SME FINANCE MONITOR

3 month rolling analysis to end February 2021

An independent report by BVA BDRC, March 2021
Introduction

The SME Finance Monitor was established in 2011 and provides detailed analysis of SMEs and their access to finance, typically on a half yearly basis. The Q4 2020 report will be published in mid-March 2021.

As fieldwork takes place on a continuous basis, it is also possible to provide headline data on key issues in between these full reports. This pack will therefore be provided on a monthly basis and provide the latest 3 months rolling data across a range of issues.

The most recent data point for this report is the 3 months from December 2020 to February 2021.

Headline analysis is provided for all SMEs, with key questions split by size of SME. Some analysis is also provided by the type of international trade (if any) undertaken alongside domestic activity:

- Exporting but no importing (labelled as “export only”)
- Importing but no exporting (labelled as “import only”)
- Both importing and exporting (labelled as “import & export”)
- No international trade, SME only trades domestically (labelled as “domestic sales only”)

Differences shown month on month are not necessarily statistically significant. Differences of 4%+ month on month are needed for the total sample and up to 10%+ for some of the smaller groups (such as those trading internationally).
Introduction – Changes to main SME Finance Monitor questionnaire from Q1 2018

The SME Finance Monitor questionnaire has evolved gradually since it started in 2011.

In Q4 2017 it was decided that a more radical review was required to reflect changes in the finance market for SMEs, such as the rise of online platforms and other non-bank suppliers of finance. This was also an opportunity to focus on “need” for finance and how this translates into applications.

Most of the questions reported in this pack have remained unchanged.

However, there have been slight changes to the “types of finance used” question and also to the definition of a “Permanent non-Borrower”. These initial results do not suggest the changes have had a major impact on results but will be monitored over time.

All of the changes have been reported on in full from the Q2 2019 SME Finance Monitor report, published in September 2019.

This pack has been updated to reflect the new questionnaire and some new data included.
42% of SMEs were using external finance, in line with recent quarters and Q4 2019. This is after a sharp decline in the early months of 2020, to a low of 30% in Q2.

For 2019 as a whole, 45% of SMEs were using external finance, but from Q2 2019 usage declined, to 30% for Q2 2020. Since then, the use of finance has grown. It was 44% for Q4 2020 with, in particular, an increase since Q2 in the proportion of 0 employee SMEs using finance (25% to 39%), and has been stable since. The largest SMEs with 50-249 employees have become less likely to be using finance (72% in Q4 2019 to 46% in the 3 months to February 2021), a trend which started in the second half of 2019.
Import-only SMEs remained the most likely to be using external finance but at somewhat lower levels than at the end of 2020. There was also a decline in use of finance amongst Export-only SMEs.

Time series: use of external finance by extent of international trade alongside domestic sales

- **Export only**
- **Import only**
- **Import & export**
- **Domestic sales only**

Use any external finance

Q15 Base: All 3mths to Feb 230/399/492/3370
As the use of finance increased from Q2 2020, the proportion of PNBs was initially stable in Q3 2020 at 40%, then declined to 32% in Q4 and is 36% currently.

*Time series: Permanent non-borrowers and users of external finance*

The ‘Permanent non-borrowers’ are firms with no apparent appetite for finance and are defined by not using external finance and showing no inclination to do so. The latest figure of 36% is up slightly from 32% in Q4 2020, albeit still one of the lower proportions seen on SMEFM to date.
As Export-only SMEs became less likely to use external finance they have become more likely to meet the definition of PNB, with a less marked increase since Q4 for Import-only and Domestic SMEs.

Time series: Permanent non-borrowers by extent of international trade alongside domestic sales

Permanent non-borrowers
(no apparent appetite for finance)
37% of SMEs were happy to use finance to grow, unchanged from Q4 2020 and maintaining the increase seen since during 2020

*Time series: Agree that happy to use external finance to help business grow*

After remaining stable during 2016, the proportion of SMEs happy to use finance to grow declined to a third of SMEs in 2017 and 2018. By Q1 2019 the proportion had declined again to around 3 in 10 SMEs (27%). It then increased steadily to 37% for the 3 months to December 2020 and has remained unchanged since. Larger SMEs remain more likely to have an appetite for finance.
Export-only and Import-only SMEs have seen a further decline in willingness to borrow to grow, while Fully international and Domestic SMEs have seen a slight increase in appetite in 2021.

*Time series: Agree that happy to use external finance to help business grow*
37% of SMEs had injected personal funds, unchanged from Q3 and in line with levels last seen in 2013. From Q4 2019, there has been a steady increase in the proportion of SMEs that felt that they had to inject funds, to 27%.

**Time series: Injections of personal funds in previous 12 months**

The proportion of SMEs injecting funds fell from a peak of 43% in 2012 to 28-29% of SMEs from 2016 onwards. In the second half of 2019 the proportion dropped to a fifth of SMEs, but then increased Q1 to Q3 2020 to 38% and has remained stable since, with more SMEs feeling that they had to inject funds (27%).

Q15d2 Base: All respondents 3m Feb 4491
34% of SMEs were using trade credit, in line with 2018

Time series: Using trade credit

Q14 Base: All respondents 3m Feb 4491
35% of SMEs held more than £10,000 of credit balances, maintaining the increase seen to Q4 2020. All but the largest SMEs are more likely to be holding such sums than they were in 2019.

*Time series: £10k credit balances held*

The proportion of SMEs holding £10,000 or more in credit balances increased from 16% in 2012 to 24% in 2015 and remained broadly stable to the end of 2019. During 2020, the proportion of SMEs holding such sums increased steadily, from 23% in Q1 to 33% in Q4, with increases seen across all size bands. The proportion for the 3 months to February 2021 was in line (35%).

Q117 Base : All respondents 3mths to Feb excl DK 2169
SMEs held the equivalent of 34% of their turnover in credit balances, slightly higher than previously seen due to 0 employee SMEs holding a higher proportion of turnover. The proportion held amongst the largest SMEs has declined again, back to levels seen in 2017 and 2018.

*Time series: % of turnover held as credit balances*

More recent analysis looks at credit balances held as a percentage of total turnover (both collected in bands, with mid-points used). For the 3 months to February 2021, SMEs held the equivalent of 34% of their turnover in credit balances on average, the highest proportion seen to date on the SME Finance Monitor. The largest SMEs with 50-249 employees saw the biggest decline Q4 2019 to Q2 2020 (26% to 12%) then an increase back to 28% for Q3 but a steady decline again since to 19% currently, albeit this is in line with previous years.
The proportion of SMEs reporting growth in the last year was 13%, the lowest level seen to date. 6 in 10 SMEs had declined, up from 2 in 10 in 2019.

Time series: Have grown (excluding Starts)

Between 2012 and 2019, the proportion of SMEs (excluding Starts) reporting growth varied little (39-42%) and was 37% for 2019 as a whole. Reported growth in 2020 was initially broadly stable (32-34% up to the 3 months to July) but then declined steadily across all size bands and was 16% in Q4 2020 and 13% for the 3 months to February 2021. In 2019, 19% of SMEs had declined, remaining at a similar level for H1 2020, but as the pandemic made more of an impact on past performance, the proportion increased again to 46% for Q3 and 64% for the 3 months to February 2021.
Initially in 2020, growth ambitions declined markedly. Since Q2 however, as reported growth continued to decline, growth ambitions have increased, to 42% currently, albeit still slightly lower than seen in previous years. Since Q3 2020 the largest SMEs have become less likely to expect to grow.

Time series: Have plans to grow

For 2019 as a whole, 52% of SMEs expected to grow, up from 49% in 2018 and the highest level seen to date on SMEFM. In the first half of 2020 those aspirations lowered significantly, to 24% for Q2. Since then, growth aspirations have increased, to 42% for Q4 2020 and stable since (42% in the current period) albeit still at slightly lower levels than previously seen, notably for the largest SMEs.
The growth ambitions of fully international SMEs have improved since Q4, bringing them more in line with Import-only SMEs as growth aspirations for Export-only SMEs declined slightly.

**Time series: Growth plans by extent of international trade alongside domestic sales**

Plan to grow in next 12 months

**Q91 Base : All 3mths to Feb 230/399/492/3370**

![Graph showing growth plans over time for different types of SMEs.](image-url)
A stable 7 in 10 SMEs were being cautious due to the future feeling uncertain, still markedly higher than in 2019 but slightly lower than the 77% reported in Q2 2020.

Time series: Agree that future is uncertain so being cautious

When this question was first asked in Q1 2018, half of SMEs agreed that they were being cautious, with little variation by size of SME. Over the course of 2018, that proportion increased to 58% in Q4, still with little variation by size. In 2019, just over half of SMEs were feeling cautious and this was maintained to Q1 2020, however, by Q2 2020 concern had risen to 77% across both larger and smaller SMEs, but did not increase further and has been stable since at 7 in 10 SMEs.
Since Q2 2020, SMEs with an element of exporting in their business have become somewhat less cautious, with more of a ‘gap’ being created between these SMEs and those who are Domestic or Import-only.

*Time series: Agree that future is uncertain so being cautious*
3 in 10 SMEs saw the current economic climate as a major barrier, a steady decrease since Q2 2020. Concerns about political uncertainty have declined again, now back in line with Q1 2020.

Concern for the economic climate increased most markedly from Q1 to Q2 2020 (20% in Q1 to 47% in Q2), the highest level seen to date, but there has been a decline since, to 29% currently. Concern about political uncertainty increased to 27% in Q4 2020 but this was not maintained subsequently, while the proportion seeing cash flow and late payment as a barrier has been stable since Q3 2020.
Concern about the economic climate increased markedly from Q1 to Q2 2020 across all size bands. It has declined since but remains higher than previously seen for all but the largest SMEs.

*Time series: % Rating ‘The economic climate’ 8-10 a major obstacle for next 12 mths*
Concern about political uncertainty increased Q3 to Q4 2020 for all but the largest SMEs but was somewhat lower again in 2021, back in line with, or somewhat below, 2019 levels.

Time series: % Rating ‘Political uncertainty’ a major obstacle for next 12 mths
Levels of concern about cash flow and late payment increased from Q1 to Q2 2020 to some degree for all size bands, but have reduced and stabilised since.

**Time series: % Rating "Cash flow or issues with late payment' a major obstacle for next 12 mths**

<table>
<thead>
<tr>
<th>Size Band</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>Q1 19</th>
<th>Q2 19</th>
<th>Q3 19</th>
<th>Q4 19</th>
<th>Q1 20</th>
<th>Q2 20</th>
<th>Q3 20</th>
<th>Q4 20</th>
<th>3m Jan</th>
<th>3m Feb</th>
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<tbody>
<tr>
<td>0 emps</td>
<td>6%</td>
<td>8%</td>
<td>9%</td>
<td>13%</td>
<td>12%</td>
<td>13%</td>
<td>13%</td>
<td>15%</td>
<td>11%</td>
<td>18%</td>
<td>15%</td>
<td>14%</td>
<td>14%</td>
<td>13%</td>
</tr>
<tr>
<td>1-9 emps</td>
<td>10%</td>
<td>8%</td>
<td>10%</td>
<td>12%</td>
<td>13%</td>
<td>12%</td>
<td>11%</td>
<td>15%</td>
<td>14%</td>
<td>21%</td>
<td>14%</td>
<td>15%</td>
<td>16%</td>
<td>15%</td>
</tr>
<tr>
<td>10-49 emps</td>
<td>8%</td>
<td>7%</td>
<td>9%</td>
<td>13%</td>
<td>14%</td>
<td>14%</td>
<td>13%</td>
<td>11%</td>
<td>11%</td>
<td>24%</td>
<td>13%</td>
<td>13%</td>
<td>13%</td>
<td>13%</td>
</tr>
<tr>
<td>50-249 emps</td>
<td>6%</td>
<td>5%</td>
<td>8%</td>
<td>10%</td>
<td>22%</td>
<td>20%</td>
<td>28%</td>
<td>19%</td>
<td>9%</td>
<td>19%</td>
<td>9%</td>
<td>8%</td>
<td>9%</td>
<td>8%</td>
</tr>
</tbody>
</table>

Q3 3 | Base : All
Levels of concern about the value of sterling have been broadly stable over recent quarters.

Time series: % Rating ‘Changes in the value of sterling’ a major obstacle for next 12 mths
Concern amongst fully international SMEs is stable but they are now the most concerned about the economic climate, as levels of concern decline amongst other groups.

**Time series: 8-10 economic climate by extent of international trade alongside domestic sales**

Q93 Base: All 3mths to Feb 230/399/492/3370

Rating the current economic climate a major obstacle (8-10)

Q3 Base: All 3mths to Feb 230/399/492/3370
Export-only and Domestic SMEs have become somewhat less likely to see political uncertainty as a barrier, with levels more stable for those with an element of importing to their business.

Time series: 8-10 political uncertainty by extent of international trade alongside domestic sales.

Rating political uncertainty a major obstacle (8-10)
Import-only SMEs have become less concerned about cash flow and late payment as a barrier, and there is now little to choose between SMEs by involvement in international trade.

*Time series: 8-10 cash flow / late payment by extent of international trade alongside domestic sales*

Rating cash flow / late payment a major obstacle (8-10)

Q93 Base : All 3mths to Feb 230/399/492/3370
Fully international SMEs remained the most concerned about changes in the value of sterling, above levels seen in 2019. Concern amongst Export-only SMEs is back in line with Q2 2020.

Time series: 8-10 changes in the value of sterling by extent of international trade alongside domestic sales

Rating changes in the value of sterling a major obstacle (8-10)
1 in 6 employers had employees from overseas, typically from the EU. This proportion has been broadly stable since 2018.

**Time series: Employ non-UK staff (from the EU or elsewhere overseas)**

When this question was first asked in H2 2017, a quarter (23%) of employers had staff from overseas. Since the start of 2018 this proportion has been lower, but stable, currently 16%. In the 3 months to February, a stable 14% of employers had staff from the EU and 5% had staff from elsewhere.
A stable 14% of SMEs reported having a need for external funding, maintaining the increase seen to Q4 2020. Need amongst the largest SMEs is now stable, but remains lower than previously seen in Q3 2020.

Time series: Had a need for external funding in past 12 months (whether applied or not)
22% of SMEs reported any appetite for finance in the previous 12 months (an event or those who had wanted to seek finance), in line with Q4 2020 and levels seen in 2013.

Time series: Any appetite for finance in 12 months prior to interview

Pastfin Base: All SMEs 3m to Feb 4491
Analysis by application period shows an initial increase in those offered no facility to over a quarter at the end of 2019, but success rates in 2020 improved as new Government backed schemes launched.

**Global success rate: all applications reported from Q1 2018 to Q4 2020, occurring in the periods shown**

<table>
<thead>
<tr>
<th>Period</th>
<th>Offered but declined</th>
<th>No facility</th>
<th>Offered what wanted and took it</th>
<th>Have facility after issues</th>
<th>Different product from provider</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q1 17 to Q2 18</td>
<td>16%</td>
<td>70%</td>
<td>1%</td>
<td>6%</td>
<td>1%</td>
</tr>
<tr>
<td>Q3 17 to Q4 18</td>
<td>18%</td>
<td>70%</td>
<td>6%</td>
<td>6%</td>
<td>1%</td>
</tr>
<tr>
<td>Q1 18 to Q2 19</td>
<td>21%</td>
<td>67%</td>
<td>6%</td>
<td>4%</td>
<td>5%</td>
</tr>
<tr>
<td>Q3 18 to Q4 19</td>
<td>26%</td>
<td>65%</td>
<td>4%</td>
<td>4%</td>
<td>5%</td>
</tr>
<tr>
<td>Q1 19 to Q2 20*</td>
<td>18%</td>
<td>76%</td>
<td>3%</td>
<td>3%</td>
<td>4%</td>
</tr>
<tr>
<td>Q3 19 to Q4 20*</td>
<td>15%</td>
<td>81%</td>
<td>2%</td>
<td>2%</td>
<td>5%</td>
</tr>
</tbody>
</table>
1 in 5 SMEs had approached a bank for Covid related finance, with appetite lower amongst the largest SMEs compared to the summer

NEW Time series: Approached main/other bank for Covid related finance
Q2 2020 saw a marked increase in those planning to apply and those who expected to be ‘Future would-be seekers of finance’. Future appetite for finance has remained at a similar level since

Time series: Anticipated borrowing profile for next 3 months after...

Each quarter, the majority of SMEs have expected to be “Future happy non-seekers” of finance. The proportion of FHNS initially increased over time, to 80% in Q4 2019 but then reduced, to 60% for Q2 and 63% currently. By Q2 2020, the proportion of SMEs planning to apply had increased to 16%, and the proportion of would-be seekers (who would like to apply but feel something would stop them) to 23%, with limited change since, still above the previous peak in 2013.
Future appetite for finance increased across all size bands from Q1 to Q2 2020. It is currently broadly stable, albeit at lower levels than in Q2 for all SMEs, especially those with employees.

*Time series: % planning to apply*
Appetite for finance has declined somewhat in 2021 for all groups, remaining highest for the Import-only SMEs.

Time series: plan to apply for finance by extent of international trade alongside domestic sales

Plan to apply for external finance

Appetite for finance amongst those that both import and export has varied over time. It fell sharply from the peak of 25% in 2016 to 10% in Q1 2018 and is currently 14%. Appetite amongst domestic SMEs has declined slightly since Q2 2020 but typically remained higher than was seen in 2019 (7-12%).

Futfin Base: All 3mths to Feb 230/399/492/3370
There is no consistent pattern for international SMEs in terms of FWBS, but the proportions remain higher than in 2019. Those with an element of importing are more likely to meet the definition than in Q4 2020.

*SEE PREVIOUS SLIDE  Base: All 3mths to Feb 230/399/492/3370

Would-be seekers of finance are those who can see a barrier to them making an application for funding in future, such as the current economic climate or a belief that they would not be successful if they applied. SMEs that import gradually became more likely to meet the definition of a FWBS during 2020 – the increase in the 3 months to January to 22% may be linked to a slight drop in plans to apply for finance (see previous slide).
As appetite for finance increased in 2020, confidence that the application would be successful has been stable at 4 in 10 of those planning to apply, somewhat lower than in 2019.

Confidence amongst those planning to apply that they would be successful increased to 55% in 2016 but has been more variable since (and always below actual success rates). Confidence improved in the second half of 2019 but declined again to Q1 2020 (41%) and has been broadly stable since with larger applicants more confident of success.
After a period of stability, confidence for hypothetical applicants declined from Q1 to Q2 2020 and has been little changed since, with a continued gap in confidence between larger and smaller SMEs.

Half (51%) of those with no plans to apply to a bank for finance are confident of a hypothetical success. Larger hypothetical applicants remain more confident than smaller ones, and more confident than those of a similar size who are planning to apply (69% v 58%). Smaller hypothetical applicants are less confident of success, compared to larger hypothetical applicants but they too are more confident than those of a similar size planning to apply (50% v 40%, see previous slide for those with plans).
The proportion of all SMEs that export increased very slightly over the course of 2020, to 12% in Q4 and the current period.

**Time series: Exporters**

The proportion of exporters increased from 6% in 2012 to 10% in 2014 and 2015. The proportion increased slightly during 2020 (8% to 12%) due to the smaller SMEs being slightly more likely to export and was 12% in the current period.
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