

# SME FINANCE MONITOR

3 month rolling analysis to end  
July 2021

An independent report by  
BVA BDRC, August 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 Q2 2021 pack will be published in mid-August 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 May to July 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.

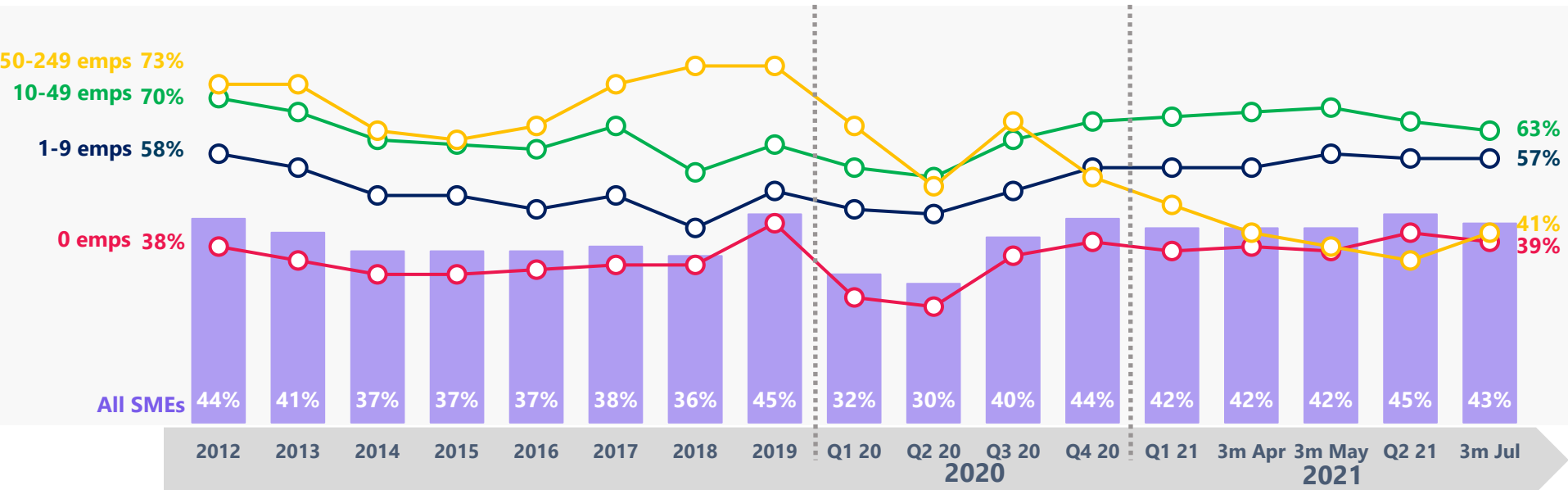
However, there have been slight changes to the “types of finance used” question and also to the definition of a “Permanent non-Borrower”. These initial results do not suggest the changes have had a major impact on results but will be monitored over time.

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.

# 43% of SMEs were using external finance, with usage broadly stable to date in 2021 and in line with Q4 2020 levels. Use of finance amongst the largest SMEs has stabilised after previous declines from Q3 2020

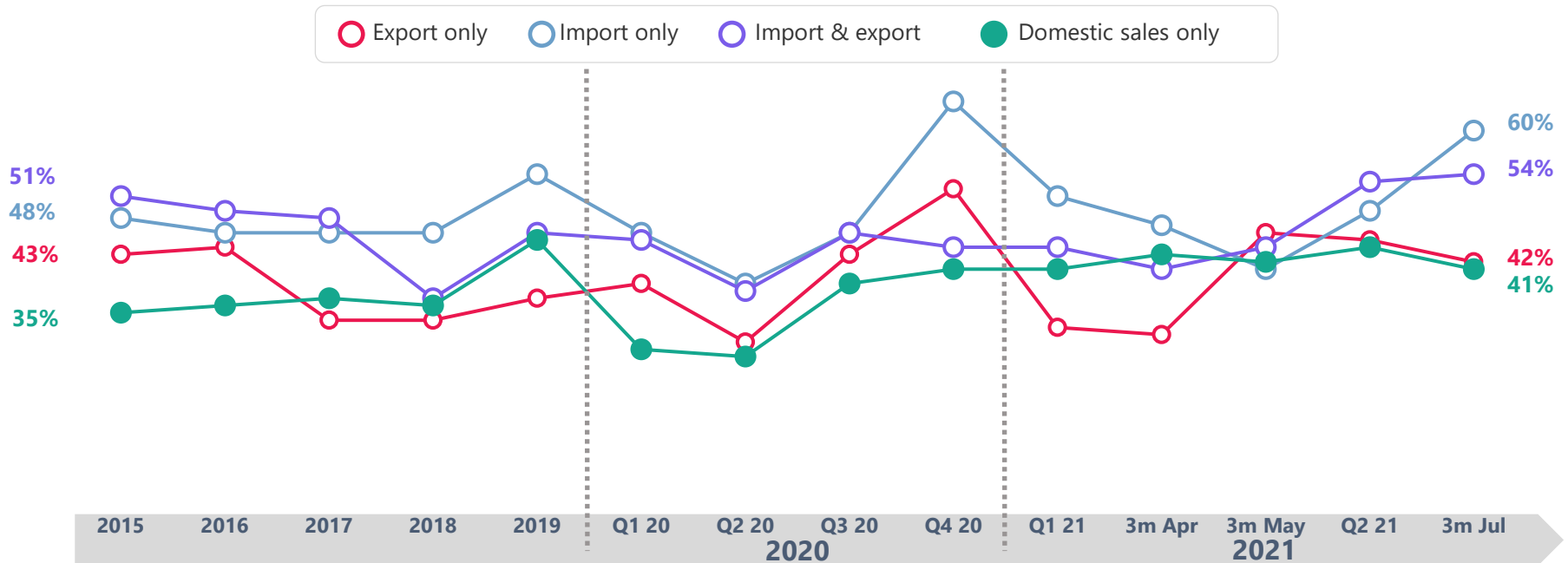
*Time series: use of external finance per quarter*



For 2019 as a whole, 45% of SMEs were using external finance, but from Q2 2019 usage declined, to 30% for Q2 2020, before returning to 44% in Q4 2020 and remaining broadly stable since (43% for the 3 months to July 2021). Within this overall stability, driven by the 0 employee SMEs, use of finance amongst the largest SMEs declined from 51% in the 3 months to January to 35% in Q2 2021 but is currently 41%.

# SMEs with an element of importing to their business are now more likely than their peers to be using external finance. Use of finance amongst domestic SMEs remains in line with 2019

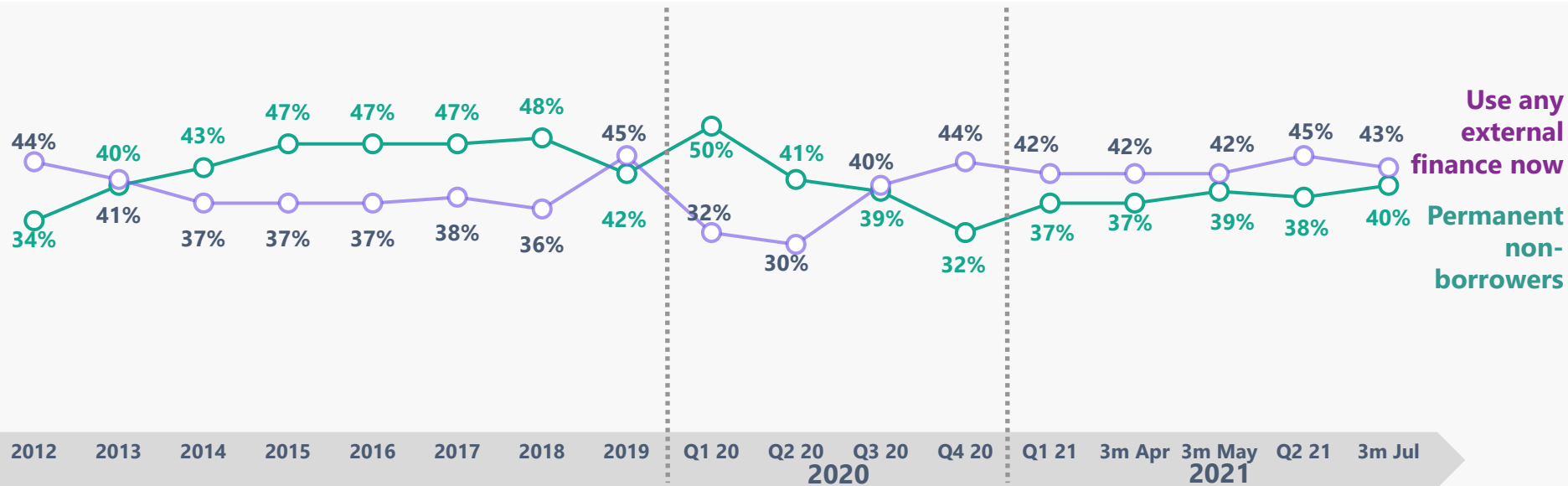
Time series: use of external finance by extent of international trade alongside domestic sales



Use any external finance

After a reduction in Permanent non-borrowers during 2020, the proportion increased slightly during 2021, now back in line with Q2 2020 but still below levels more usually seen pre-pandemic

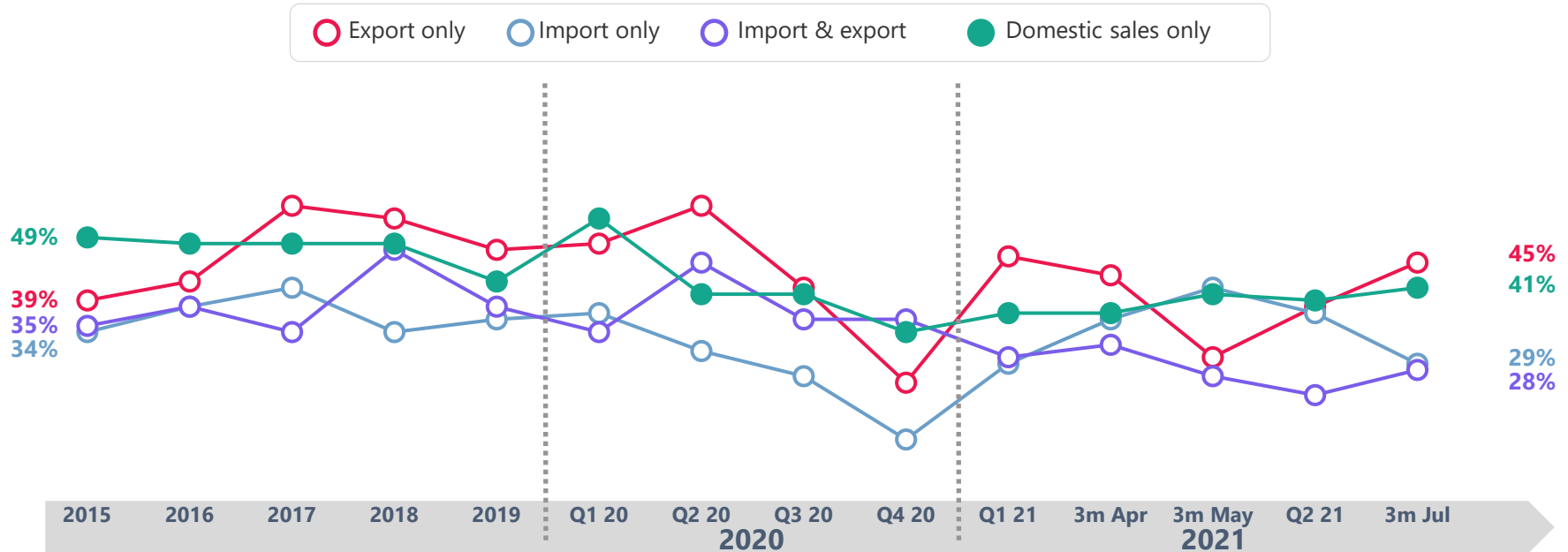
Time series: Permanent non-borrowers and users of external finance



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 40% is up from 32% in Q4 2020, but remains below levels seen pre-pandemic when almost half of MSEs met the definition of a PNB .

# As their use of finance increased, SMEs with an element of importing to their business were less likely to meet the definition of a Permanent non-borrower than their peers

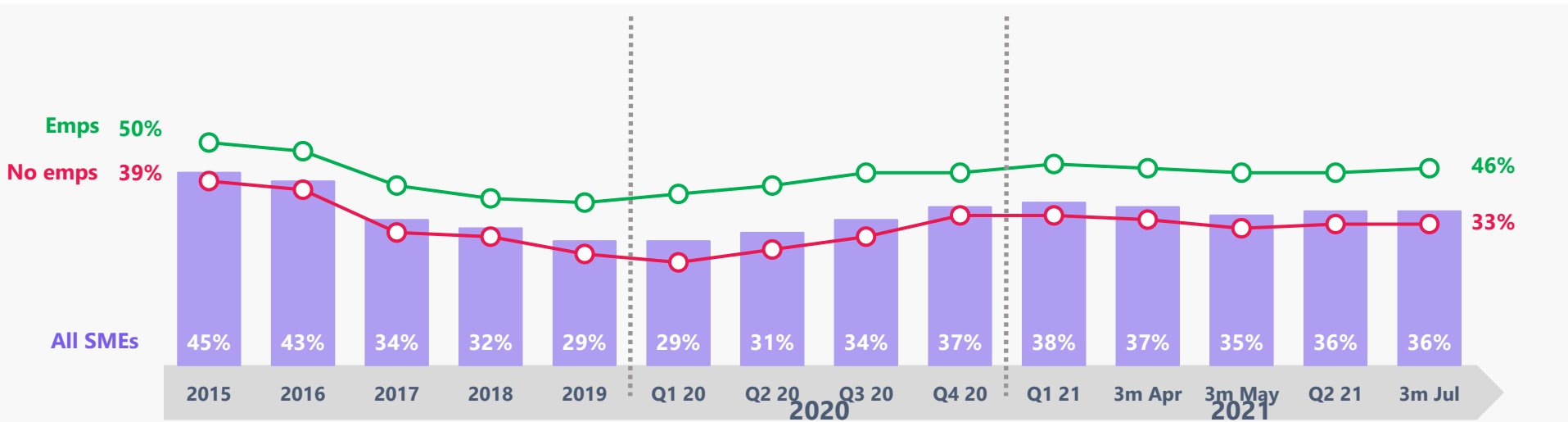
*Time series: Permanent non-borrowers by extent of international trade alongside domestic sales*



**Permanent non-borrowers  
(no apparent appetite for finance)**

# 36% of SMEs were happy to use finance to grow, in line with Q4 2020, and an increase over time from 29% in Q1 2020, albeit still below the levels seen in 2015-16

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

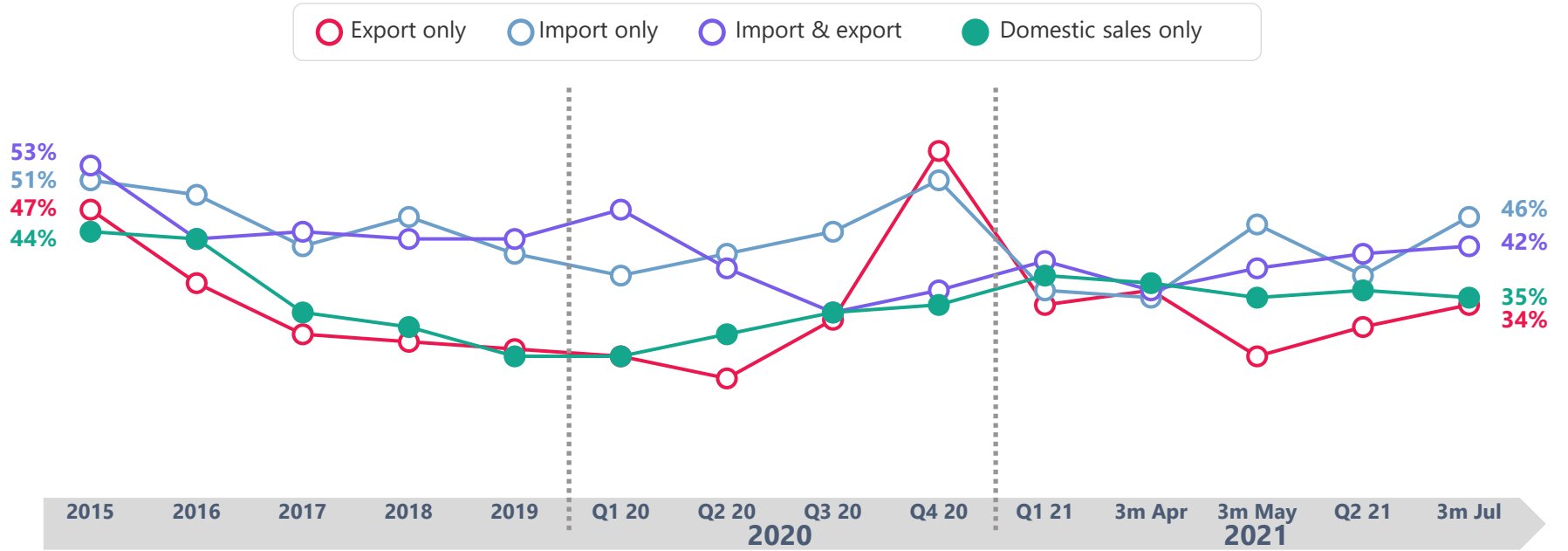


After remaining stable during 2016, the proportion of SMEs happy to use finance to grow declined over time to 3 in 10 SMEs in 2019. It then increased steadily to 37% for the 3 months to December 2020 and has remained broadly stable since



# SMEs with an element of exporting in their business are also more likely to be happy to borrow to grow than their peers

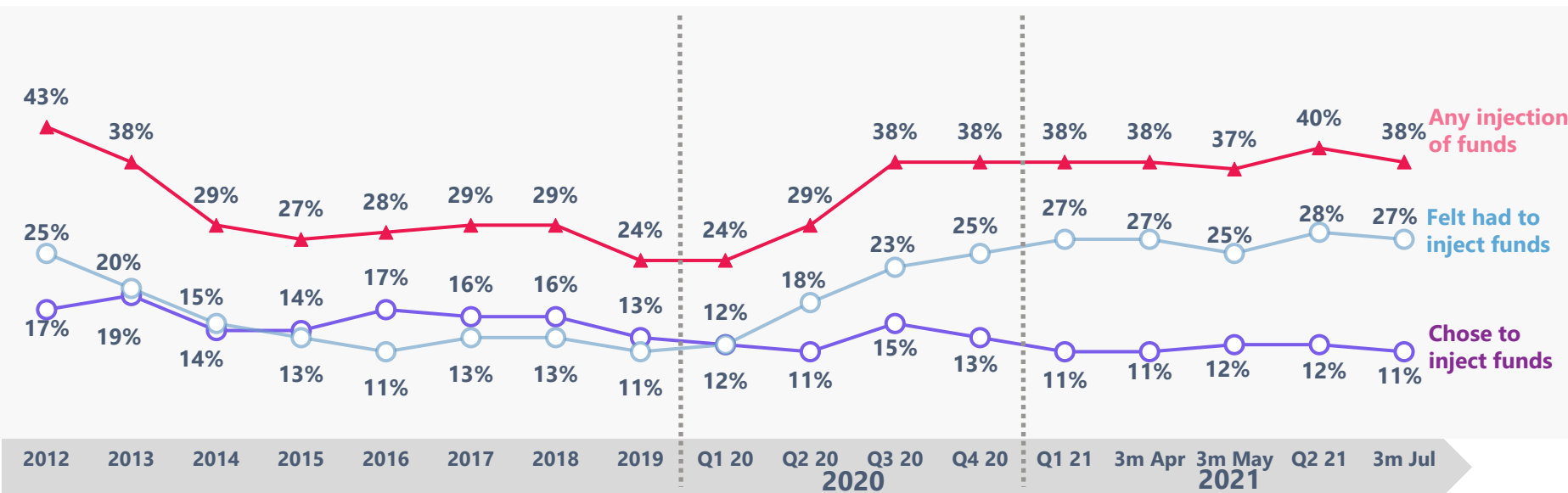
Time series: Agree that happy to use external finance to help business grow



Agree that happy to use external finance to grow

## 38% of SMEs had injected personal funds, still at levels last seen in 2013, but to a quarter of SMEs saying they felt they had to inject funds

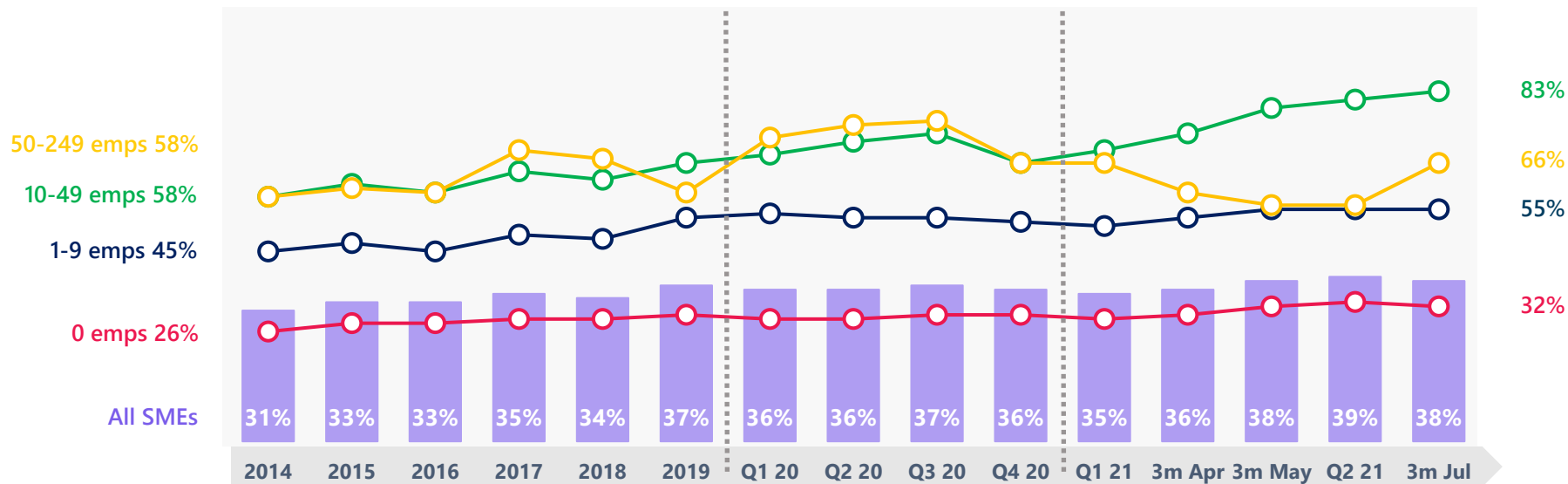
Time series: Injections of personal funds in previous 12 months



The proportion of SMEs injecting funds fell from a peak of 43% in 2012 to 28-29% of SMEs from 2016 onwards. In 2019 the proportion dropped to a quarter of SMEs, but then increased Q1 to Q3 2020 to 38% and has remained broadly stable since. In the 3 mths to July, 38% reported an injection of funds, including 27% who felt that they had to do so, one of the highest levels reported to date on SMEFM

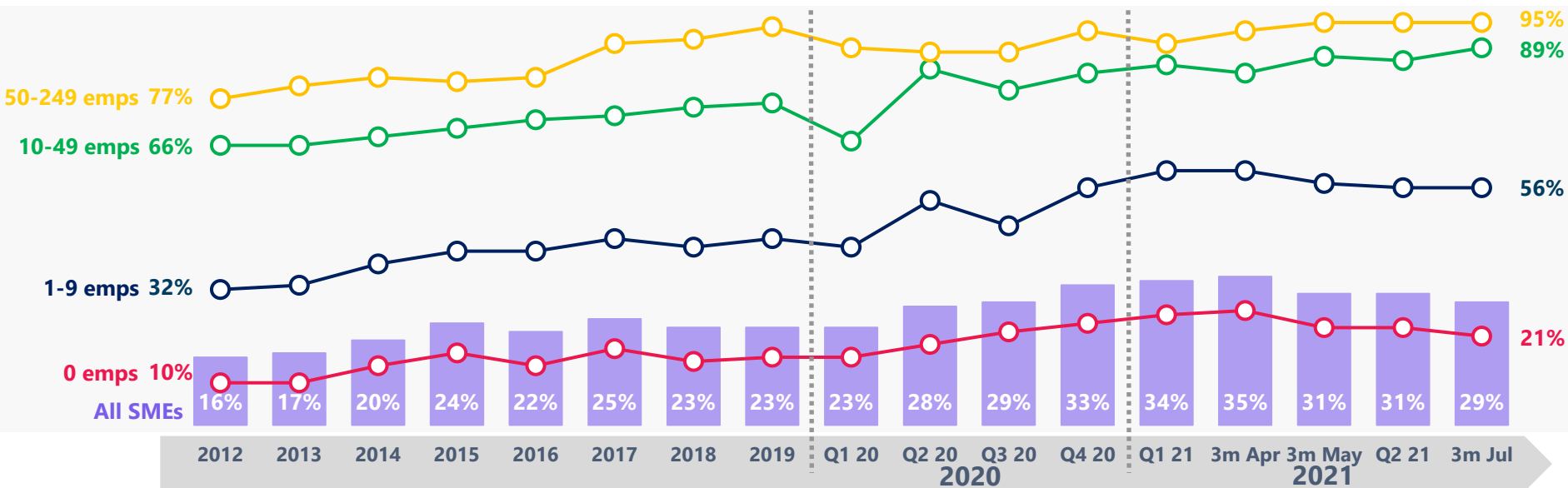
38% of SMEs were using trade credit, up slightly from Q1 2021. There has been a further increase in SMEs with 10-49 employees using trade credit and no further decrease amongst those with 50-249 employees

*Time series: : Using trade credit*



## 29% of SMEs held more than £10,000 of credit balances, slightly lower than in Q1 2021 due to fewer SMEs with up to 10 employees holding such sums, set against an increase for the larger SMEs

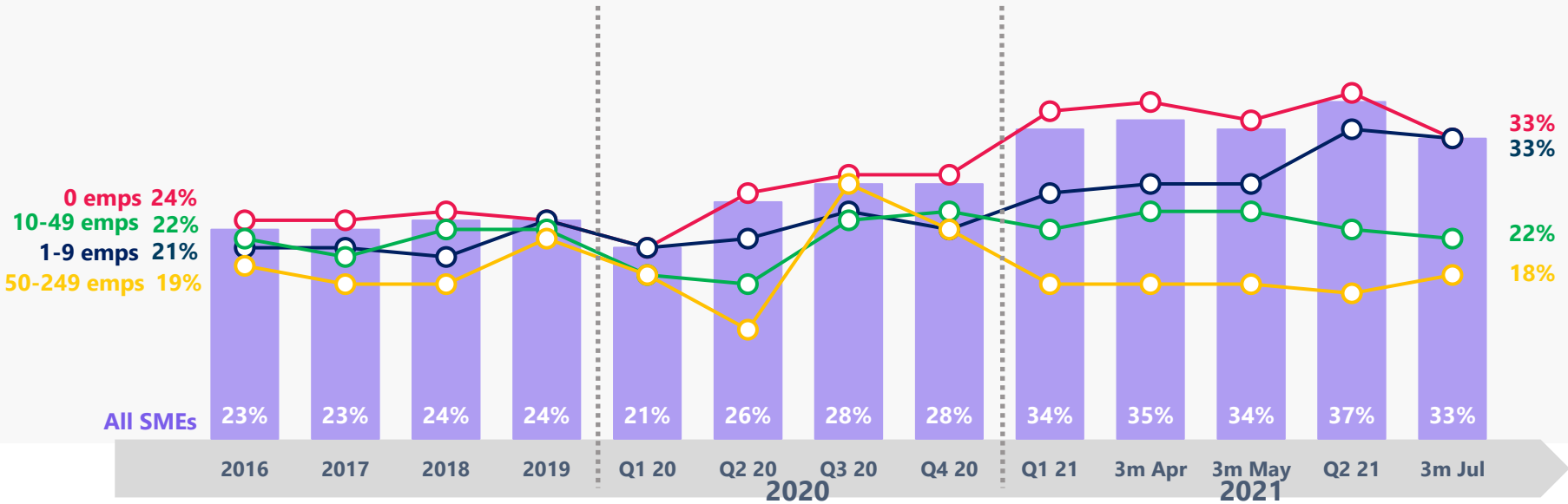
Time series: £10k credit balances held



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 in 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. This was maintained initially in 2021, but the proportion for the 3 months to July was slightly lower (29%) as fewer 0 and 1-9 employee SMEs held such sums compared to the start of the year.

# SMEs held the equivalent of 33% of their turnover in credit balances, slightly lower than in Q2 as 0 employee SMEs held a lower percentage of credit balances, but still higher than previously seen to 2020

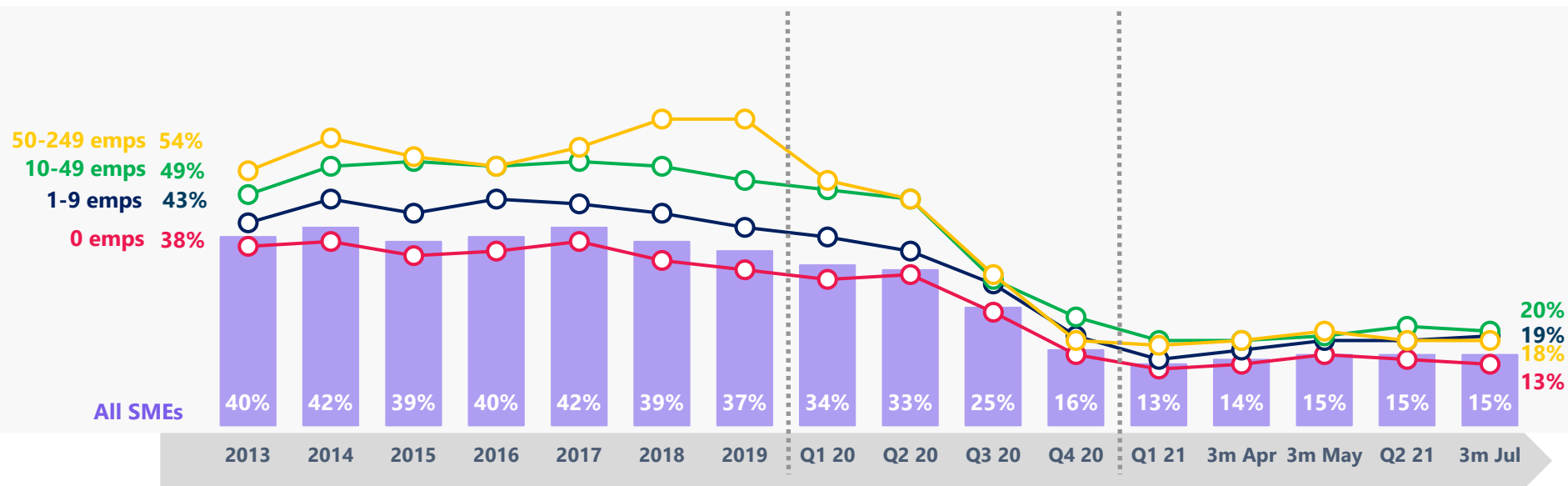
Time series: % of turnover held as credit balances



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 July 2021, SMEs held the equivalent of 33% of their turnover in credit balances on average, in line with Q1 2021 and higher than previously seen 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 a brief increase back to 28% for Q3 but is currently stable at 18%

# The proportion of SMEs reporting growth in the last year was 15% and has been broadly stable since Q4 2020, with limited variation by size. 6 in 10 SMEs had declined, up from 2 in 10 in 2019

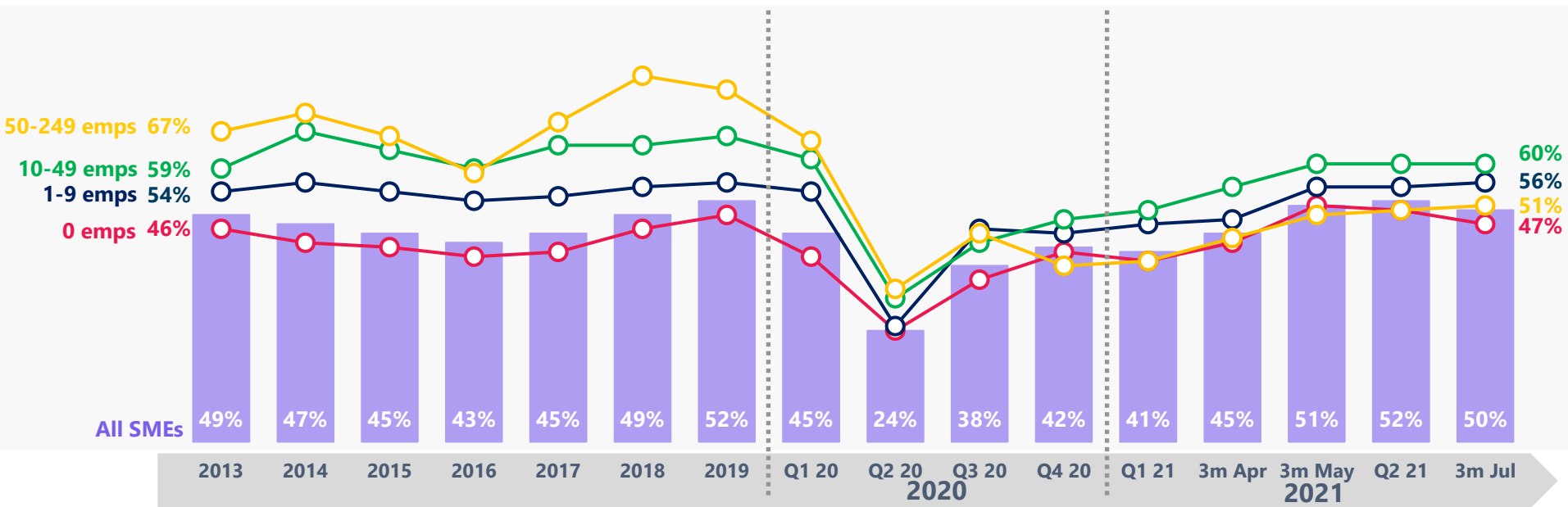
Time series: Have grown (excluding Starts)



Between 2012 and 2019, the proportion of SMEs (excluding Starts) reporting growth varied little (39-42%) and was 37% for 2019. 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 13% for Q1 2021 and 15% for Q2 2021 and the 3 months to July. Back 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 reaching 65% in Q1 2021. It was 59% in the latest period to July 2021

After a sharp decline to 24% in Q2 2020, growth aspirations have steadily increased, reaching 52% in Q2 2021 and stable since, now back in line with aspirations in 2019.

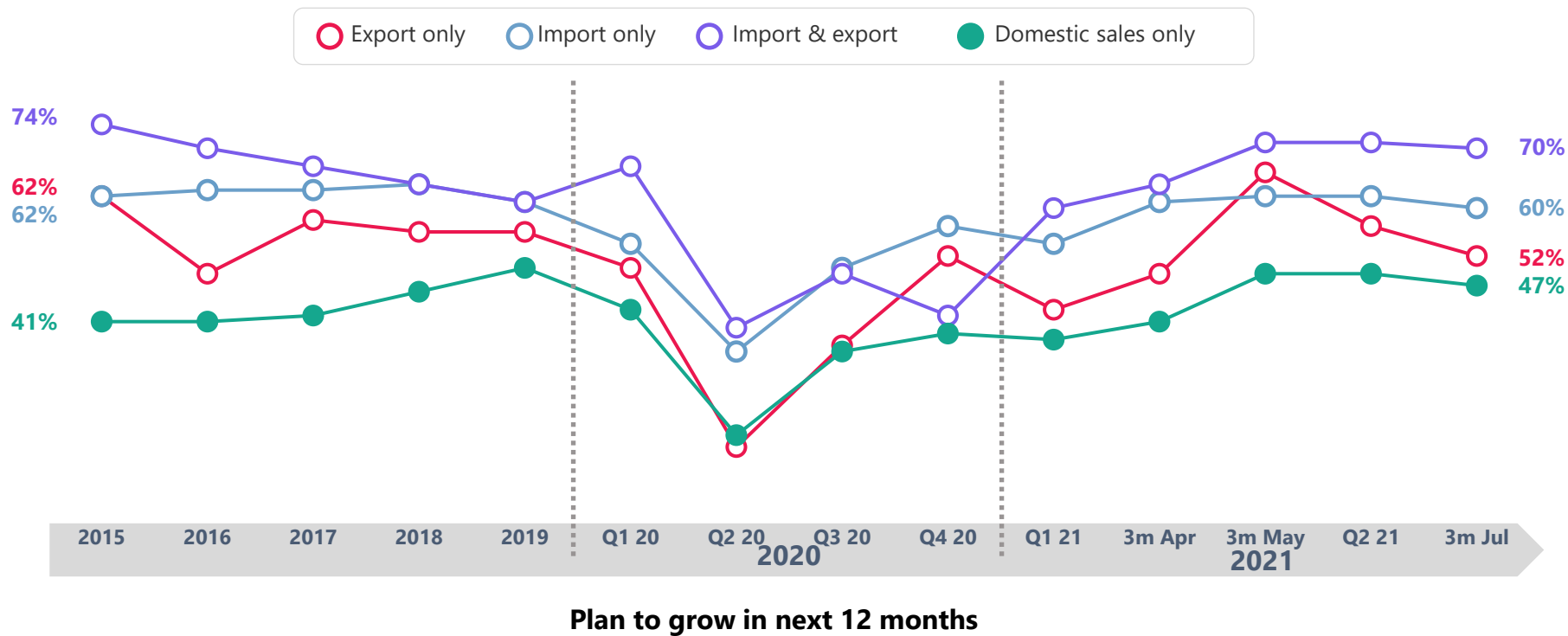
*Time series: Have plans to grow*



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 then, after a period of stability, to 52% for Q2 2021 and 50% for the 3 months to July, back in line with pre-pandemic levels

The growth ambitions of all SMEs are higher than in Q4 2020, notably for those who are fully international. Export-only SMEs are somewhat less likely to anticipate growth than they were earlier in 2021

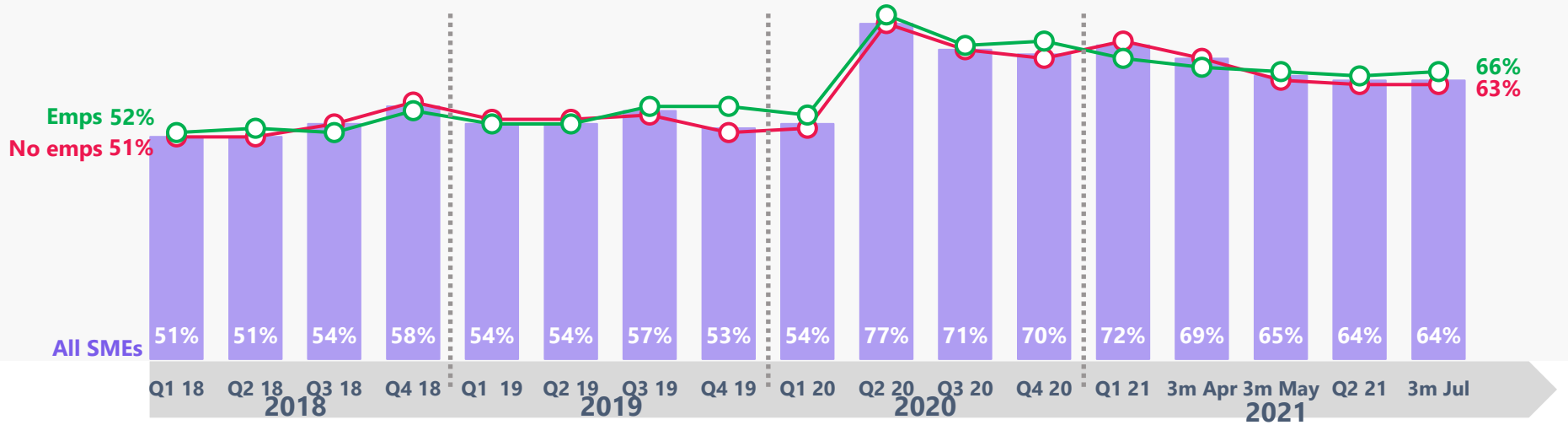
Time series: Growth plans by extent of international trade alongside domestic sales





# Almost two thirds of SMEs were being cautious due to the future feeling uncertain, still markedly higher than in 2019 but lower than the 77% reported in Q2 2020

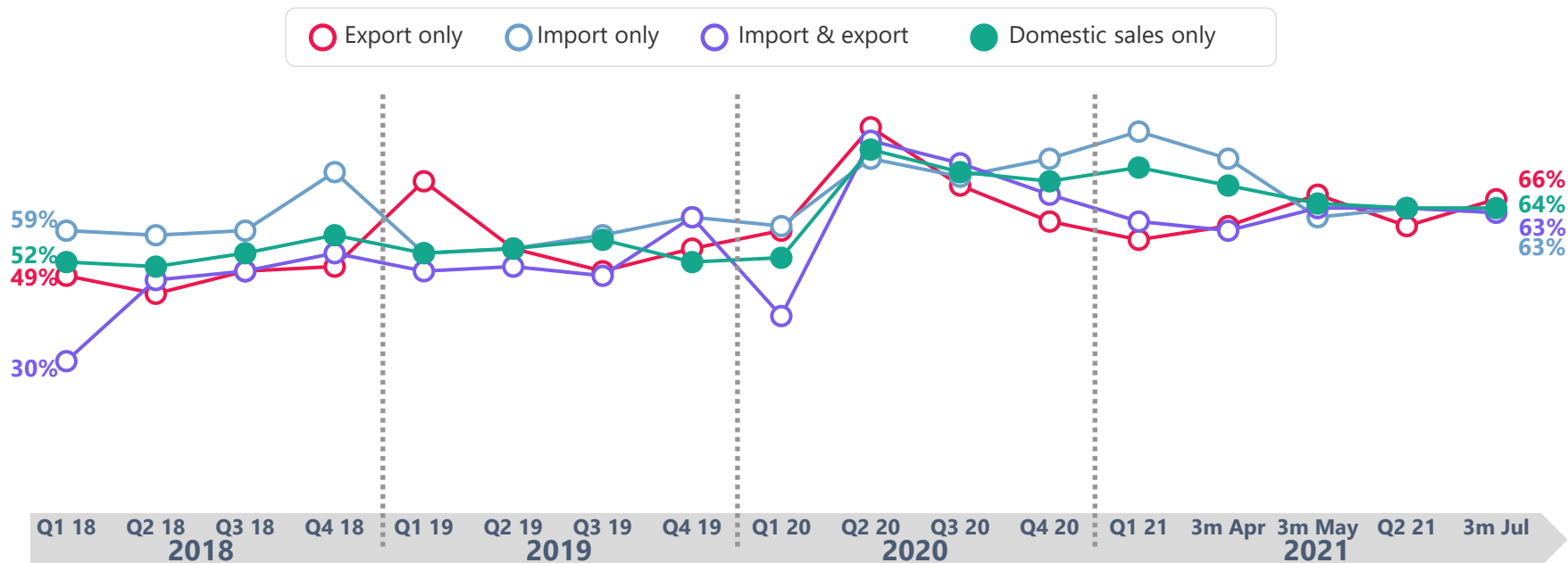
*Time series: Agree that future is uncertain so being cautious*



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 has declined somewhat since then, to 64% in Q2 2021 and currently

# There remained little to choose between the levels of concern by international trade

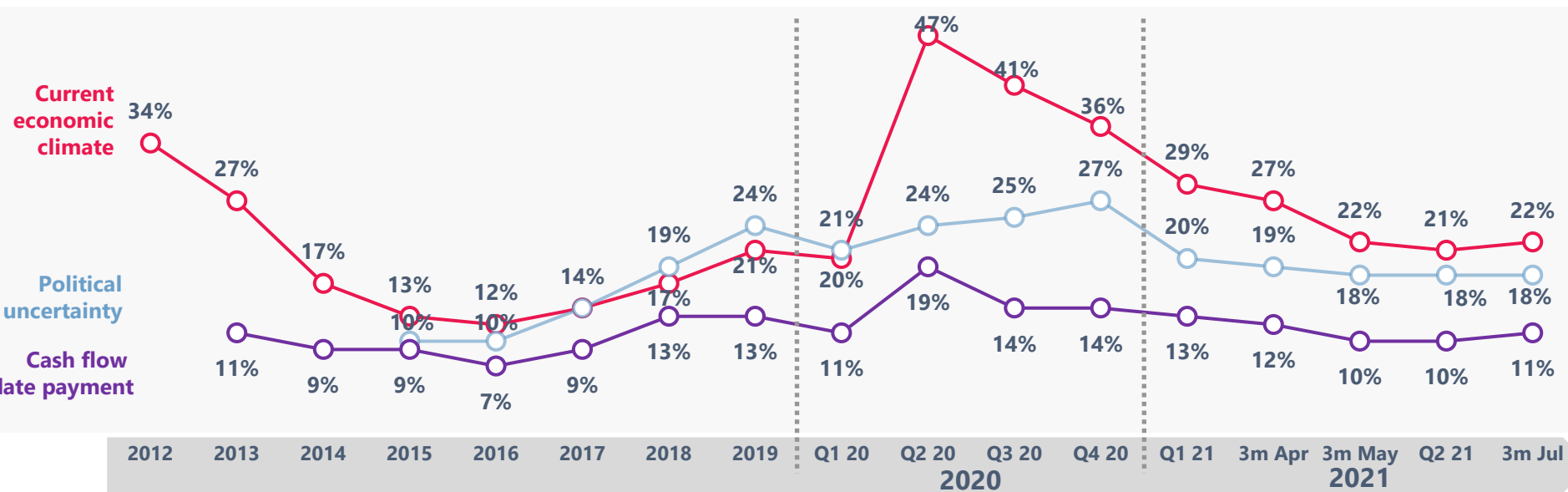
Time series: Agree that future is uncertain so being cautious



Future uncertain so being cautious

Just over a fifth of SMEs saw the current economic climate as a major barrier, currently stable after a marked decline to Q2 2021 from the 47% concerned in Q2 2020. Concerns about political uncertainty remain lower in 2021 than in 2020, now back in line with 2018

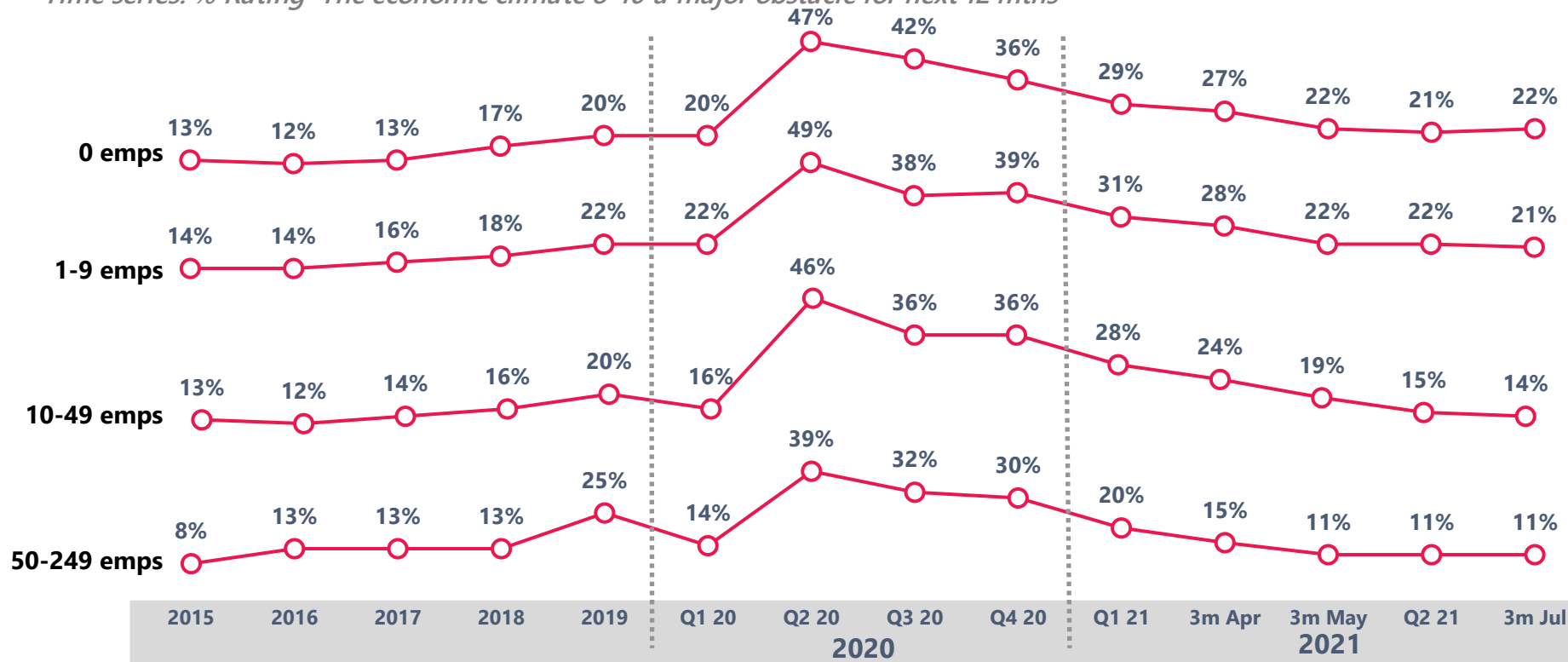
*Time series: 8-10 Major obstacle to running business in next 12 months*



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 steady decline since, to 22% 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 also declined since Q2 2020

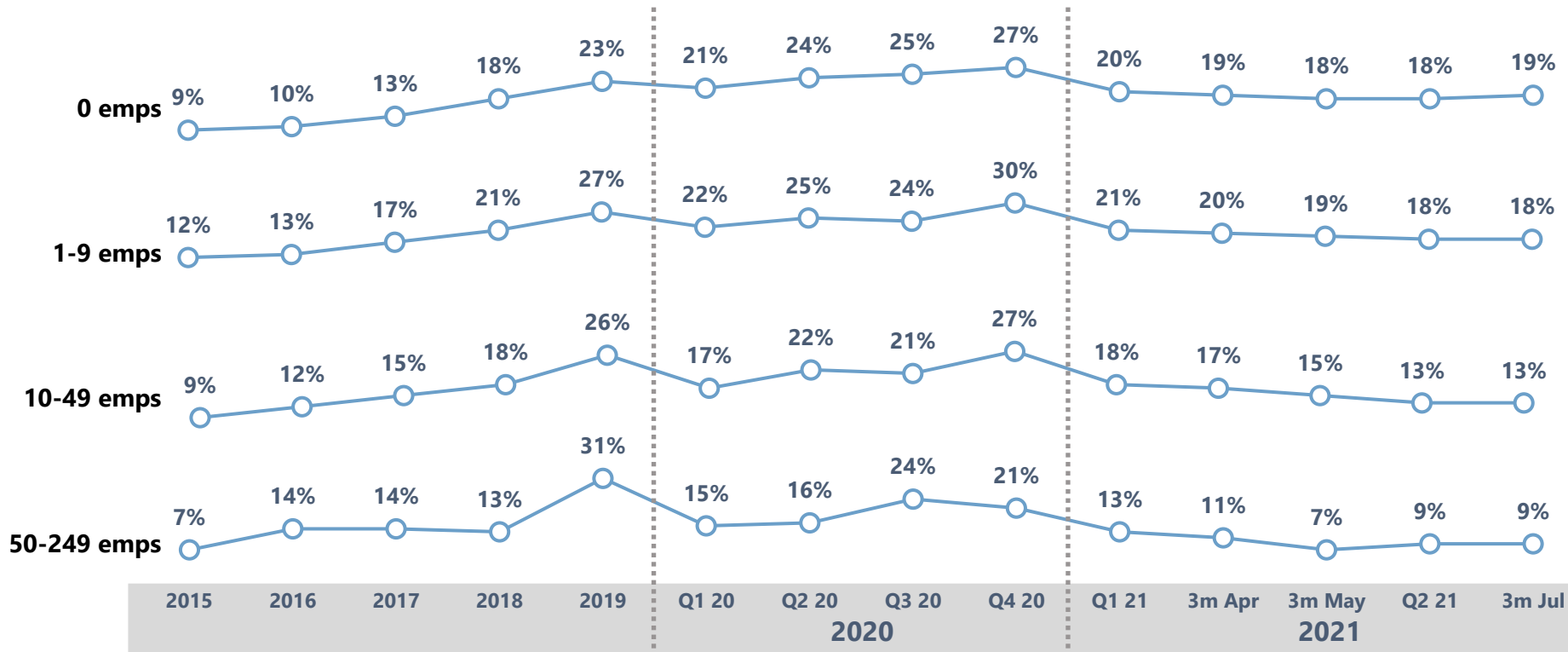
# After a marked increase from Q1 to Q2 2020 across all size bands, concern about the economic climate has declined steadily, notably for the larger SMEs, back to pre-pandemic levels

*Time series: % Rating 'The economic climate' 8-10 a major obstacle for next 12 mths*



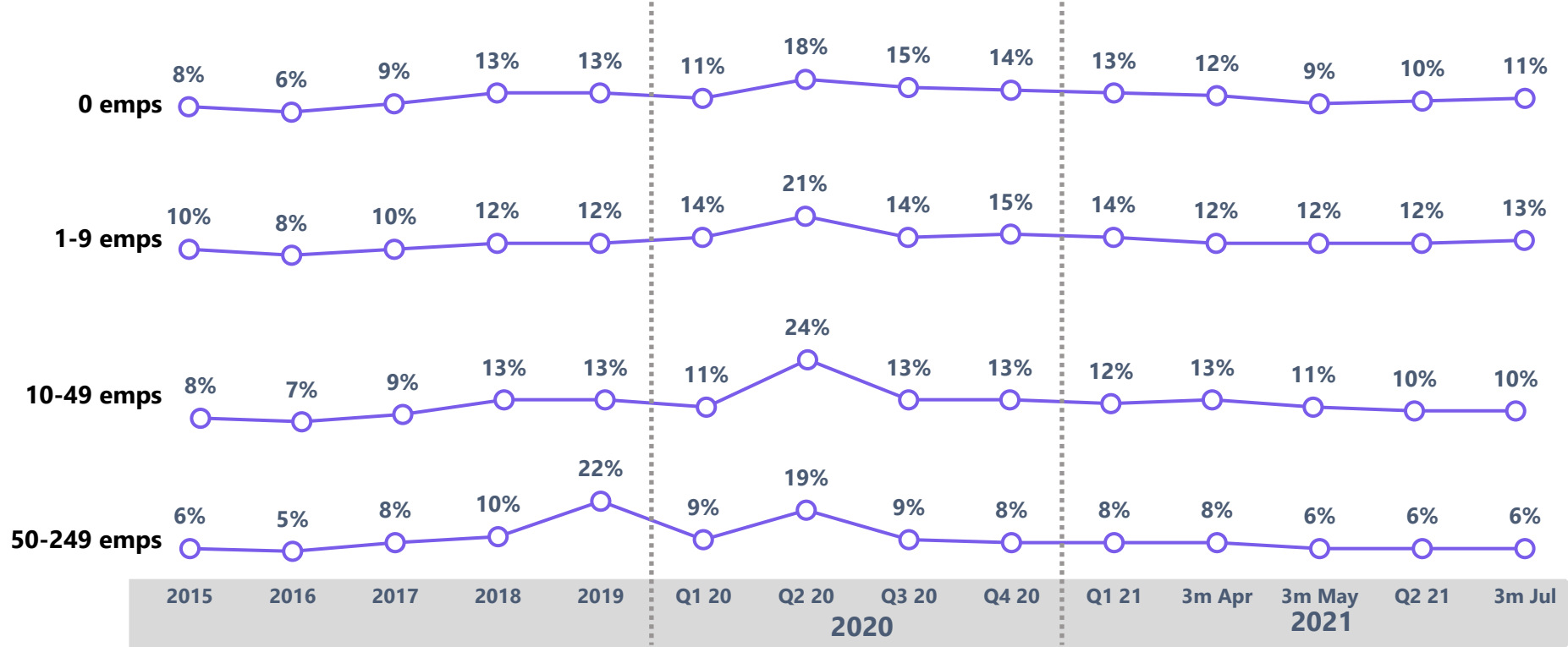
# Concern about political uncertainty increased Q3 to Q4 2020 for all but the largest SMEs but was lower again in 2021, notably for the larger SMEs

Time series: % Rating 'Political uncertainty' a major obstacle for next 12 mths



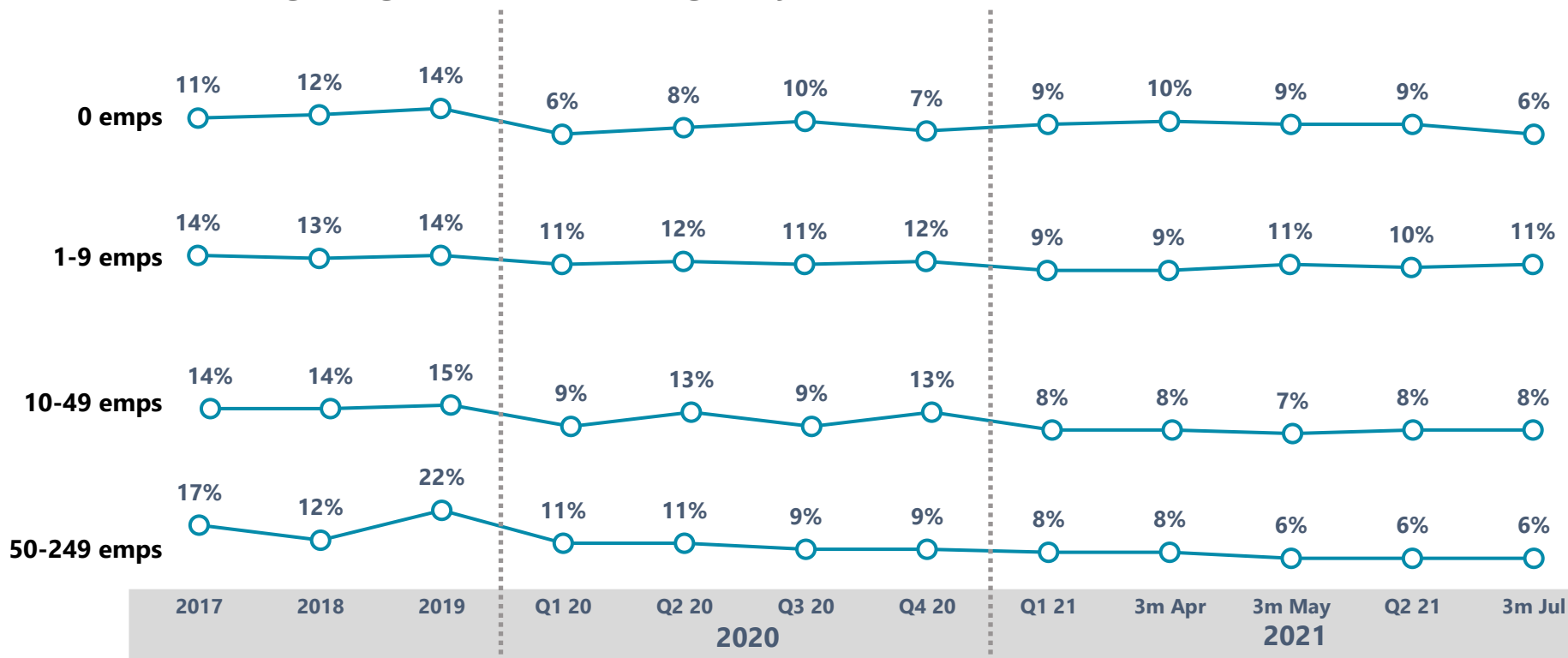
Levels of concern about cash flow and late payment increased from Q1 to Q2 2020 to some degree for all size bands, but have reduced since to pre-pandemic levels and remain stable.

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



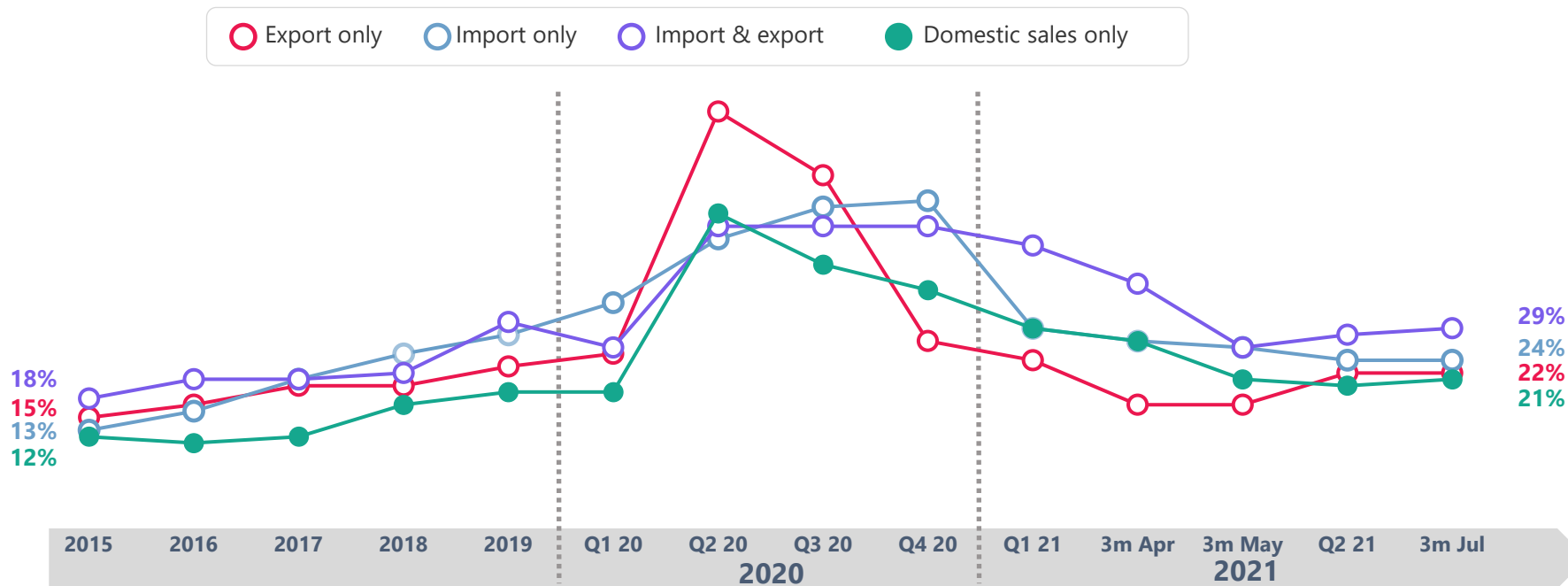
## Levels of concern about the value of sterling have been broadly stable over recent quarters

*Time series: % Rating 'Changes in the value of sterling' a major obstacle for next 12 mths*



Since Q4 2020, there has been a decline in levels of concern about the economic climate amongst all groups, currently stable with relatively little to choose between them

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

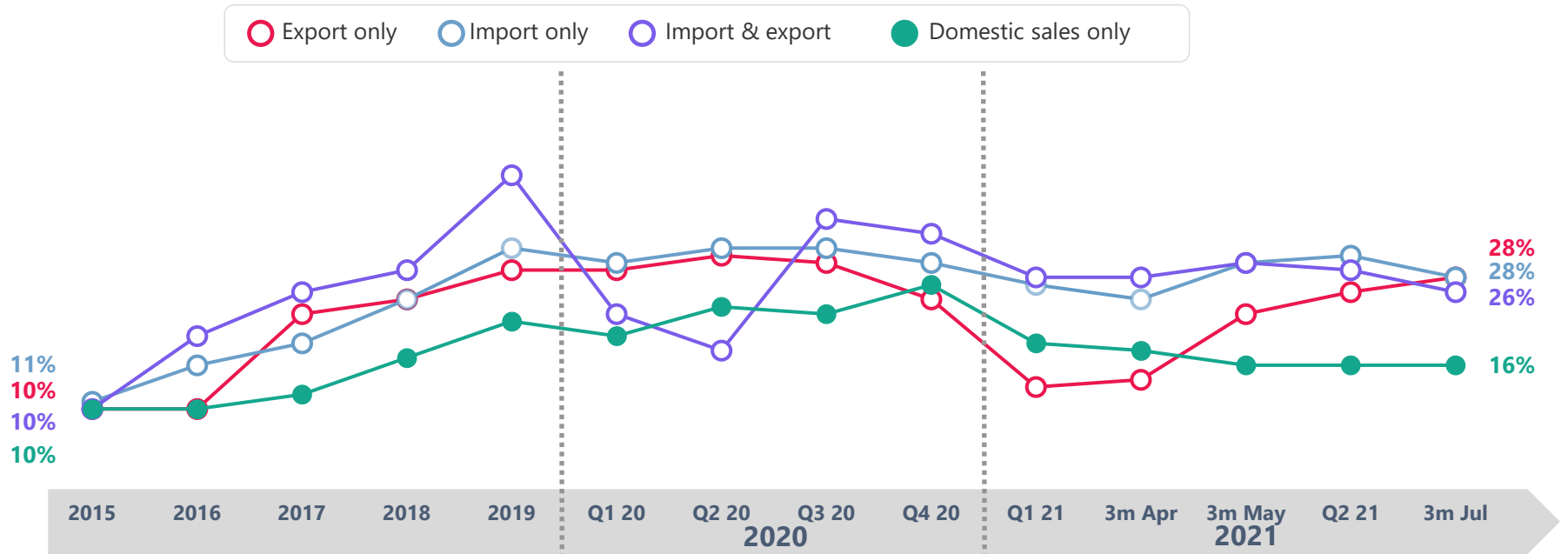


### Rating the current economic climate a major obstacle (8-10)



# SMEs with an element of international trade to their business remain more likely to see political uncertainty as a barrier

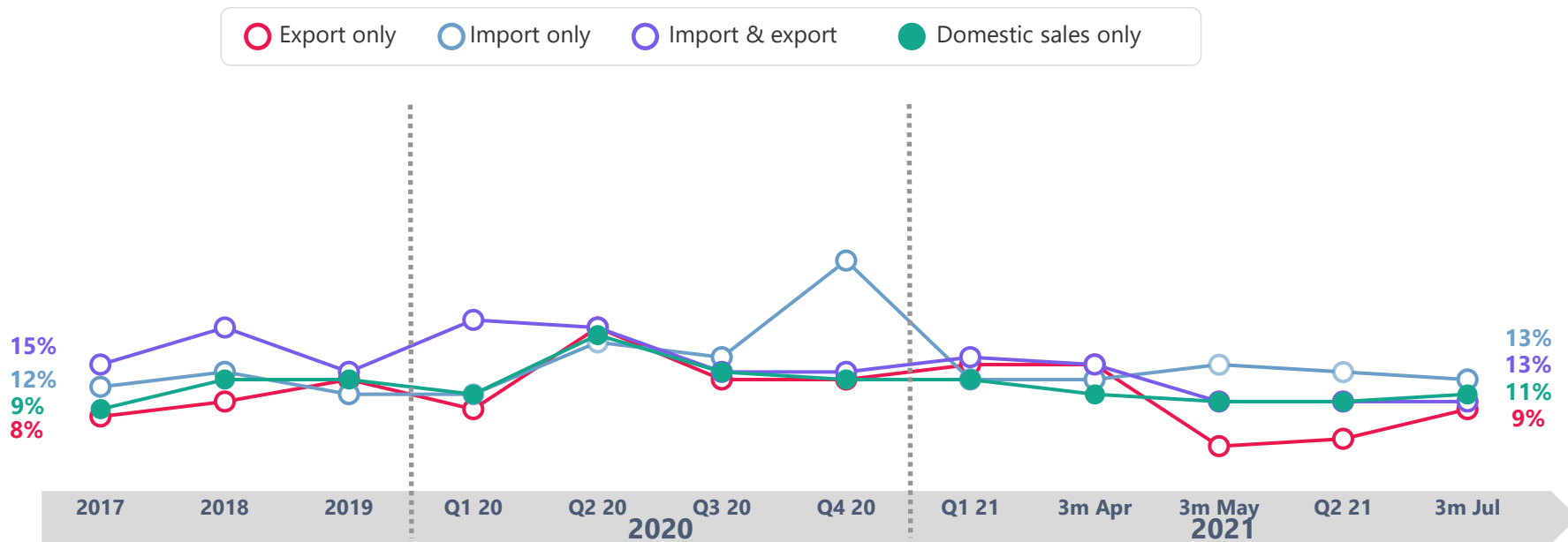
Time series: 8-10 political uncertainty by extent of international trade alongside domestic sales



## Rating political uncertainty a major obstacle (8-10)

The proportion seeing cash flow / late payment as a barrier is currently stable with relatively little to choose between the groups

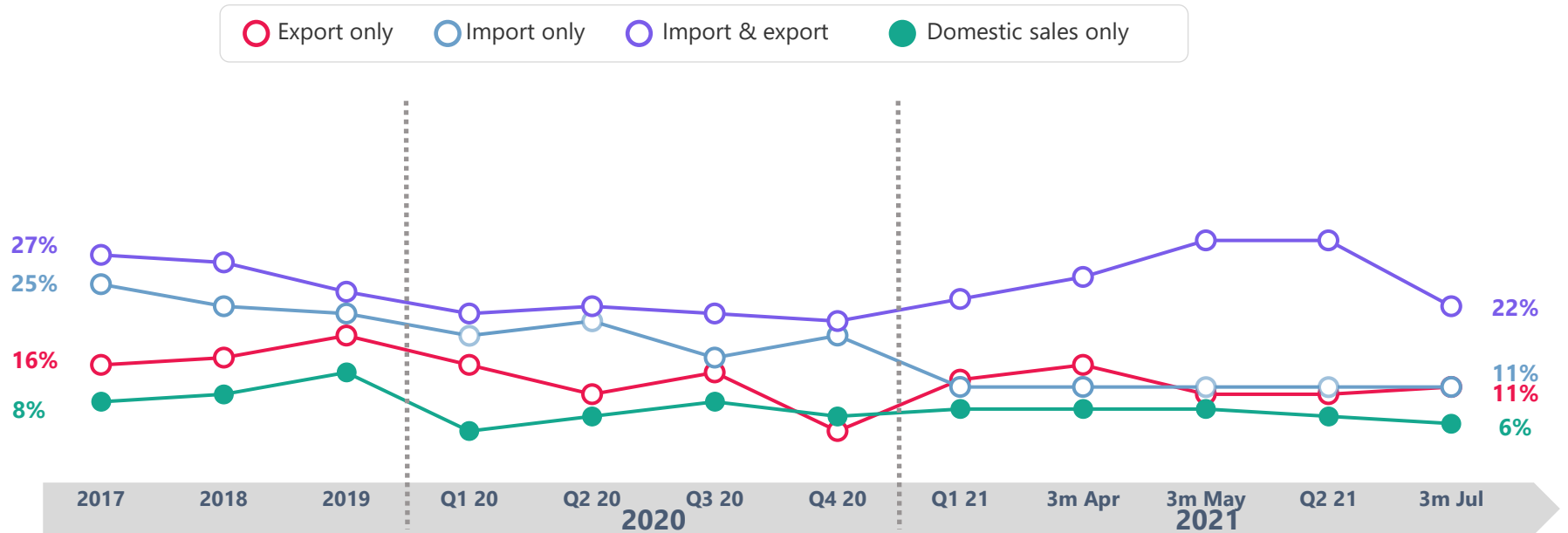
Time series: 8-10 cash flow / late payment by extent of international trade alongside domestic sales



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

# Fully international SMEs remained the most concerned about changes in the value of sterling, now back in line with 2020, with currently little to choose between the other groups

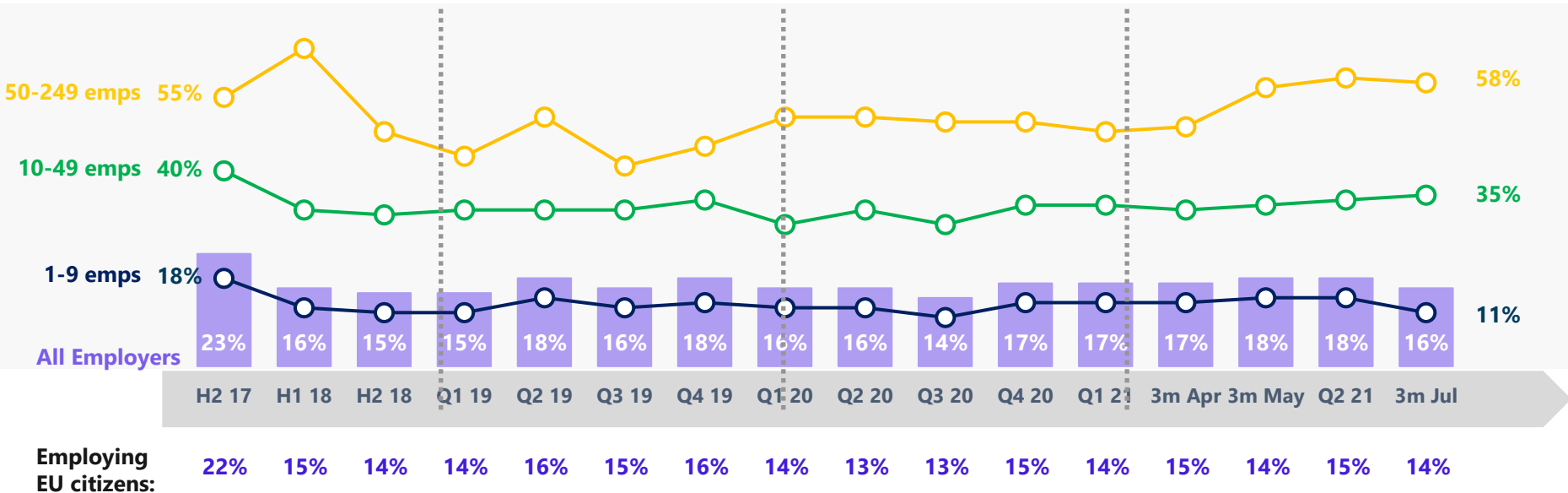
*Time series: 8-10 changes in the value of sterling by extent of international trade alongside domestic sales*



## 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, with the largest SMEs the most likely to employ overseas staff

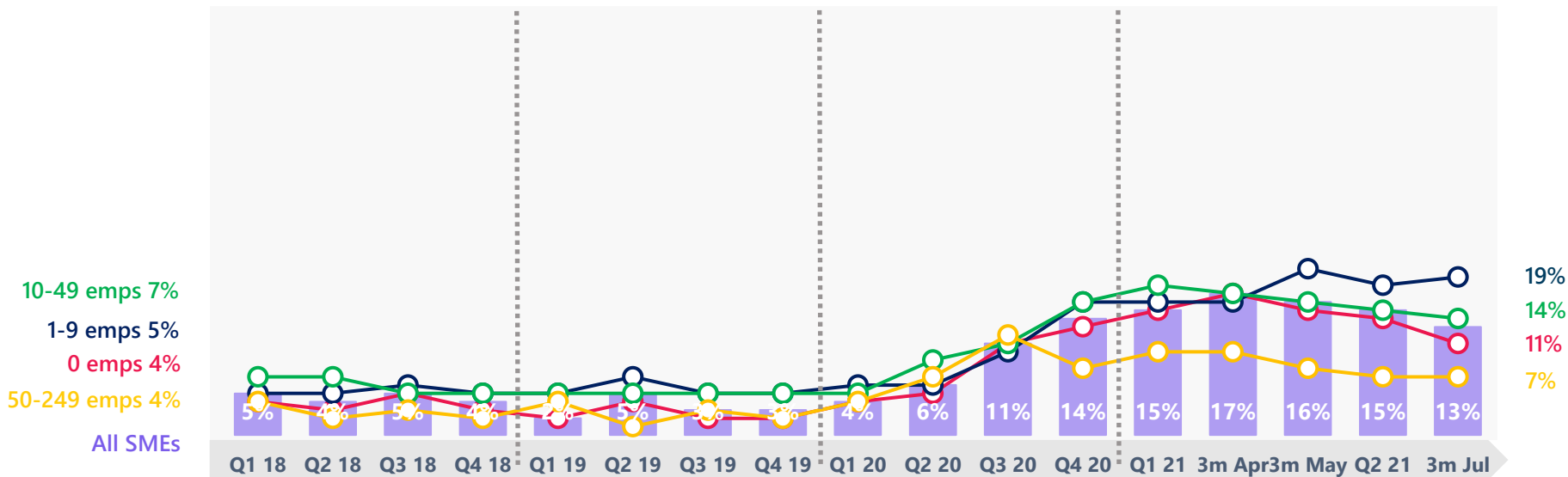
Time series: Employ non-UK staff (from the EU or elsewhere overseas)



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 July, 14% of employers had staff from the EU and 6% had staff from elsewhere (up from 5% in Q1 2021).

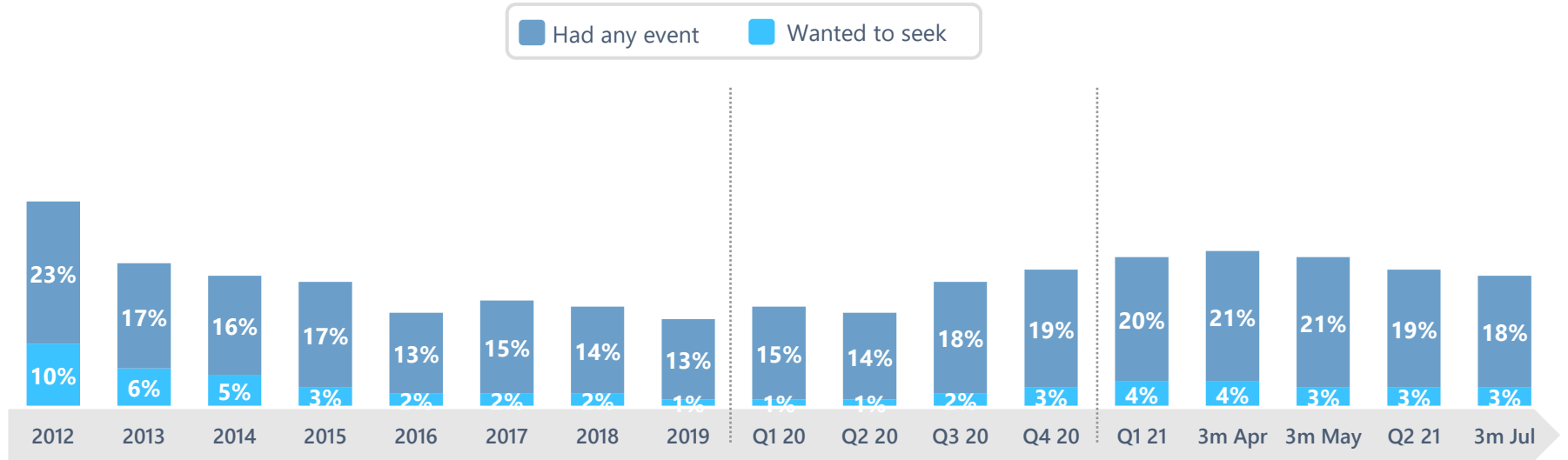
13% of SMEs reported having a need for external funding, slightly lower than earlier in 2021, but in line with Q4 2020 and higher than pre-pandemic levels. Need amongst the largest SMEs remains lower than their peers, but stable

*Time series: Had a need for external funding in past 12 months (whether applied or not)*



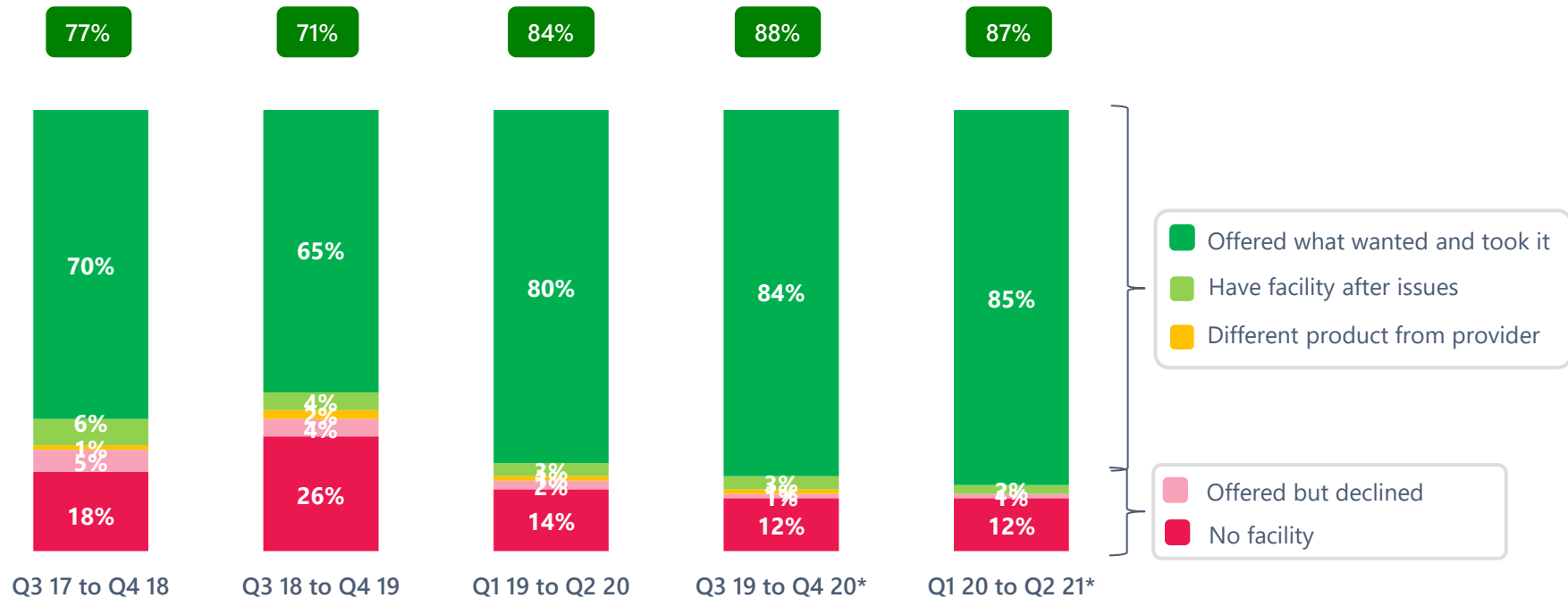
21% of SMEs reported any appetite for finance in the previous 12 months (an event or those who had wanted to seek finance), in line with Q4 2020 but slightly lower than earlier in 2021

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



# Analysis by application period shows improvements in success rates for applications in 2020 and 2021 when new Government backed schemes were available

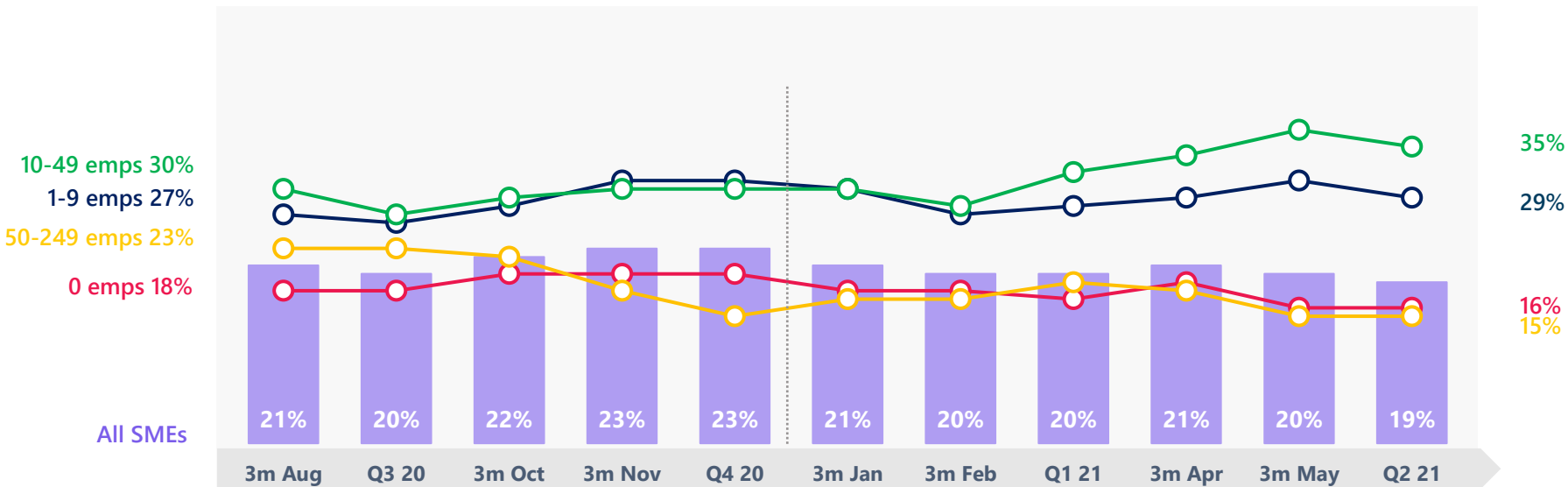
*Global success rate: all applications reported from Q1 2018 to Q2 2021, occurring in the periods shown*



This chart will be updated every quarter end  
Last updated Q2 2021

# 1 in 5 SMEs had approached a bank for Covid related finance. Those with 1-9 or 10-49 employees remained more likely to report such an approach

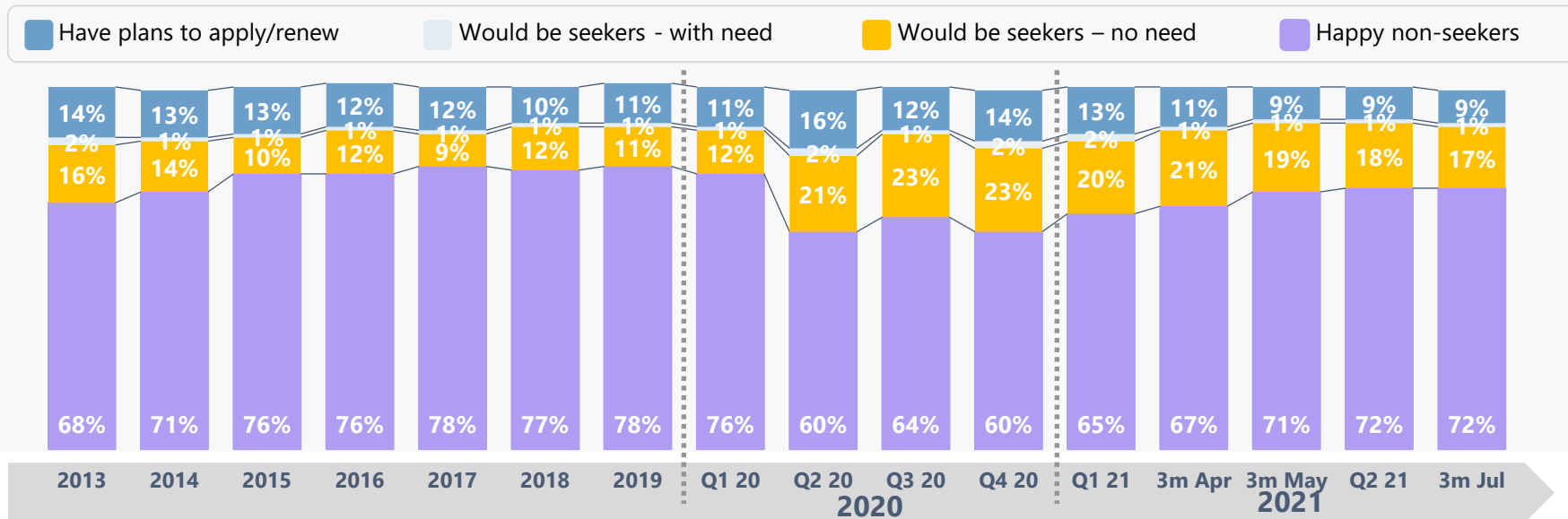
*NEW Time series: Approached main/other bank for Covid related finance*





## Q2 2020 saw a marked increase in those planning to apply and those who expected to be 'Future would-be seekers of finance', which was maintained to Q1 2021 but has been somewhat lower since, as fewer SMEs plan to apply

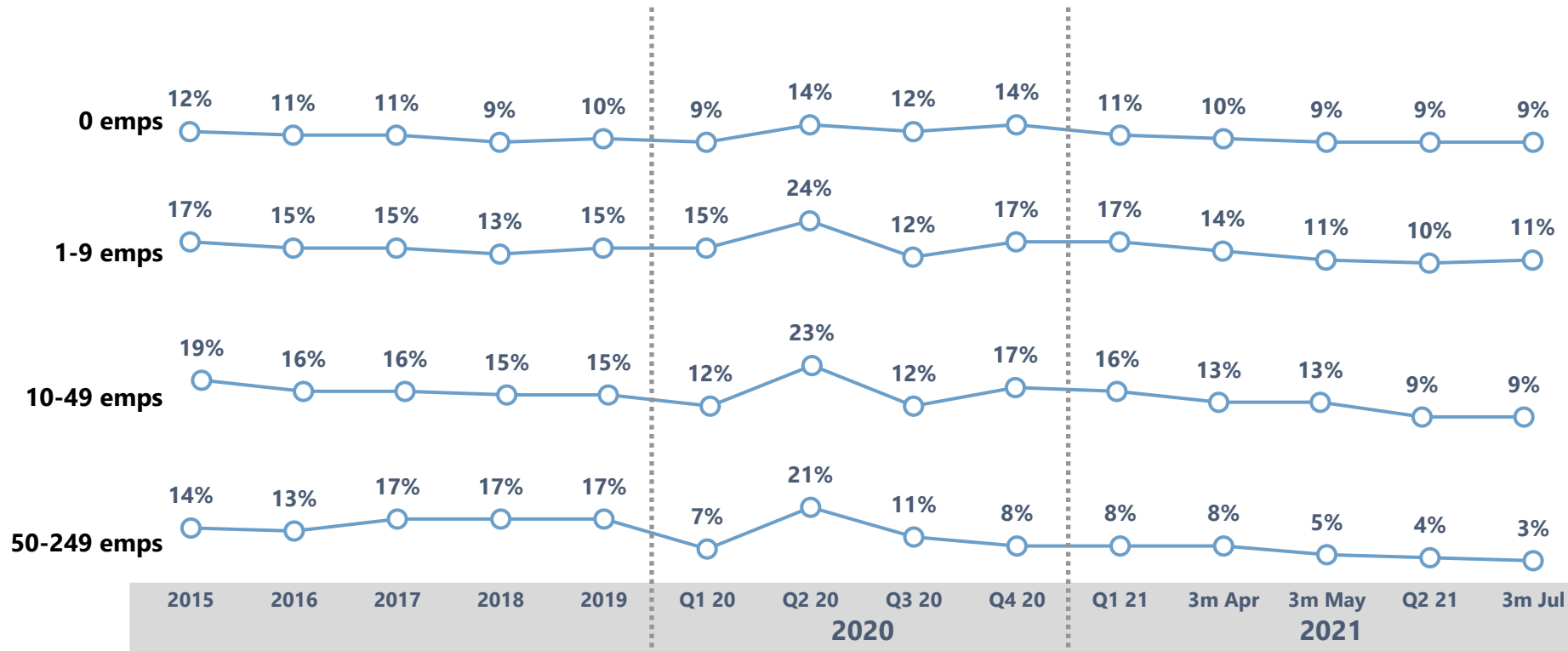
Time series: Anticipated borrowing profile for next 3 months after ...



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 2020 and is currently 72%. 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%. This combined appetite for finance is currently slightly lower (9% and 18%) than this but still ahead of pre-pandemic levels

Future appetite for finance increased across all size bands from Q1 to Q2 2020. It has declined somewhat since and is now below pre-pandemic levels

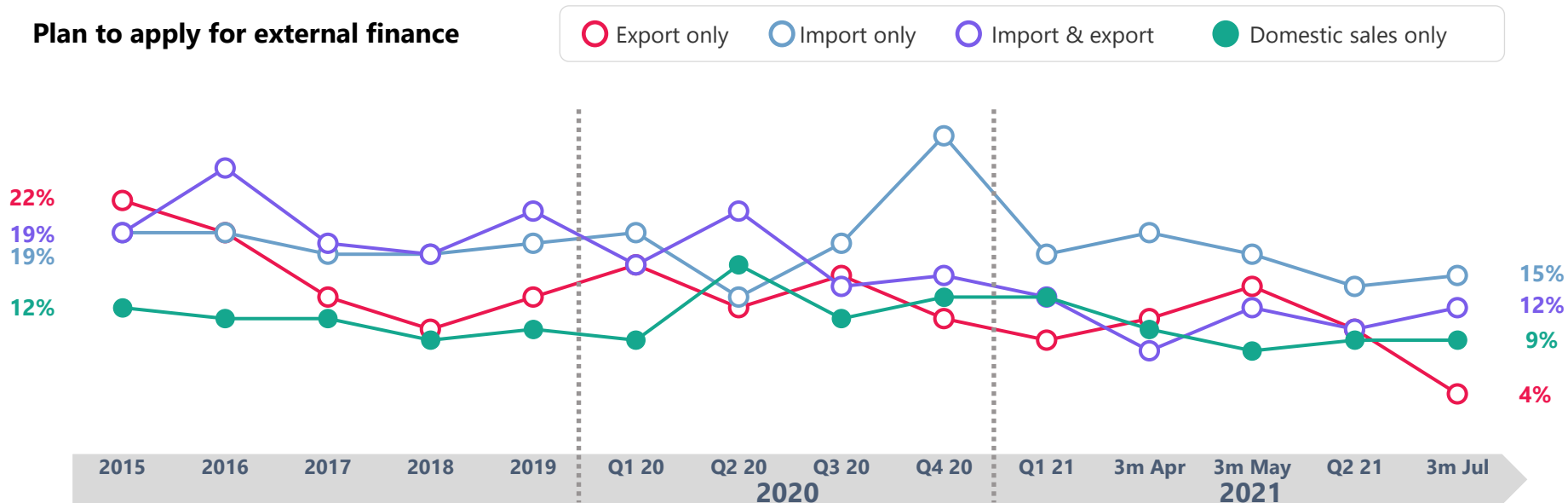
*Time series: % planning to apply*



SMEs with an element of importing to their business are both more likely to be using external finance and slightly more likely to be planning to apply, albeit at lower levels than typically seen

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

### Plan to apply for external finance

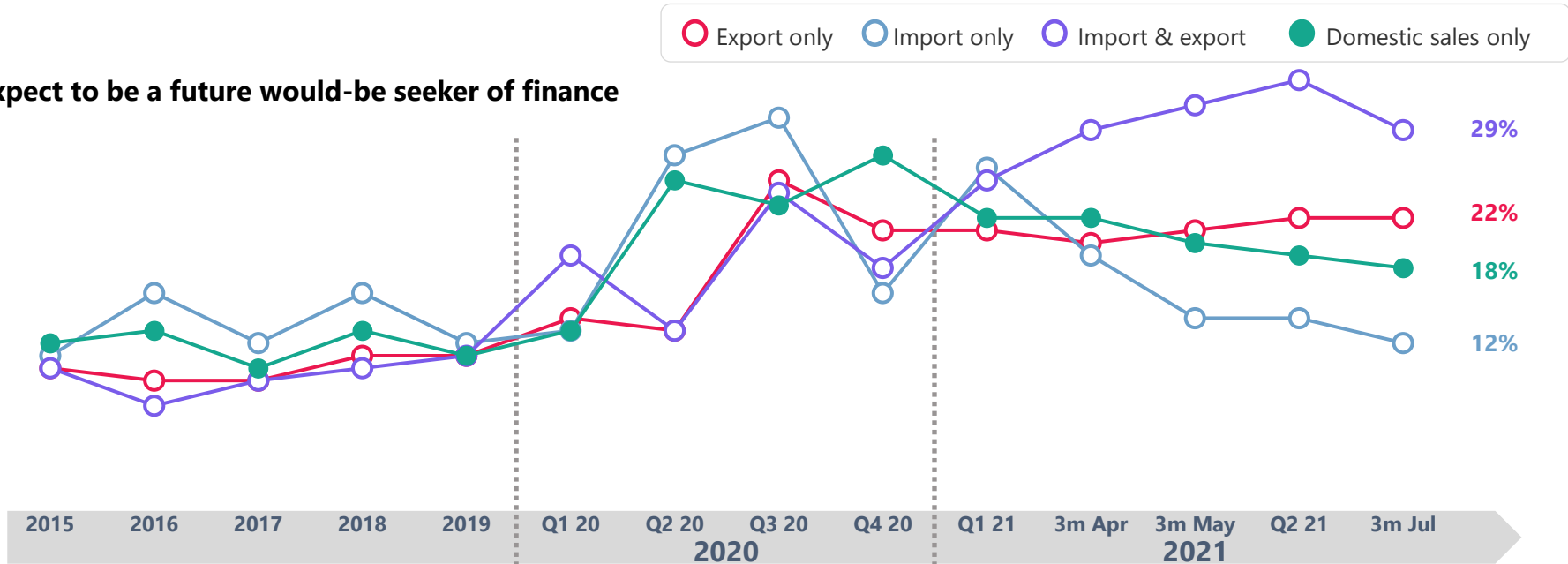


Appetite for finance amongst those that both import and export has varied over time. It fell sharply from the peak of 25% in 2016 to 10% in Q1 2018 and is currently 12%. Appetite amongst domestic SMEs has declined slightly since Q2 2020 and is now in line with 2019 (12%)

# There is no consistent pattern for international SMEs in terms of FWBS. Fully international SMEs remain more likely to meet the definition compared to declining proportion of import-only SMEs

*Time series: future would be seekers by extent of international trade alongside domestic sales*

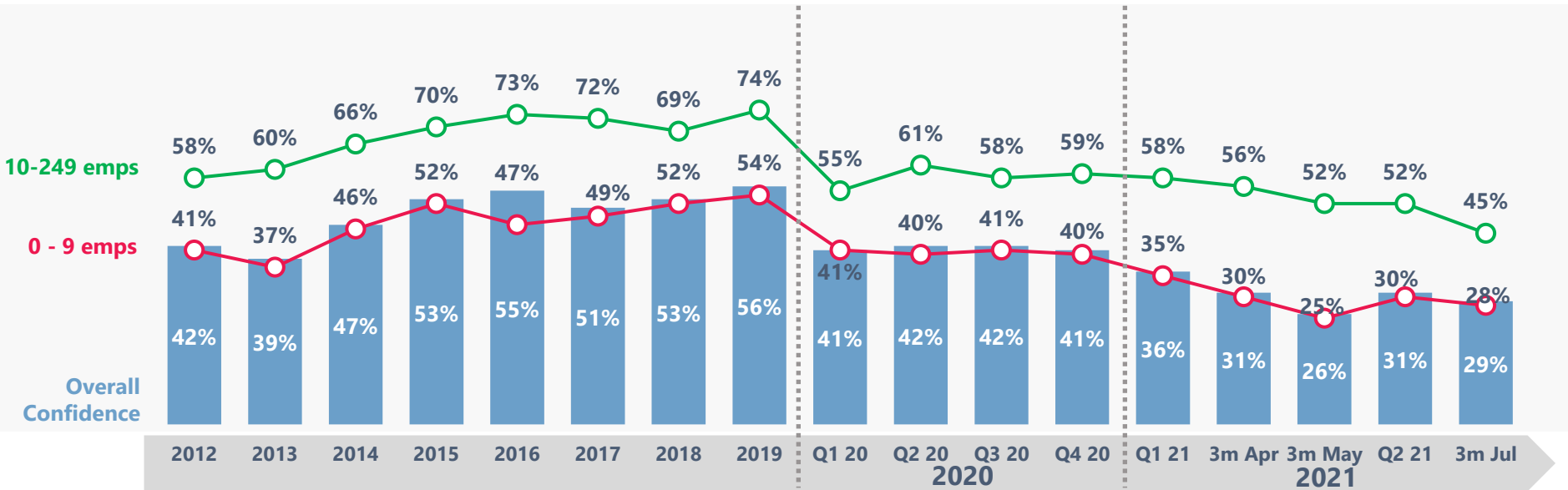
## Expect to be a future would-be seeker of finance



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. Fully international SMEs have seen an increase in this group since Q4 2020 as the proportion planning to apply has remained more stable

# As appetite for finance reduced slightly, there has been a more marked decline in confidence of success, with 3 in 10 potential applicants confident of success

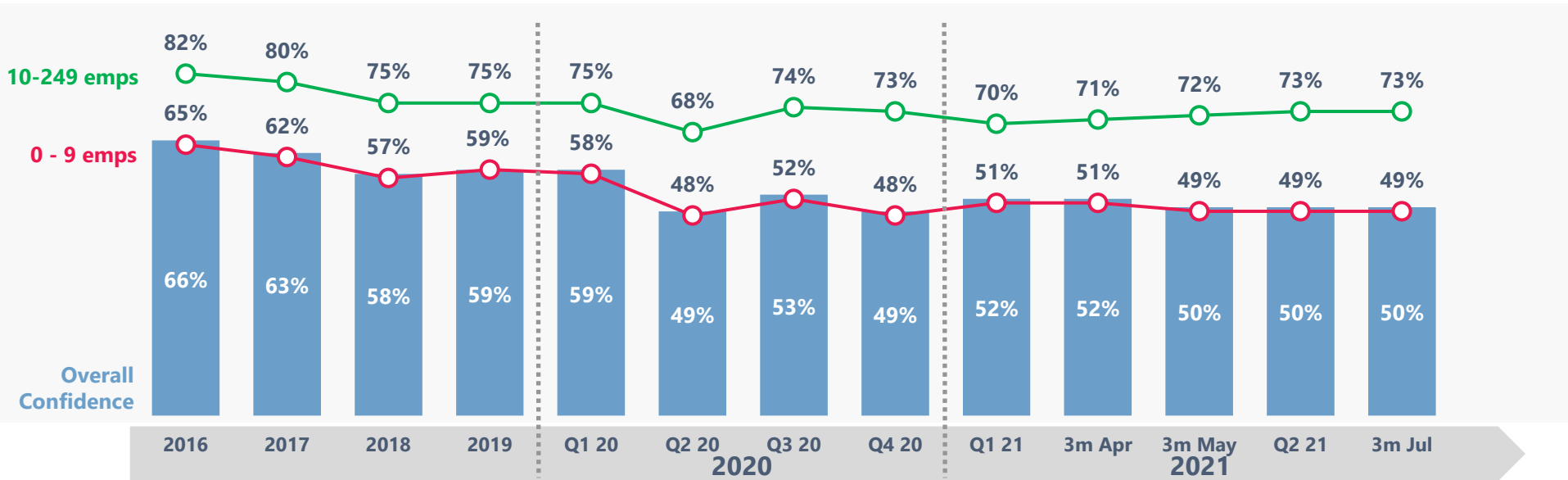
Time series: Confidence (very/fairly) bank will agree to facility next 3 months – by size



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 2019, declined in Q1 2020 (41%) and was then broadly stable, but declined again from Q1 2021 to 29% currently, one of the lowest levels seen to date. Larger applicants remained more confident of success than smaller ones, but also at lower levels than previously seen

# Confidence amongst 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

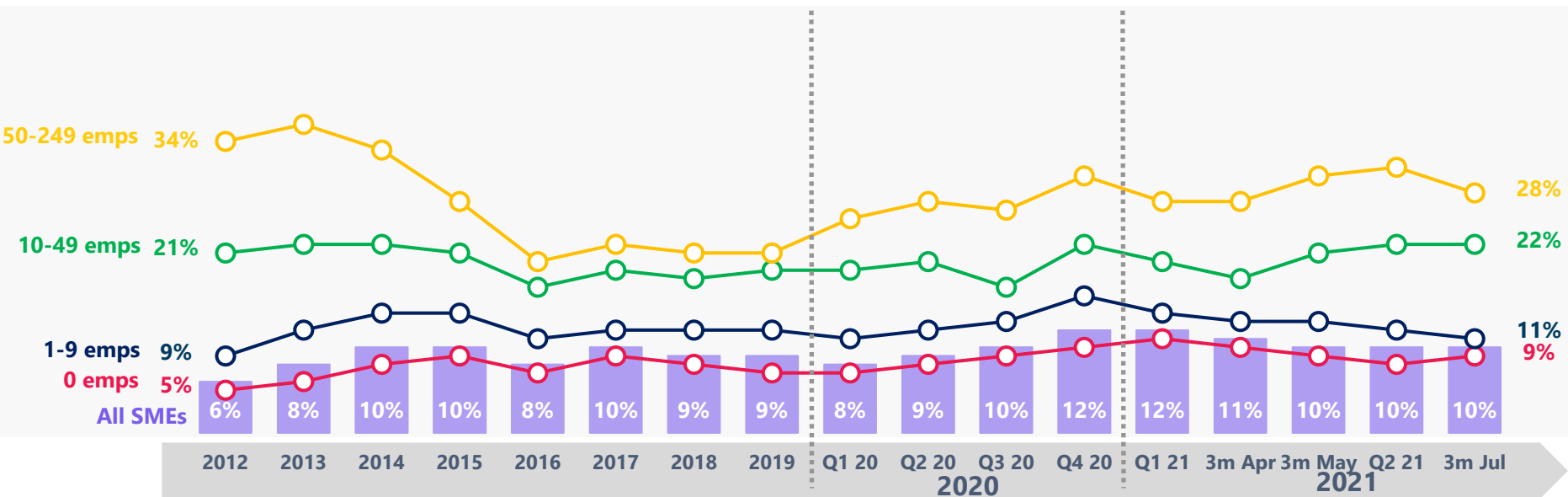
Time series: Confidence (very/fairly) bank would agree to facility next 3 months – by size



Half (50%) 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 (73% v 45%). 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 (49% v 28%, 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 has been broadly stable since.

*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 10% in the current period

# Quality Standards and Other Details

BDRC is certified to ISO 20252 and 27001, the recognised international quality standards for market research and information security.

- Adherence to the standard is independently audited once per year.
- Where subcontractors are used by BDRC, they are assessed to ensure any outsourced parts of the research are conducted in adherence to ISO 20252 and 27001.

All work will be carried out in conformity to these standards, the MRS Code of Conduct, and all relevant legal requirements



