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 and trade credit.

KEY FINDINGS

External finance: 37% of SMEs used external finance in 2020, down from 45% in 2019 as a whole, with the smallest and largest SMEs less likely to be using finance than in 2019. There were clear variations during the year: in Q1 2020, 32% of SMEs were using external finance and the proportion was little changed in Q2 (30%). By Q3 however it had risen to 40% and to 44% in Q4.

This was due to increased use of bank loans (15-16% of SMEs in Q3 and Q4 2020 compared to the more usual 7-8%) and also of grants, previously used by only around 1% of SMEs but by 14% in Q4 2020. Overall, use of any core finance declined from 39% in 2019 to 29% in 2020 (with lower use of bank overdrafts, 23% in 2019 to 13% in 2020) while use of other forms of finance (including grants) was more stable (16% in 2019 and 18% in 2020).

During 2020, the proportion of SMEs using finance who were borrowing more than £25,000 increased from 18% to 28% (and across all size bands), and the proportion concerned about their ability to repay their finance initially increased from 14% in Q1 to 29% in Q2, but was slightly lower by Q4 (24%).

Personal funds: An alternative to external funding is an injection of personal funds into the business. In 2019, 24% of SMEs had reported such an injection, lower than the more typical 3 in 10 seen previously. During 2020, the proportion reporting an injection of funds increased from 24% in Q1 to 38% in both Q3 and Q4 (32% for 2020 as a whole). The proportion of SMEs feeling that they had to inject the funds increased from 11% of SMEs in 2019 to 19% in 2020, the highest level seen since 2013 (20%).

Trade credit: Over a third of SMEs (36%) made use of trade credit, unchanged from 2019 (37%) and more use continued to be made by larger SMEs (70-72% of those with 10-49 or 50-249 employees). Two thirds of those receiving trade credit said it reduced their need for finance, the equivalent of 24% of all SMEs and also little changed since 2019 (when 26% said it reduced their need for finance).

Business Funding: Taken as a whole, 68% of SMEs in 2020 were using Business Funding, that is any external finance, trade credit and/or injections of personal funds and this was little changed from 2019 (70%). Use of business funding continued to increase by size band, from 64% of those with 0 employees to 87% of those with 50-249 employees.

FINANCIAL CONTEXT

This is the first of what are now two chapters on external funding 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 YEQ4 2020 was 37%, in line with the 36-38% reported annually from 2014 to 2018 but lower than the 45% reported in 2019. This was though a year of 'two halves' and more details on use of finance over time are provided below.

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 YEQ4 20 – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*17,768*	*3567*	*5838*	*5611*	*2752*
Use now	37%	32%	49%	58%	58%
Used in past but not now	3%	3%	3%	3%	2%
Not used at all	60%	65%	48%	39%	40%

Q14/15 All SMEs – new definition from Q1 2018

Analysis by recent quarter showed that use of external finance was markedly lower in Q1 and Q2 2020 than had been seen in 2019. Use of finance then increased in Q3 and Q4 2020 (to 44%) back in line with Q4 2019:

Use of external finance in last 5 years

Over time – all SMEs By date of interview	Q4 2018	Q1 2019	Q2 2019	Q3 2019	Q4 2019	Q1 2020	Q2 2020	Q3 2020	Q4 2020
Unweighted base:	*4500*	*4500*	*4500*	*4500*	*4500*	*4505*	*4511*	*4500*	*4252*
Use now	41%	42%	49%	46%	43%	32%	30%	40%	44%
Used in past but not now	3%	2%	2%	2%	3%	2%	3%	3%	4%
Not used at all	56%	55%	49%	52%	54%	66%	66%	57%	52%

Q14/15 All SMEs – new definition from Q1 2018

The decline in use of finance in H1 2020 was seen most notably for the 0 employee SMEs, but all SMEs with fewer than 50 employees saw something of a decrease in H1 2020 followed by an increase in H2 2020. Use of finance amongst the largest SMEs was more variable during the year, but at lower levels than previously seen:

Currently use external finance

Over time – all SMEs By date of interview – row percentages	Q4 2018	Q1 2019	Q2 2019	Q3 2019	Q4 2019	Q1 2020	Q2 2020	Q3 2020	Q4 2020
All SMEs	**41%**	**42%**	**49%**	**46%**	**43%**	**32%**	**30%**	**40%**	**44%**
0 emp	39%	40%	46%	45%	41%	27%	25%	36%	39%
1-9 emps	46%	46%	56%	49%	48%	46%	45%	50%	55%
10-49 emps	54%	57%	61%	62%	59%	55%	53%	61%	65%
50-249 emps	72%	76%	78%	81%	72%	64%	51%	65%	53%

Q14/15 All SMEs – new definition from Q1 2018

The table below shows use of finance by risk rating for recent quarters. Use of finance amongst those with a minimal risk rating was fairly stable, while those with other risk ratings saw lower use in H1 2020 and higher use in H2 2020, as overall:

Currently use external finance

Over time – all SMEs By date of interview – row percentages	Q4 2018	Q1 2019	Q2 2019	Q3 2019	Q4 2019	Q1 2020	Q2 2020	Q3 2020	Q4 2020
All SMEs	**41%**	**42%**	**49%**	**46%**	**43%**	**32%**	**30%**	**40%**	**44%**
Minimal	48%	40%	59%	46%	41%	42%	37%	44%	41%
Low	45%	49%	50%	49%	46%	36%	40%	49%	56%
Average	37%	39%	41%	43%	41%	34%	25%	40%	44%
Worse than average	42%	41%	53%	46%	43%	31%	28%	38%	38%

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

Starts saw an increase of use in finance in 2019 that was not maintained in 2020 (with lower use of overdrafts, credit cards and leasing/HP), but all ages of business saw lower use of external finance in H1 2020 compared to H2 2020:

Currently use external finance

Over time – all SMEs By date of interview – row percentages	Q4 2018	Q1 2019	Q2 2019	Q3 2019	Q4 2019	Q1 2020	Q2 2020	Q3 2020	Q4 2020
All SMEs	**41%**	**42%**	**49%**	**46%**	**43%**	**32%**	**30%**	**40%**	**44%**
Starts	70%	72%	75%	80%	72%	28%	30%	41%	38%
2-5 years	38%	34%	42%	36%	31%	28%	31%	45%	43%
6-9 years	39%	39%	44%	42%	41%	36%	24%	38%	50%
10-15 years	35%	35%	45%	42%	32%	29%	29%	39%	42%
More than 15 years	30%	34%	41%	36%	39%	36%	33%	38%	45%

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 2019 when 45% of SMEs reported using finance, back in line with 2012. The overall 2020 figure of 37% was back in line with 2014-2018:

- SMES with 1-9 or 10-49 employees were as likely to be using finance in 2020 as they were in 2019, while the smallest and largest SMEs were less likely.
- Those with a minimal risk rating were less likely to be using finance than previously seen, while those with other risk ratings were more in line with previous years.
- Taking 2018 as the benchmark, most sectors were back in line in 2020, with the exceptions of Hotels & Restaurants and Transport who were more likely to be using finance, and the Health and Other Community sectors who were less likely to be using finance.
- 4 in 10 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 2019 to 78%, the highest proportion seen to date on the SME Finance Monitor. In 2020, the proportion dropped to 61%, the lowest level seen to date.

Currently use external finance Over time – all SMEs By date of interview – row percentages	2013	2014	2015	2016	2017	2018	2019	2020
All SMEs	**41%**	**37%**	**37%**	**37%**	**38%**	**36%**	**45%**	**37%**
0 emp	35%	32%	32%	33%	34%	34%	43%	32%
1-9 emps	55%	49%	49%	46%	49%	42%	50%	49%
10-49 emps	67%	61%	60%	59%	64%	54%	60%	58%
50-249 emps	73%	63%	61%	64%	73%	77%	77%	58%
Minimal external risk rating	50%	44%	47%	45%	48%	46%	46%	41%
Low	51%	40%	47%	44%	45%	38%	48%	45%
Average	42%	36%	38%	39%	37%	35%	41%	36%
Worse than average	38%	35%	32%	34%	36%	35%	46%	34%
Agriculture	44%	43%	44%	46%	50%	46%	56%	44%
Manufacturing	44%	44%	39%	39%	43%	34%	44%	38%
Construction	38%	33%	33%	38%	37%	34%	48%	36%
Wholesale/Retail	50%	50%	45%	45%	48%	43%	52%	44%
Hotels & Restaurants	47%	42%	44%	42%	43%	39%	48%	48%
Transport	41%	38%	38%	36%	40%	37%	46%	43%
Property/ Business Services	39%	34%	35%	33%	33%	31%	37%	33%
Health	31%	28%	33%	32%	41%	49%	56%	28%
Other	42%	33%	39%	38%	34%	37%	42%	31%
All excl PNBs	68%	65%	70%	70%	72%	70%	78%	61%

Q14/15 All SMEs – new definition from Q1 2018

EXTERNAL FINANCE AND THE ABILITY TO REPAY

In a new question from Q1 2020, those using any form of external finance were asked a series of questions about that finance.

Over the course of 2020:

- An increasing proportion said that they were borrowing more than £25,000 in total (18% of those using any external finance in Q1 to 28% in Q4).
- The proportion concerned about their ability to repay doubled between Q1 and Q2 2020 (14% to 29%) and was then slightly lower in Q3 and Q4 (21-24%).
- Around a fifth said that their borrowing was secured, with little variation over time (19-23% across the year).
- A stable minority of SMEs using external finance said the interest rate was linked to LIBOR (7-9%).

Use of external finance

Over time – all SMEs using external finance By date of interview	Q1 2020	Q2 2020	Q3 2020	Q4 2020
Unweighted base:	*2159*	*2073*	*2420*	*2368*
In total the business is borrowing £25k+	18%	19%	25%	28%
You are concerned about ability to meet finance repayments over next 12 mths	14%	29%	21%	24%
Some or all of the borrowing is secured	21%	19%	19%	23%
You have borrowing linked to LIBOR	7%	9%	7%	8%

Q78c All SMEs using external finance

The table below looks at the increase in the proportion of SMEs using external finance who were borrowing £25,000 or more. All size bands saw an increase Q1 to Q4 2020, particularly those with 10-49 employees (31% to 60%). As the proportion using any finance increased from Q2 2020, the proportion of all SMEs borrowing more than £25,000 doubled during the year, from 6% to 12%.

Borrowing more than £25,000

Over time – all SMEs using external finance By date of interview	Q1 2020	Q2 2020	Q3 2020	Q4 2020
All SMEs using external finance	18%	19%	25%	28%
0 emp	13%	10%	18%	19%
1-9 emps	25%	29%	37%	43%
10-49 emps	31%	49%	52%	60%
50-249 emps	40%	46%	61%	62%

Q78c All SMEs using external finance

The table below looks at the increase in the proportion of SMEs using external finance who were concerned about their ability to repay in the coming months. In Q1, smaller SMEs were the most concerned about their ability to repay. All SMEs then saw a marked increase in levels of concern in Q2, resulting in 3 in 10 in all size bands being concerned, with the exception of the largest SMEs (19%). Concern then dropped in Q3 and was stable in Q4 for all except those with 1-9 employees, but remained higher than in Q1:

Concerned about ability to repay

Over time – all SMEs using external finance By date of interview	Q1 2020	Q2 2020	Q3 2020	Q4 2020
All SMEs using external finance	14%	29%	21%	24%
0 emp	14%	30%	23%	24%
1-9 emps	15%	30%	18%	25%
10-49 emps	8%	27%	18%	16%
50-249 emps	4%	19%	11%	10%

Q78c All SMEs using external finance

Amongst SMEs borrowing more than £25,000, concerns about their ability to repay increased from 32% to 48% Q1 to Q2, then were somewhat lower in Q3 and Q4 (28% and 33%). SMEs borrowing less than £25,000 followed the same pattern at slightly lower levels: 11% were concerned in Q1 2020, increasing to 28% in Q2 and then lower in Q3 and Q4 (21% and 23%).

Analysis by sector is shown below:

	Borrowing £25k+				Concern repay			
Over time. All SMEs using finance – row percentages	Q1 2020	Q2 2020	Q3 2020	Q4 2020	Q1 2020	Q2 2020	Q3 2020	Q4 2020
All SMEs	**18%**	**19%**	**25%**	**28%**	**14%**	**29%**	**21%**	**24%**
Agriculture	26%	45%	35%	43%	21%	25%	22%	15%
Manufacturing	17%	18%	19%	24%	8%	26%	18%	16%
Construction	10%	17%	23%	29%	8%	39%	17%	18%
Wholesale/Retail	27%	20%	35%	36%	20%	22%	17%	15%
Hotels & Restaurants	27%	34%	31%	49%	25%	44%	29%	40%
Transport	18%	23%	32%	28%	11%	29%	32%	41%
Property/ Business Services	18%	15%	21%	27%	9%	25%	16%	19%
Health	28%	10%	25%	16%	14%	22%	29%	25%
Other	13%	12%	20%	16%	27%	34%	29%	25%

Q78c All SMEs using external finance

Amongst SMEs using finance:

- Those in all sectors were more likely to be borrowing £25,000 or more at the end of the year than they were at the beginning, with the exception of the Health sector where the proportion had declined and the Other Community sector where it was stable. There were notable increases for those in Construction (10% to 29%), Hotels & Restaurants (27% to 49%) and Agriculture (26% to 43%).
- Most sectors followed the pattern of an increase in Q2 2020 in the proportion concerned about their ability to repay, followed by a decrease in Q3 and Q4, typically still above Q1 levels. The exceptions were those in Transport, where concern increased in Q3 and Q4 (to 41%) and Hotels & Restaurants where concern increased to 44% to Q2, declined to 29% in Q3 but was back at 40% in Q4, the highest level of any sector. Those in Agriculture had more stable levels of concern Q1-3 (21-25%) and then a more marked decrease in Q4 to 15%.

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 2019 was higher than previously seen, at 39%, but then declined to 29% in 2020.

Detailed breakdowns by the types of product included in each definition are provided later in this chapter.

The analysis below shows the use of core and other forms of finance on an annual basis. As already reported, use of any external finance was not consistent during 2020 (32% and 30% in Q1 and Q2 to 40% and 44% in Q3 and Q4) and the same is true for the two sub-groups:

- Use of core finance increased from 26% and 25% in Q1 and Q2 to 32% and 31% in Q3 and Q4, driven by the increase in bank loans (from 5% in Q1 to 16% in Q4 2020), giving an overall percentage of 29% for 2020 as a whole
- Use of other forms of finance increased from 14% and 13% in Q1 and Q2 to 21% and 26% in Q3 and Q4, driven by the increase in grants (from 1% in Q1 to 14% in Q4 2020), giving an overall percentage of 18% for 2020 as a whole

Starting with the use of any of the core forms of finance, 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% in 2019. In 2020, it was back in line with 2014-2018 at 29%.

The decline in use between 2019 and 2020 was seen across all demographics, but more markedly for the smallest and largest SMEs and those in Health or Construction.

As with use of finance overall, these trends have been affected by changes in the proportion of Permanent non-borrowers. Once they were excluded, use of core finance increased from 51% in 2014 to 67% in 2019, but was 48% for 2020:

Currently use any core finance Over time – all SMEs By date of interview – row percentages	2013	2014	2015	2016	2017	2018	2019	2020
All SMEs	**32%**	**29%**	**30%**	**30%**	**31%**	**32%**	**39%**	**29%**
0 emp	27%	25%	25%	27%	27%	29%	37%	24%
1-9 emps	44%	40%	40%	37%	39%	36%	42%	39%
10-49 emps	57%	50%	50%	50%	53%	46%	52%	48%
50-249 emps	64%	55%	53%	57%	64%	70%	71%	50%
Minimal external risk rating	42%	35%	39%	39%	39%	41%	40%	32%
Low	43%	34%	39%	38%	38%	34%	41%	35%
Average	34%	30%	31%	33%	30%	31%	35%	28%
Worse than average	28%	26%	24%	26%	28%	30%	39%	27%
Agriculture	37%	36%	36%	36%	40%	40%	48%	35%
Manufacturing	35%	37%	31%	33%	35%	31%	37%	29%
Construction	31%	25%	26%	32%	30%	29%	42%	29%
Wholesale/Retail	39%	41%	36%	39%	39%	37%	45%	37%
Hotels & Restaurants	38%	34%	37%	33%	36%	36%	42%	38%
Transport	30%	29%	29%	28%	29%	30%	38%	32%
Property/ Business Services	31%	26%	29%	27%	26%	27%	32%	26%
Health	24%	22%	26%	27%	36%	45%	52%	22%
Other Community	32%	25%	29%	30%	26%	32%	34%	23%
All excl PNBs	53%	51%	55%	57%	57%	61%	67%	48%

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. Overall 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 2019 and just slightly higher for 2020:

Currently use other forms of finance Over time – all SMEs By date of interview – row percentages	2013	2014	2015	2016	2017	2018	2019	2020
All SMEs	**18%**	**17%**	**17%**	**16%**	**18%**	**12%**	**16%**	**18%**
0 emp	14%	13%	13%	14%	14%	9%	13%	15%
1-9 emps	27%	25%	26%	23%	25%	18%	22%	27%
10-49 emps	39%	37%	37%	33%	40%	28%	33%	37%
50-249 emps	50%	40%	36%	35%	44%	49%	33%	36%
Minimal external risk rating	23%	21%	22%	20%	25%	14%	20%	22%
Low	22%	18%	22%	20%	20%	14%	19%	25%
Average	16%	15%	15%	16%	15%	11%	13%	18%
Worse than average	17%	18%	15%	16%	17%	12%	16%	16%
Agriculture	22%	21%	22%	24%	26%	15%	24%	22%
Manufacturing	22%	17%	18%	18%	19%	11%	15%	20%
Construction	14%	15%	13%	15%	17%	11%	14%	17%
Wholesale/Retail	22%	21%	22%	19%	22%	16%	22%	20%
Hotels & Restaurants	21%	20%	19%	20%	18%	12%	17%	26%
Transport	22%	20%	20%	20%	22%	14%	20%	25%
Property/ Business Services	16%	15%	15%	14%	14%	10%	12%	16%
Health	13%	13%	15%	12%	15%	12%	12%	14%
Other Community	18%	15%	19%	17%	17%	10%	16%	17%
All excl PNBs	29%	30%	32%	31%	33%	22%	27%	31%

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 2013. The figures from 2018 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 2019 (29%), followed by a decline in 2020 to 18%, more in line with 2014-15:

External finance currently used Over time – all SMEs	2013	2014	2015	2016	2017	2018	2019	2020
Unweighted base:	*20,036*	*20,055*	*20,046*	*18,000*	*18,012*	*18,002*	*18,000*	*17,768*
Only use core products	23%	20%	20%	21%	21%	25%	29%	18%
Only use other forms of finance	9%	8%	8%	7%	8%	5%	6%	8%
Use both forms of finance	9%	9%	9%	10%	10%	7%	9%	10%
Use none of these forms of finance	59%	63%	63%	62%	62%	64%	55%	63%

Q15 All SMEs

Changes in the use of core finance has been the main contributor to the increase or decline in the proportion of SMEs using no finance at all, notably in 2019, as the proportions using only other forms of finance, or both other and core forms of finance, remained more stable.

By Q4 2020:

- Those who only use core forms of finance were more likely than before to be borrowing £25,000 or more (from 16% in Q1 to 28% in Q4) and to be more concerned about their ability to repay (15% in Q1 to 25% in Q4, from a peak of 28% in Q2).
- Those only using other forms of finance were less likely to be borrowing £25,000 or more (13% in Q4) with little change during the year (10-15%). Concern about their ability to repay was also lower (8-13%) than for their peers with the exception of Q2 (23%).
- Those using both core and other forms of finance were the most likely to be borrowing £25,000 or more and this proportion increased during 2020 (from 26% in Q1 to 42% in Q4). They also became more concerned about their ability to repay, increasing from 15% in Q1 to 37% in Q2, declining slightly to 24% in Q3 and then back to 37% in Q4.

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 YEQ4 2020. 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 YEQ4 20 – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*17,768*	*3567*	*5838*	*5611*	*2752*
Core products (any)	**29%**	**24%**	**39%**	**48%**	**50%**
-Bank overdraft	13%	11%	18%	22%	20%
-Credit cards	13%	11%	17%	28%	31%
-Bank loan	11%	8%	16%	20%	20%
-Commercial mortgage	2%	1%	3%	6%	8%
-Any other overdraft*	*	-	*	*	*
-Any other loan*	1%	1%	2%	2%	1%
Other forms of finance (any)	**18%**	**15%**	**27%**	**37%**	**36%**
-Leasing or hire purchase	9%	6%	14%	25%	28%
-Loans from directors, family & friends	4%	3%	6%	7%	5%
-Equity from directors, family & friends	1%	1%	2%	4%	4%
-Invoice finance	1%	1%	2%	5%	7%
-Grants	8%	7%	11%	11%	6%
-Crowd funding / peer to peer*	*	*	*	1%	*
-Asset based lending*	*	*	*	1%	2%
-Selective/single invoice finance*	*	*	*	1%	1%
Any of these	*37%*	*32%*	*49%*	*58%*	*58%*
None of these	*63%*	*68%*	*51%*	*42%*	*42%*

Q15 All SMEs – new definition from Q1 2018*

Amongst SMEs with employees, 51% were using external finance – 41% were using any form of core finance and 29% any of the other forms of finance listed.

SMEs that import and/or export were asked about use of Export/Import finance. YEQ4 2020, 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. The changes in the second half of 2020 reflect the forms of funding put in place to support SMEs during the pandemic:

- Use of 'core' forms of finance was stable to Q4 2019 at just under 4 in 10. It was lower in H1 2020 at around a quarter of SMEs, with lower use of overdrafts and credit cards, then increased to around 3 in 10 for H2 2020 as use of loans increased.
- Meanwhile, use of 'other' forms of finance remained fairly stable in H1 2020 compared to 2019, then increased in H2 2020 to a quarter of SMEs, due to more use being made of grants in particular – 12% in Q3 and 14% in Q4 compared to the more usual 1-2%.

Use of external finance

Over time – all SMEs By date of interview	Q4 2018	Q1 2019	Q2 2019	Q3 2019	Q4 2019	Q1 2020	Q2 2020	Q3 2020	Q4 2020
Unweighted base:	*4500*	*4500*	*4500*	*4500*	*4500*	*4505*	*4511*	*4500*	*4252*
Core products (any)*	36%	37%	42%	39%	38%	26%	25%	32%	31%
-Bank overdraft	22%	22%	25%	24%	22%	14%	12%	13%	11%
-Bank loan	8%	8%	7%	7%	8%	5%	7%	15%	16%
-Comm. Mortgage	2%	2%	2%	2%	1%	1%	2%	1%	2%
-Credit cards	16%	17%	20%	16%	19%	14%	12%	13%	12%
-Any other overdraft*	*	1%	*	*	*	*	*	*	*
-Any other loan*	1%	1%	1%	1%	1%	*	*	3%	2%
Other forms of finance (any)*	13%	14%	18%	16%	15%	14%	13%	21%	26%
-Leasing, hire purchase or vehicle finance	8%	10%	11%	12%	11%	10%	8%	8%	9%
-Loans from directors/family/friends	3%	2%	5%	3%	4%	2%	3%	4%	5%
-Equity from directors/family/friends	2%	1%	1%	1%	1%	1%	1%	2%	2%
-Invoice finance	1%	1%	1%	1%	1%	1%	1%	1%	2%
-Grants	1%	1%	1%	1%	1%	1%	4%	12%	14%
-Crowd funding/ peer to peer*	*	*	*	*	1%	1%	*	*	*
-Asset based lending*	*	*	*	*	*	*	*	*	1%
-Selective/single invoice finance*	1%	*	*	1%	*	*	*	1%	1%
Any form of finance – all SMEs*	*41%*	*42%*	*49%*	*46%*	*43%*	*32%*	*30%*	*40%*	*44%*

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 2013. In 2020, use of core finance was lower due to fewer SMEs using overdrafts or credit cards, compensated in part by increased use of loans. Use of other forms of finance remained at 2019 levels, with more use being made of grants:

Use of forms of finance Over time – all SMEs By date of interview	2013	2014	2015	2016	2017	2018	2019	2020
Core products (any)*	32%	29%	30%	30%	31%	32%	39%	29%
-Bank overdraft	*18%*	*16%*	*16%*	*16%*	*18%*	*19%*	*23%*	*13%*
-Bank loan/Commercial mortgage	*8%*	*7%*	*7%*	*7%*	*6%*	*9%*	*9%*	*12%*
-Credit cards	*18%*	*15%*	*16%*	*17%*	*16%*	*14%*	*18%*	*13%*
*-Any other overdraft**	-	-	-	-	-	*	*	*
*-Any other loan**	-	-	-	-	-	*1%*	*1%*	*1%*
Other forms of finance (any)*	18%	17%	17%	16%	18%	12%	16%	18%
-Leasing, hire purchase or vehicle finance	*8%*	*7%*	*7%*	*7%*	*9%*	*7%*	*11%*	*9%*
-Loans/Equity from directors/family/friends	*9%*	*8%*	*8%*	*6%*	*5%*	*4%*	*4%*	*4%*
-Invoice finance	*2%*	*3%*	*2%*	*3%*	*3%*	*1%*	*1%*	*1%*
-Grants	*1%*	*2%*	*2%*	*2%*	*2%*	*1%*	*1%*	*8%*
*-Crowd funding/ peer to peer**	-	-	-	-	-	*	*	*
*-Asset based lending**	-	-	-	-	-	*	*	*
*-Selective/single invoice finance**	-	-	-	-	-	*	*	*
Any Finance	*41%*	*37%*	*37%*	*37%*	*38%*	*36%*	*45%*	*37%*

Q15 All SMEs – new definition Q1 2018

SMEs could use one or more of the forms of finance listed above, but 6 in 10 used just one if they used any. 59% of those SMEs using any external finance were only using one of the forms of finance listed, the equivalent of 22% of all SMEs.

The table below shows the number of forms of finance used by all SMEs for YEQ4 2020 (including the 63% using no external finance). Just under a quarter of SMEs in each size band used only one form of external finance. While almost none of the smallest SMEs were using 4 or more forms of finance (2%), this proportion increased to 11% of those with 10-49 or 50-249 employees:

Forms of external finance currently used YEQ4 2020 – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*17,768*	*3567*	*5838*	*5611*	*2752*
None	63%	68%	51%	42%	42%
1 form of finance	22%	21%	24%	24%	21%
2 forms of finance	9%	7%	13%	14%	16%
3 forms of finance	4%	2%	7%	9%	11%
4 or more forms of finance	3%	2%	5%	11%	11%

67% of those using a single form of finance YEQ4 2020 were using one of the core products: 22% were using an overdraft, while 21% were using a credit card and 19% a bank loan. 33% were using an 'other' product: 13% were using leasing/HP and the same proportion were using grants.

The table below shows how the number of products being used has changed over recent quarters. As use of finance declined in H1 2020, fewer SMEs reported using either 1 or 2 or more forms of finance, but by Q4 2020 use of multiple forms of finance was back in line with Q4 2019:

Number of forms of finance Over time – all SMEs By date of interview	Q1 2019	Q2 2019	Q3 2019	Q4 2019	Q1 2020	Q2 2020	Q3 2020	Q4 2020
Unweighted base:	*4500*	*4500*	*4500*	*4500*	*4505*	*4511*	*4500*	*4252*
No finance used	58%	51%	54%	57%	68%	70%	60%	56%
1 form of finance	27%	30%	31%	25%	20%	19%	23%	25%
2 or more forms of finance	16%	19%	15%	18%	12%	11%	17%	19%

Use of bank loans and grants was notably higher in Q3 and Q4 2020 than before and both forms of finance are associated with support offered to SMEs during the pandemic. In H2 2020 overall, 6% of all SMEs were only using a bank loan and 5% were only using grants as their source of external finance.

2% of SMEs (YEQ4 2020) 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):

- Those also using a specified form of finance were slightly more likely to be using an additional form of 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 YEQ4 2020 for the revised question are shown below. 15% of SMEs using leasing, HP and/or vehicle finance used their main bank to some extent for this finance, lower than 1 in 3 doing so in 2019. The largest SMEs remained somewhat more likely to use their main bank for at least some of this finance:

Source of leasing/vehicle finance YEQ4 20 – all SMEs using such finance	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	***3385***	***228***	***861***	***1502***	***794***
Any main bank/banking group	15%	14%	16%	16%	18%
-All through main bank / banking group	*12%*	*11%*	*13%*	*10%*	*13%*
-Some through main bank / banking group	*3%*	*2%*	*3%*	*6%*	*5%*
All through other provider	85%	86%	84%	84%	82%

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 and stable at 32% for 2019. In 2020 however the proportion was notably lower at 15%, and across all size bands:

Any bank involvement

Over time – all SMEs using leasing By date of interview – row percentages	2017	2018	2019	2020
All	**21%**	**33%**	**32%**	**15%**
0 emp	20%	33%	34%	14%
1-9 emps	20%	32%	27%	16%
10-49 emps	28%	34%	27%	16%
50-249 emps	40%	39%	40%	18%

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 Q4 2020, almost 4 in 10 SMEs (38%), reported an injection of personal funds, up from 20% in Q4 2019. This was due to more SMEs feeling that they 'had' to inject funds (from 8% to 25% between Q4 2019 and Q4 2020):

Personal funds in last 12 months

Over time – all SMEs By date of interview	Q4 2018	Q1 2019	Q2 2019	Q3 2019	Q4 2019	Q1 2020	Q2 2020	Q3 2020	Q4 2020
Unweighted base:	*4500*	*4500*	*4500*	*4500*	*4500*	*4505*	*4511*	*4500*	*4252*
Inject personal funds – you chose to do to help the business grow and develop	14%	14%	15%	11%	12%	12%	11%	15%	13%
Inject personal funds – you felt you had no choice about this, that you had to do it	13%	12%	13%	11%	8%	12%	18%	23%	25%
Any personal funds	***27%***	***26%***	***28%***	***22%***	***20%***	***24%***	***29%***	***38%***	***38%***
Not something you have done	73%	74%	72%	78%	80%	76%	71%	62%	62%

Q15d All SMEs

The most likely to have felt that they 'had' to inject personal funds in Q4 2020 were those in the Hotel & Restaurant sector (41%), those in Wholesale/Retail (33%), Starts (33%) or those in Transport (32%), compared to 6% of those with 50-249 employees, 11% in Agriculture and 13% of Permanent non-borrowers.

A longer term look at the injection of personal funds shows how such injections initially declined from 4 in 10 SMEs in 2012 and 2013 to 3 in 10 in 2014. This proportion was then stable until a further decline to 24% in 2019, followed by a notable increase to 32% in 2020:

Personal funds in last 12 months Over time – all SMEs	2013	2014	2015	2016	2017	2018	2019	2020
Unweighted base:	*20,036*	*20,055*	*20,046*	*18,000*	*18,012*	*18,002*	*18,000*	*17,768*
Inject personal funds – you chose to do to help the business grow and develop	19%	14%	14%	17%	16%	16%	13%	13%
Inject personal funds – you felt you had no choice about this, that you had to do it	20%	15%	13%	11%	13%	13%	11%	19%
Any personal funds	*38%*	*29%*	*28%*	*28%*	*29%*	*29%*	*24%*	*32%*
Not something you have done	62%	71%	72%	72%	71%	71%	76%	68%

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, remained stable until 2019 (46%) but was back to 59% in 2020.

The more detailed analysis below is based on the combined results YEQ4 2020 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 YEQ4 20 – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*17,768*	*3567*	*5838*	*5611*	*2752*
Inject personal funds – you chose to do to help the business grow and develop	13%	14%	11%	5%	4%
Inject personal funds – you felt you had no choice about this, that you had to do it	19%	20%	18%	10%	5%
Any personal funds	*32%*	*34%*	*29%*	*15%*	*9%*
Not something you have done	68%	66%	71%	85%	91%

Q15d All SMEs

Amongst SMEs with employees, 26% reported any injection of personal funds – 10% who chose to do so and 16% who felt that they had no choice.

Injections of personal funds increased with risk rating, from 18% of those with a minimal risk rating to 37% of those with a worse than average risk rating:

Personal funds in last 12 months

YEQ4 20 – all SMEs	Total	Min	Low	Avge	Worse/ Avge
Unweighted base:	*17,768*	*3012*	*4935*	*4823*	*3582*
Inject personal funds – you chose to do to help the business grow and develop	13%	8%	9%	12%	15%
Inject personal funds – you felt you had no choice about, that you had to do	19%	10%	13%	18%	22%
Any personal funds	*32%*	*18%*	*22%*	*30%*	*37%*
Not something you have done	68%	82%	78%	70%	63%

Q15d All SMEs

Those in either the Hotel & Restaurant (39%) or Transport (38%) sectors were the most likely to have seen an injection of personal funds (and to have felt that they had to make the injection) with little difference otherwise by sector (28-35%):

Personal funds in last 12 months

YEQ4 20 – all SMEs	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Hlth SWrk	Other Comm
Unweighted base:	*1155*	*1583*	*3043*	*1838*	*1227*	*1921*	*3642*	*1384*	*1975*
Chose to inject	16%	11%	13%	12%	10%	12%	13%	14%	13%
Had to inject	15%	18%	18%	22%	29%	26%	15%	16%	22%
Any funds	*31%*	*29%*	*31%*	*34%*	*39%*	*38%*	*28%*	*30%*	*35%*
Not put funds in	69%	71%	69%	66%	61%	62%	72%	70%	65%

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. After a dip in 2019, injections of personal funds increased in 2020, due to more injections in particular for smaller SMEs, those with a worse than average risk rating, those in Transport and Health and those that did not meet the definition of a Permanent non-borrower:

Any personal funds in last 12 months Over time – all SMEs Row percentages	2013	2014	2015	2016	2017	2018	2019	2020
All SMEs	**38%**	**29%**	**28%**	**28%**	**29%**	**29%**	**24%**	**32%**
0 emp	40%	30%	29%	29%	31%	29%	25%	34%
1-9 emps	36%	29%	26%	24%	28%	27%	23%	29%
10-49 emps	19%	17%	16%	13%	14%	13%	13%	15%
50-249 emps	11%	9%	8%	9%	7%	6%	5%	9%
Minimal external risk rating	16%	17%	17%	13%	12%	14%	11%	18%
Low	22%	21%	19%	18%	21%	18%	17%	22%
Average	33%	25%	24%	25%	25%	26%	23%	30%
Worse than average	46%	36%	33%	33%	38%	34%	29%	37%
Agriculture	38%	27%	26%	27%	27%	28%	28%	31%
Manufacturing	31%	30%	27%	23%	28%	30%	24%	29%
Construction	38%	29%	25%	26%	25%	26%	24%	31%
Wholesale/Retail	37%	27%	27%	28%	30%	31%	22%	34%
Hotels & Restaurants	41%	33%	29%	30%	34%	31%	30%	39%
Transport	40%	30%	31%	31%	37%	24%	24%	38%
Property/ Business Services	41%	29%	27%	30%	27%	30%	24%	28%
Health	37%	29%	27%	24%	29%	21%	17%	30%
Other Community	37%	31%	34%	28%	33%	34%	26%	35%
PNBs	29%	19%	19%	20%	21%	20%	18%	22%
All excl PNBs	44%	37%	35%	35%	37%	36%	29%	39%

Q15d All SMEs

Returning to the current period, analysis showed that the youngest SMEs continued to be the most likely to have had an injection of personal funds and that this was slightly more likely to have been a choice than a necessity. 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 YEQ4 20 – all SMEs	Starts	2-5 yrs	6-9 yrs	10-15 yrs	15 yrs+
Unweighted base:	*1604*	*1450*	*1655*	*2892*	*10,167*
Inject personal funds – you chose to do to help the business grow and develop	25%	14%	11%	10%	8%
Inject personal funds – you felt you had no choice about this, that you had to do it	22%	24%	19%	16%	17%
Any personal funds	*47%*	*38%*	*30%*	*26%*	*25%*
Not something you have done	53%	62%	70%	74%	75%

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. In 2019, fewer reported an injection of personal funds (33%) as a higher proportion of Starts reported using external finance, but the situation was reversed in 2020 with less use of external finance and more injections of personal funds (47%).

Those using a *personal* account for their business banking remained more likely to have put personal funds in at all (38% v 31% of those with a business account YEQ4 2020).

SMEs currently using external finance were somewhat more likely to have received an injection of personal funds (40% YEQ4 2020) than those not currently using external finance (28%) and were also somewhat more likely to say they had felt that there had been no choice (26% v 16%, both higher than in 2019).

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 (72%) and to say that they had had no choice (43%):

Personal funds in last 12 months YEQ4 20 – all SMEs	Total	Had an event	Would-be seeker	Happy non-seeker
Unweighted base:	*17,768*	*3671*	*225*	*13,872*
Inject personal funds – you chose to do to help the business grow and develop	13%	14%	29%	12%
Inject personal funds – you felt you had no choice about, that you had to do	19%	30%	43%	16%
Any personal funds	*32%*	*44%*	*72%*	*28%*
Not something you have done	68%	56%	28%	72%

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 was then stable before a further decline in 2019 to 24%. However, in 2020 the figure was higher again at 32%:

- Amongst those that had had a borrowing event, injections fell from 52% in 2012 to 35% in 2019 before increasing to 44% in 2020. Amongst Happy non-seekers it declined from 37% in 2012 to 22% in 2019, with a smaller increase in 2020 (to 28%).
- 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. This was not maintained in 2018 (59%) or 2019 (60%), but a further increase in 2020 to 72% ensured that 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 (85% excluding DK answers).

Of the 15% that used a personal account, almost all (96%) were 0 employee businesses. So, whilst 19% of 0 employee SMEs used a personal account for their business banking, amongst those with employees the figure was 2%.

In the early years of the SME Finance Monitor around 1 in 5 SMEs used a personal account. Since 2017 this proportion has declined, from 16% to 11% in 2019, but was slightly higher again in 2020 (15%).

YEQ4 2020, SMEs using a personal account were:

- Less likely to be using external finance (29% used external finance, compared to 38% of those using a business account) or to have had a borrowing event (12% v 17%), but were only slightly more likely to meet the definition of a PNB (44% v 40%).
- Slightly more likely to have put personal funds into the business (37% v 31% of those with a business account).

Traditionally, SMEs using a personal account for their business banking were less likely to be using external finance, and this was also the case in 2020, as the analysis below shows. 29% of those using a personal account were also using any external finance compared to 38% of those with a business bank account (a decline in use of finance from 2019 for both groups, as overall):

External finance currently used Over time – all SMEs	2015	2016	2017	2018	2019	2020
Use business account:						
Use core finance	*31%*	*33%*	*32%*	*33%*	*40%*	*30%*
Use any finance	*39%*	*40%*	*40%*	*38%*	*46%*	*38%*
Use personal account for business:						
Use core finance	*22%*	*21%*	*24%*	*26%*	*33%*	*22%*
Use any finance	*28%*	*26%*	*30%*	*29%*	*38%*	*29%*

Q15/Q24 All SMEs

PERSONAL ELEMENT – FINANCE FACILITIES IN A PERSONAL NAME

Those using core finance were previously 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 than the other forms of finance to be in a personal name, all the percentages are lower than previously seen.

22% of SMEs using finance had any facility in a personal name, the equivalent of 8% of all SMEs (the majority of which were 0 employee SMEs). This varied by size of SME and was predominantly concentrated amongst the smaller SMEs using finance: almost a third of those with 0 employees had some facility in their personal name (30%, the equivalent of 9% of all 0 employee SMEs) 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 (22% and 28%), than those with a minimal or low risk rating (both 9%):

Have element of finance in personal name YEQ4 20 – row percentages	Of those using finance	Equivalent % of all such SMEs
Total	**22%**	**8%**
0 employees	30%	9%
1-9 employees	10%	5%
10-49 employees	3%	2%
50-249 employees	2%	1%
Minimal risk rating	9%	4%
Low risk rating	9%	4%
Average risk rating	22%	8%
Worse than average risk rating	28%	9%
Use a personal bank account	76%	21%
Use a business bank account	15%	6%

Q15bsu All SMEs using finance excluding DK

Those operating their business banking through a personal account were less likely to be using any finance at all. However, if they *did* use external finance, then the majority (76%) 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 (15%).

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 (21%) than those using a business account (6%), 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 YEQ4 2020 (excl DK)

Overdrafts	15% of all SMEs with an overdraft said it was in a personal name, of which 92% were 0 employee SMEs. 5% said they had overdrafts in both personal and business names. 21% 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,1% of those with 10-49 employees and less than 1% of those with 50-249 employees.
Loans	9% of all SMEs with a loan said it was in a personal name, of which 79% were 0 employee SMEs. 4% 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 5% of those with 1-9 employees, 1% of those with 10-49 employees and less than 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. 5% said they had facilities in both personal and business names. 25% of 0 employee SMEs using other forms of finance said that it was in a personal name. This declined by size to 7% of those with 1-9 employees, 2% of those with 10-49 employees and 1% of those with 50-249 employees.

TRADE CREDIT

36% of SMEs regularly purchased products or services from other businesses on credit (YEQ4 2020), increasing as before by size of SME:

- 30% of those with 0 employees regularly purchased on credit
- 53% of those with 1-9 employees
- 70% of those with 10-49 employees
- 72% of those with 50-249 employees

Overall use of trade credit had increased slightly over time (31% in 2014 to 37% in 2019) and use was stable in 2020.All sizes of SME were more likely to be using trade credit in 2020 than they had been in 2014, though in the shorter term, there was no increase in use of trade credit 2019 to 2020 for those with 0 and 1-9 employee SMEs but larger SMEs were more likely to be using trade credit in 2020 than in 2019:

Currently use trade credit Over time – all SMEs By date of interview – row percentages	2014	2015	2016	2017	2018	2019	2020
All SMEs	**31%**	**33%**	**33%**	**35%**	**34%**	**37%**	**36%**
0 emp	26%	28%	28%	29%	29%	30%	30%
1-9 emps	45%	47%	45%	49%	48%	53%	53%
10-49 emps	58%	61%	59%	64%	62%	66%	70%
50-249 emps	58%	60%	59%	69%	67%	59%	72%

Q14y All SMEs

56% of SMEs with employees used trade credit in 2019.

Those using external finance (loans, overdrafts etc) remained more likely to also be using trade credit (48% YEQ4 2020) than those who were not using any external finance (30%) and this was true across all size bands.

SMEs that received trade credit were asked whether this meant that they had a reduced need for other forms of external finance. Two thirds of them did, with little difference by size, and this is the equivalent of 24% of all SMEs needing less external finance, as the table below shows:

Impact of receiving trade credit YEQ4 20 – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*17,768*	*3567*	*5838*	*5611*	*2752*
Receive trade credit	36%	30%	53%	70%	72%
Have less of a need for external finance	*24%*	*19%*	*35%*	*47%*	*48%*
Do not have less of a need for external finance	*11%*	*9%*	*15%*	*19%*	*20%*
Not sure	*2%*	*1%*	*2%*	*3%*	*4%*
Do not receive trade credit	64%	70%	47%	30%	28%
% of those with TC where it reduces need	*67%*	*63%*	*66%*	*67%*	*67%*

Q14y/y4 All SMEs

The proportion of all SMEs reporting that trade credit had reduced their need for external finance has increased very slightly over time, from 21% in H2 2014 to 26% in 2019 and 24% in 2020. The larger SMEs remained more likely to say this was the case:

Trade credit reduced need for finance Over time – all SMEs By date of interview – row percentages	H2 2014	2015	2016	2017	2018	2019	2020
All SMEs	21%	22%	23%	24%	23%	26%	24%
0 emp	18%	18%	20%	20%	18%	22%	19%
1-9 emps	31%	31%	31%	33%	33%	38%	35%
10-49 emps	39%	41%	41%	48%	44%	49%	47%
50-249 emps	43%	37%	39%	52%	52%	45%	48%

Q14y/y4 All SMEs

USE AND IMPACT OF TRADE CREDIT BY OTHER KEY DEMOGRAPHICS

SMEs with a minimal or low external risk rating remained more likely to receive trade credit (52% and 50% respectively). Across all risk ratings, around two thirds of those receiving trade credit went on to say that it reduced their need for external finance:

Impact of receiving trade credit YEQ4 20 – all SMEs	Total	Min	Low	Avge	Worse /Avge
Unweighted base:	*17,768*	*3012*	*4935*	*4823*	*3582*
Receive trade credit	36%	52%	50%	37%	30%
Have less of a need for external finance	*24%*	*33%*	*33%*	*24%*	*19%*
Do not have less of a need for external finance	*11%*	*17%*	*14%*	*11%*	*9%*
Not sure	*2%*	*2%*	*2%*	*2%*	*1%*
Do not receive trade credit	64%	48%	50%	63%	70%
% of those with TC where it reduces need	*67%*	*63%*	*66%*	*65%*	*63%*

Q14y/y4 All SMEs

Older SMEs remained slightly more likely to be receiving trade credit, although amongst trade credit users it was those trading for 6-9 years who were the most likely to say it reduced their need for finance:

Impact of receiving trade credit YEQ4 20 – all SMEs	Starts	2-5 yrs	6-9 yrs	10-15 yrs	15 yrs+
Unweighted base:	*1604*	*1450*	*1655*	*2892*	*10,167*
Receive trade credit	29%	30%	33%	36%	43%
Have less of a need for external finance	*19%*	*19%*	*24%*	*23%*	*27%*
Do not have less of a need for external finance	*8%*	*8%*	*8%*	*12%*	*14%*
Not sure	*1%*	*2%*	*1%*	*1%*	*2%*
Do not receive trade credit	71%	70%	67%	64%	57%
% of those with TC where it reduces need	*66%*	*63%*	*73%*	*64%*	*63%*

Q14y/y4 All SMEs

SMEs in the Wholesale/Retail sector (57%) were the most likely to receive trade credit and also to see their need for finance reduced (70% of those using trade credit), along with those in Construction and Manufacturing:

Trade credit in last 12 months

YEQ4 20 – all SMEs	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Hlth Swk	Other Comm
Unweighted base:	*1155*	*1583*	*3043*	*1838*	*1227*	*1921*	*3642*	*1384*	*1975*
Receive TC	**44%**	**53%**	**47%**	**57%**	**41%**	**30%**	**27%**	**23%**	**25%**
Have less of a need for external finance	*30%*	*37%*	*33%*	*40%*	*26%*	*16%*	*17%*	*14%*	*14%*
Do not have less of a need for external finance	*13%*	*14%*	*12%*	*15%*	*13%*	*12%*	*9%*	*6%*	*9%*
Not sure	*1%*	*2%*	*2%*	*2%*	*2%*	*2%*	*1%*	*2%*	*2%*
Do not receive TC	56%	47%	53%	43%	59%	70%	73%	77%	75%
% where TC reduces need	*68%*	*70%*	*70%*	*70%*	*63%*	*53%*	*63%*	*61%*	*56%*

Q14y/y4 All SMEs

YEQ4 2020, SMEs using external finance (who were more likely to be using trade credit at all) remained more likely to say that they had less of a need for external finance as a result of trade credit (32%) than those not using external finance (19%) or SMEs overall (24%).

Both those SMEs with £10,000 or more of credit balances and those using trade credit were asked (separately) whether this reduced their need for external finance:

- Where available, having £10,000 or more in credit balances was more likely to reduce the SME's need for finance (88% YEQ4 2020) than having access to trade credit (68% – of a different group of SMEs).
- Overall, 32% of all SMEs YEQ4 2020 said that their need for finance was reduced either through credit balances or trade credit, increasing by size of SME (26% for 0 employee SMEs, 48% for those with 1-9 employees, 62% for those with 10-49 employees and 64% for those with 50-249 employees).
- The proportion of SMEs reporting a reduction in need for finance has been around 3 in 10 since 2016 and was in line in 2020 at 32%.

A WIDER DEFINITION OF 'TOTAL BUSINESS FUNDING'

The questions on trade credit and injections of personal funds allow for an analysis of the use of 'total business funding' by SMEs in a wider sense, i.e. including not only external finance but also trade credit and injections of personal funds. Note that the amount of trade credit received was not recorded, and that when last reported, the typical injection of personal funds was for a relatively small amount (often less than £5,000).

For YEQ4 2020:

- 37% of SMEs were using external finance as defined in the previous chapter (i.e. loans, overdrafts, invoice finance etc).
- An additional 19% of SMEs were not using external finance but were receiving trade credit.
- And finally, a further 12% of SMEs were using neither external finance, nor trade credit, but had seen an injection of personal funds into the business (also defined in the previous chapter).

Widening the definition of external funding to include not only finance but also trade credit and personal funds thus increased the proportion of SMEs using business funding from 37% to 68%.

Analysis by year shows that the business funding figures were stable 2014-2018. The increased use of external finance seen in 2019 boosted the use of business funding to 70% in 2019 and was little changed in 2020 (68%) despite fewer SMEs using finance, due to more mentions in this context of both trade credit and injections of personal funds:

Use of business funding Over time – all SMEs	2014	2015	2016	2017	2018	2019	2020
Unweighted base:	***20,055***	***20,046***	***18,000***	***18,012***	***18,002***	***18,000***	***17,768***
Use external finance	37%	37%	37%	38%	36%	45%	37%
Do not use finance but do use trade credit	15%	16%	15%	16%	18%	16%	19%
Do not use the above but injected personal funds	12%	11%	11%	11%	11%	8%	12%
Total business funding	***63%***	***64%***	***63%***	***65%***	***65%***	***70%***	***68%***

All SMEs

Looking specifically at YEQ4 2020 in more detail, larger SMEs remained more likely to be using business funding and for external finance to be the major element, albeit more SMEs with 50-249 employees mentioned trade credit in 2020 (29%) than in 2019 (14%) to compensate for lower use of external finance (58% from 77%) in their overall use of business funding (87% from 91%):

Wider definition of business funding YEQ4 20 – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*17,768*	*3567*	*5838*	*5611*	*2752*
Use external finance	37%	32%	49%	58%	58%
Do not use finance but do use trade credit	19%	17%	23%	26%	29%
Do not use the above but injected personal funds	12%	15%	6%	1%	1%
Total business funding	*68%*	*64%*	*78%*	*86%*	*87%*

Q14y/y4 All SMEs

Analysis by other demographics showed that:

- SMEs with a minimal or low risk rating were somewhat more likely to be using business funding (72% and 73%) compared to those with an average or worse than average risk rating (66% and 67%). The former were more likely to qualify through external finance and trade credit, the latter through injections of personal funds.
- Those trading for 6-9 or 10-15 years were slightly less likely to have business funding (both 64%) than their peers (68-71%), with business funding for those trading for 5 years or less boosted by injections of personal funds.
- The proportion using business funding varied from 58% in Health and 59% in Property/Business Services to 82% in Wholesale/Retail with higher use of external finance and trade credit.