11%	13%	13%	12%
Any personal funds	***43%***	***38%***	***29%***	***28%***	***28%***	***29%***	***29%***	***26%***
Not something you have done	57%	62%	71%	72%	72%	71%	71%	74%

Q15d All SMEs from Q2 2012

The proportion of *all* injections of funds that were 'forced' declined from 58% in 2012 to 39% in 2016 but then increased slightly to 45% of injections for 2017 and has been stable since (46% in H1 2019).

The more detailed analysis below is based on the combined results YEQ2 2019 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 YEQ2 19 – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*18,002*	*3602*	*5800*	*5800*	*2800*
Inject personal funds – you chose to do to help the business grow and develop	15%	16%	14%	7%	3%
Inject personal funds – you felt you had no choice about this, that you had to do it	12%	13%	12%	6%	2%
Any personal funds	***27%***	***29%***	***26%***	***13%***	***5%***
Not something you have done	73%	71%	74%	87%	95%

Q15d All SMEs

Amongst SMEs with employees, 22% reported any injection of personal funds – 12% who chose to do so and 10% who felt that they had no choice.

Injections of personal funds increased with risk rating, from 14% of those with a minimal risk rating to 34% of those with a worse than average risk rating:

Personal funds in last 12 months

YEQ2 19 – all SMEs	Total	Min	Low	Avge	Worse/ Avge
Unweighted base:	*18,002*	*3291*	*5378*	*3913*	*3715*
Inject personal funds – you chose to do to help the business grow and develop	15%	8%	9%	14%	20%
Inject personal funds – you felt you had no choice about, that you had to do	12%	6%	10%	12%	14%
Any personal funds	*27%*	*14%*	*19%*	*26%*	*34%*
Not something you have done	73%	86%	81%	74%	66%

Q15d All SMEs

19% of those in Health sector had seen an injection of funds, compared to 32% in the Hotel & Restaurant sector (and 25-30% in the other sectors):

Personal funds in last 12 months

YEQ2 19 – all SMEs	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Hlth SWrk	Other Comm
Unweighted base:	*1200*	*1500*	*3200*	*1800*	*1200*	*2000*	*3600*	*1502*	*2000*
Chose to inject	19%	17%	13%	14%	17%	15%	18%	8%	16%
Had to inject	9%	12%	12%	14%	15%	11%	11%	11%	14%
Any funds	*28%*	*29%*	*25%*	*28%*	*32%*	*26%*	*29%*	*19%*	*30%*
Not put funds in	72%	71%	75%	72%	68%	74%	71%	81%	70%

Q15d All SMEs

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 were somewhat lower in H1 2019 (26%) than in previous years, with 1-9 employee SMEs and those that did not meet the definition of a PNB somewhat less likely to report an injection of personal funds:

Any personal funds in last 12 months Over time – all SMEs Row percentages	2012*	2013	2014	2015	2016	2017	2018	H1 2019
All SMEs	**43%**	**38%**	**29%**	**28%**	**28%**	**29%**	**29%**	**26%**
0 emp	45%	40%	30%	29%	29%	31%	29%	28%
1-9 emps	39%	36%	29%	26%	24%	28%	27%	24%
10-49 emps	22%	19%	17%	16%	13%	14%	13%	14%
50-249 emps	13%	11%	9%	8%	9%	7%	6%	6%
Minimal external risk rating	20%	16%	17%	17%	13%	12%	14%	13%
Low	29%	22%	21%	19%	18%	21%	18%	19%
Average	36%	33%	25%	24%	25%	25%	26%	25%
Worse than average	51%	46%	36%	33%	33%	38%	34%	34%
Agriculture	41%	38%	27%	26%	27%	27%	28%	28%
Manufacturing	42%	31%	30%	27%	23%	28%	30%	27%
Construction	44%	38%	29%	25%	26%	25%	26%	27%
Wholesale/Retail	43%	37%	27%	27%	28%	30%	31%	26%
Hotels & Restaurants	47%	41%	33%	29%	30%	34%	31%	33%
Transport	44%	40%	30%	31%	31%	37%	24%	29%
Property/ Business Services	42%	41%	29%	27%	30%	27%	30%	27%
Health	43%	37%	29%	27%	24%	29%	21%	19%
Other	41%	37%	31%	34%	28%	33%	34%	26%
PNBs	33%	29%	19%	19%	20%	21%	20%	20%
All excl PNBs	48%	44%	37%	35%	35%	37%	36%	31%

Q15d All SMEs

Returning to the current period, analysis showed that the youngest, start-up businesses continued to be the most likely to have had an injection of personal funds (44% YEQ2 2019), and that this was more likely to have been a choice (26%) than a necessity (18%). 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 YEQ2 19 – all SMEs	Starts	2-5 yrs	6-9 yrs	10-15 yrs	15 yrs+
Unweighted base:	*1815*	*1613*	*2152*	*2955*	*9467*
Inject personal funds – you chose to do to help the business grow and develop	26%	21%	12%	11%	10%
Inject personal funds – you felt you had no choice about this, that you had to do it	18%	15%	11%	12%	9%
Any personal funds	*44%*	*36%*	*23%*	*23%*	*19%*
Not something you have done	56%	64%	77%	77%	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 again to 49% in 2017 and 2018 but 44% in H1 2019.

Those using a *personal* account for their business banking were more likely to have put personal funds in at all (39% v 26% of those with a business account YEQ2 2019).

SMEs currently using external finance were more likely to have received an injection of personal funds (32% YEQ2 2019) than those not currently using external finance (24%) and were also more likely to say they had felt that there had been no choice (16% v 9%).

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 YEQ2 19 – all SMEs	Total	Had an event	Would-be seeker	Happy non-seeker
Unweighted base:	*18,002*	*3387*	*203*	*14,351*
Inject personal funds – you chose to do to help the business grow and develop	15%	18%	17%	15%
Inject personal funds – you felt you had no choice about, that you had to do	12%	19%	45%	10%
Any personal funds	*27%*	*37%*	*62%*	*25%*
Not something you have done	73%	63%	38%	75%

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.

- Amongst those that had had a borrowing event, injections fell from 52% in 2012 to 37% in H1 2019 and amongst Happy non-seekers from 37% to 25% over the same period.
- However, there was an increase in injections of personal funds amongst the small group of Would-be seekers of finance, from 62% in 2012 to 72% in 2017 and whilst this was not maintained in 2018 (59%) or H1 2019 (62%), this group remained more likely than its peers to have seen an injection of personal funds.

PERSONAL ELEMENT - USE OF PERSONAL BANK ACCOUNTS

Most SMEs used a business bank account (87% excluding DK answers).

Of the 13% that used a personal account, almost all (95%) were 0 employee businesses. So, whilst 16% of 0 employee SMEs used a personal account for their business banking, amongst those with employees the figure was 3%.

In previous years around 1 in 5 SMEs used a personal account, the slight exception being 2014 when 1 in 7 SMEs used them. The figures for 2017 (16%) and 2018 (14%) were at the lower end of the range seen, as is the 13% for YEQ2 2019.

YEQ2 2019, SMEs using a personal account were:

- No more or less likely to be using external finance (40% used external finance, compared to 43% of those using a business account) or to have had a borrowing event (12% v 15%), or to meet the definition of a PNB (42 v 44%).
- Somewhat more likely to have put personal funds into the business (39% v 26% of those with a business account).

Traditionally, SMEs using a personal account for their business banking were less likely to be using external finance, but this was not the case in H1 2019, as the analysis below shows. 43% of those using a personal account were also using external finance compared to 46% of those with a business bank account:

External finance currently used Over time - all SMEs	2015	2016	2017	2018	H1 2019
Use business account					
Use core finance	*31%*	*33%*	*32%*	*33%*	*40%*
Use any finance	*39%*	*40%*	*40%*	*38%*	*46%*
Use personal account for business					
Use core finance	*22%*	*21%*	*24%*	*26%*	*37%*
Use any finance	*28%*	*26%*	*30%*	*29%*	*43%*

Q15/Q23 All SMEs

PERSONAL ELEMENT - 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 was 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 the proportion of those using any finance who have a facility in their personal name, 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.

20% of SMEs using finance had any facility in a personal name, the equivalent of 8% of all SMEs. This varied by size of SME and was predominantly concentrated amongst the smaller SMEs using finance: a quarter of those with 0 employees had some facility in their personal name (24%) compared to 2% of those with 50-249 employees. SMEs using finance and who also had an average or worse than average risk rating, were more likely to have a facility in a personal name (both 23%), than those with a minimal or low risk rating (7% and 10%):

Have element of finance in personal name

YEQ2 19 – row percentages	Of those using finance	Equivalent % of all SMEs
Total	**20%**	**8%**
0 employees	24%	9%
1-9 employees	13%	6%
10-49 employees	4%	2%
50-249 employees	2%	1%
Minimal risk rating	7%	3%
Low risk rating	10%	5%
Average risk rating	23%	9%
Worse than average risk rating	23%	10%
Use a personal bank account	77%	29%
Use a business bank account	13%	5%

Q15bsu All SMEs using finance excluding DK

Those operating their business banking through a personal account were only slightly less likely to be using any finance (40% for YEQ2 2019, compared to 43% of those operating through a business bank account). However, if they *did* use 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 (13%).

As a result, amongst all SMEs, those using a personal account for their business were much more likely to have a facility in their personal name (29%) than those using a business account (5%), or SMEs overall (8%).

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

Facilities in a personal name YEQ2 2019 (excl DK)

Overdrafts	9% of all SMEs with an overdraft said it was in a personal name, of which 90% were 0 employee SMEs. 4% said they had overdrafts in both personal and business names. 12% of 0 employee SMEs with an overdraft said that it was in a personal name. This declined by size to 4% of those with 1-9 employees and 1% of those with 10-49 or 50-249 employees.
Loans	10% of all SMEs with a loan said it was in a personal name, of which 80% were 0 employee SMEs. 6% said they had loans in both personal and business names. 12% of 0 employee SMEs with a loan 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.
All other finance	18% of SMEs using any other form of finance said it was in a personal name, of which 87% were 0 employee SMEs. 6% said they had facilities in both personal and business names. 24% of 0 employee SMEs using other forms of finance said that it was in a personal name. This declined by size to 9% of those with 1-9 employees, 2% of those with 10-49 employees and <1% of those with 50-249 employees.