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

Use of any external finance has returned to levels seen in 2019:

- 43% of SMEs used external finance in 2021, back in line with 2019 (45%) after a dip in 2020 (37%).
- The increase in usage was seen more amongst smaller SMEs, with the largest SMEs less likely to be using external finance than previously (37%), and the highest usage amongst those with 10-49 employees (62%) and those in the Hotel & Restaurant sector (55%)

31% of SMEs were using core forms of finance but there has been an increase in use of other forms of finance to 24%:

- Use of any core forms of finance was unchanged overall from 2020, with a marked increase in the use of bank loans (from 9% in 2019 to 16% in 2021) counterbalancing a reduction in use of overdrafts (from 23% to 11% over the same period).
- 24% were using one of the other forms of finance specified, up from 16% in 2019, due primarily to more use being made of grants (1% in 2019 to 14% in 2021).

1 in 5 SMEs was borrowing more compared to before the pandemic:

- 21% of all SMEs were either borrowing where they weren't before, borrowing more than before the pandemic or were making more use of existing facilities, and this was more likely to be the case for those with 1-9 (30%) or 10-49 employees (33%), those trading for 6-9 years (28%) and those in the Hotel & Restaurant sector (29%).

1 in 10 of all SMEs had concerns about repaying facilities, especially new borrowers. Half of those concerned had contacted, or were planning to contact, their lender:

- Across both general external finance and pandemic specific facilities, the equivalent of 9% of all SMEs said they were worried about repayment. This increased to 32% of those who were borrowing now when they had not been pre-pandemic and 31% of those who had taken on extra facilities, while fewer of those borrowing the same as they were pre-pandemic were concerned (10%).
- Of those concerned, a quarter had already spoken to their lender about the matter and a further quarter planned to speak to them. 55% had no such plans with limited variation by size of SME.

Almost 4 in 10 SMEs reported an injection of personal funds, with more of them 'having' to be made:

- 37% of SMEs reported an injection of personal funds, up from 32% in 2020 and the more typical 28-29% seen pre-pandemic. 26% of SMEs said that they felt they 'had' to make the injection, a higher proportion of all injections than previously seen (from 60% in 2020 to 70% in 2021).
- Injections of personal funds were much more likely to be made by Starts, SMEs with fewer than 10 employees, those with a worse than average external risk rating, those that had been a 'Would-be seeker' of finance and those in the Transport or Hotel & Restaurant sectors.

Almost 4 in 10 SMEs received trade credit, and two thirds of those who did said that it reduced their need for external finance:

- 38% of SMEs received trade credit, little changed from 2019-20 but a steady increase from the 31% receiving trade credit in 2014. Larger SMEs remained more likely be using trade credit, as did those with a better risk rating, those trading for more than 5 years and those in Manufacturing and Wholesale/Retail.
- Amongst those receiving trade credit, 63% said that it reduced their need for finance, the equivalent of 24% of all SMEs. Those with 10-49 employees, or a better risk rating, or in the Manufacturing, Construction or Wholesale/Retail sectors were the most likely to say that this was the case.

Bringing together external finance, trade credit and personal injections of funds results in 74% of SMEs having access to any 'Business funding':

- This is a slightly higher proportion than previously seen, due to both more use of external finance and injections of personal funds. Those with 1-9 or 10-49 employees were more likely to be using business funding (83% and 89%) while those with 50-249 employees, with their lower use of external finance, were in line with 0 employee SMEs (both 71%).

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 2021 was 43%, back in line with the 45% reported in 2019. Compared to 2020, use of finance varied less during 2021 and more details on use of finance over time are provided below.

The table below shows that those with 1-9 or 10-49 employees were more likely to be using some form of external finance:

Use of external finance in last 5 years YEQ4 21 – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*16,486*	*3313*	*5466*	*5260*	*2447*
Use now	43%	38%	56%	62%	37%
Used in past but not now	3%	3%	3%	3%	2%
Not used at all	54%	59%	42%	34%	61%

Q14/15 All SMEs – new definition from Q1 2018

Analysis by recent quarter showed that use of external finance increased from 30% in Q2 2020 to 45% a year later in Q2 2021 but finished the year somewhat lower at 40% in Q4:

Use of external finance in last 5 years

Over time – all SMEs By date of interview	Q4 2019	Q1 2020	Q2 2020	Q3 2020	Q4 2020	Q1 2021	Q2 2021	Q3 2021	Q4 2021
Unweighted base:	*4500*	*4505*	*4511*	*4500*	*4252*	*4263*	*4250*	*3888*	*4085*
Use now	43%	32%	30%	40%	44%	42%	45%	43%	40%
Used in past but not now	3%	2%	3%	3%	4%	5%	2%	3%	3%
Not used at all	54%	66%	66%	57%	52%	54%	53%	54%	57%

Q14/15 All SMEs – new definition from Q1 2018

The decline in use of finance between Q2 and Q4 2021 was seen for all but those with 1-9 employees. Use of finance amongst the largest SMEs declined during 2020 and has continued to decline in 2021 with less use being made of overdrafts and credit cards:

Currently use external finance

Over time – all SMEs By date of interview – row percentages	Q4 2019	Q1 2020	Q2 2020	Q3 2020	Q4 2020	Q1 2021	Q2 2021	Q3 2021	Q4 2021
All SMEs	**43%**	**32%**	**30%**	**40%**	**44%**	**42%**	**45%**	**43%**	**40%**
0 emp	41%	27%	25%	36%	39%	37%	41%	40%	36%
1-9 emps	48%	46%	45%	50%	55%	55%	57%	54%	56%
10-49 emps	59%	55%	53%	61%	65%	66%	65%	59%	59%
50-249 emps	72%	64%	51%	65%	53%	48%	36%	36%	29%

Q14/15 All SMEs – new definition from Q1 2018

The table below shows use of finance by risk rating for recent quarters. Q2 2021 saw an increase in use of finance, notably for those with a low risk rating, but this was not maintained to the end of the year:

Currently use external finance

Over time – all SMEs By date of interview – row percentages	Q4 2019	Q1 2020	Q2 2020	Q3 2020	Q4 2020	Q1 2021	Q2 2021	Q3 2021	Q4 2021
All SMEs	**43%**	**32%**	**30%**	**40%**	**44%**	**42%**	**45%**	**43%**	**40%**
Minimal	41%	42%	37%	44%	41%	47%	49%	47%	42%
Low	46%	36%	40%	49%	56%	43%	53%	49%	43%
Average	41%	34%	25%	40%	44%	39%	40%	44%	37%
Worse than average	43%	31%	28%	38%	38%	41%	45%	38%	40%

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

At the end of 2021, Stars were the least likely to be using external finance by some margin from their older peers (22%). As at the end of 2020, those trading 6-9 years were the most likely to be using external finance:

Currently use external finance

Over time – all SMEs By date of interview – row percentages	Q4 2019	Q1 2020	Q2 2020	Q3 2020	Q4 2020	Q1 2021	Q2 2021	Q3 2021	Q4 2021
All SMEs	**43%**	**32%**	**30%**	**40%**	**44%**	**42%**	**45%**	**43%**	**40%**
Starts	72%	28%	30%	41%	38%	33%	38%	37%	22%
2-5 years	31%	28%	31%	45%	43%	40%	46%	49%	44%
6-9 years	41%	36%	24%	38%	50%	46%	44%	52%	55%
10-15 years	32%	29%	29%	39%	42%	38%	51%	41%	47%
More than 15 years	39%	36%	33%	38%	45%	47%	45%	43%	42%

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. Having initially declined from 44% in 2012 to 37% in 2014, the proportion has been broadly table since (36-38%) with the exception of 2019 (45%) and 2021 (43%):

- SMES with 0 or 1-9 employees saw more of an increase in use of finance 2020-2021 while those with 50-249 employees saw a further decline.
- All risk ratings were more likely to be using external finance in 2021 than in 2020, most notably those with a worse than average risk rating (from 34% to 41%)
- With the exception of Agriculture, all sectors were more likely to be using external finance in 2021 than in 2020. Hotels & Restaurants were the most likely to be using external finance by some margin (55%) compared to 34% in Health and 38-49% elsewhere.
- 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, but was back in line with earlier years in 2021 at 70%.

Currently use external finance Over time – all SMEs By date of interview – row percentages	2014	2015	2016	2017	2018	2019	2020	2021
All SMEs	**37%**	**37%**	**37%**	**38%**	**36%**	**45%**	**37%**	**43%**
0 emp	32%	32%	33%	34%	34%	43%	32%	38%
1-9 emps	49%	49%	46%	49%	42%	50%	49%	56%
10-49 emps	61%	60%	59%	64%	54%	60%	58%	62%
50-249 emps	63%	61%	64%	73%	77%	77%	58%	37%
Minimal external risk rating	44%	47%	45%	48%	46%	46%	41%	46%
Low	40%	47%	44%	45%	38%	48%	45%	47%
Average	36%	38%	39%	37%	35%	41%	36%	40%
Worse than average	35%	32%	34%	36%	35%	46%	34%	41%
Agriculture	43%	44%	46%	50%	46%	56%	44%	45%
Manufacturing	44%	39%	39%	43%	34%	44%	38%	47%
Construction	33%	33%	38%	37%	34%	48%	36%	40%
Wholesale/Retail	50%	45%	45%	48%	43%	52%	44%	49%
Hotels & Restaurants	42%	44%	42%	43%	39%	48%	48%	55%
Transport	38%	38%	36%	40%	37%	46%	43%	47%
Property/ Business Services	34%	35%	33%	33%	31%	37%	33%	38%
Health	28%	33%	32%	41%	49%	56%	28%	34%
Other	33%	39%	38%	34%	37%	42%	31%	44%
All excl PNBs	65%	70%	70%	72%	70%	78%	61%	70%

Q14/15 All SMEs – new definition from Q1 2018

CHANGE IN EXTERNAL FINANCE DUE TO COVID 19

In a new question from Q1 2021, those using any form of external finance (excluding those only using grants or equity/loans from directors, family, or friends) were asked how their use of finance had changed as a result of the pandemic.

6 in 10 SMEs using such finance were now using more than they had pre-pandemic (the equivalent of 21% of all SMEs), with 3 in 10 now borrowing when they weren't before (the equivalent of 11% of all SMEs):

Use of external finance compared to pre-Covid YEQ4 21 – all SMEs using relevant finance	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*7518*	*986*	*2635*	*3045*	*852*
Borrowing now when weren't before	32%	34%	31%	18%	10%
Have taken on extra borrowing	22%	19%	26%	30%	21%
Making more use of existing facilities	9%	8%	10%	10%	26%
Using similar amounts to before	33%	34%	30%	38%	40%
Have reduced amount of finance	5%	5%	4%	4%	3%
More use (any)	*62%*	*61%*	*66%*	*58%*	*57%*
More use (all SMEs)	*21%*	*18%*	*30%*	*33%*	*20%*
New borrowers (all SMEs)	*11%*	*10%*	*14%*	*10%*	*3%*

Q14b All SMEs using relevant forms of external finance excl DK

The table below shows the change in use by sector.

- Amongst those using any relevant finance, those in the Health sector were the most likely to be using more finance than pre-pandemic (85%), compared to 53% in Construction and 58-71% elsewhere.
- As a proportion of all SMEs in that sector, those in Construction were less likely to be borrowing more, along with those in Property/Business Services (both 17%), compared to over a quarter in the two sectors that have struggled most with the pandemic Hotels & Restaurants (29%) and Transport (27%) and 20-24% elsewhere
- The range of new borrowers per sector was narrower. Again, Hotels & Restaurants (15%) and Transport (14%) were more likely to have new borrowers, compared to 9-13% elsewhere

Change in use of finance

YEQ4 21 – all SMEs using finance	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Hlth SWrk	Other Comm
Unweighted base:	*501*	*822*	*1412*	*845*	*533*	*817*	*1481*	*339*	*768*
Started borrowing	23%	34%	27%	32%	38%	35%	31%	46%	30%
Extra borrowing	23%	21%	19%	23%	25%	25%	185	22%	27%
More use of existing	12%	9%	7%	7%	9%	8%	9%	16%	9%
Similar to before	39%	32%	43%	33%	25%	27%	37%	13%	27%
Less than before	3%	4%	4%	5%	4%	4%	5%	2%	7%
More use (any)	***58%***	***64%***	***53%***	***62%***	***71%***	***69%***	***58%***	***85%***	***66%***
More use (all SMEs)	***22%***	***24%***	***17%***	***23%***	***29%***	***27%***	***17%***	***20%***	***20%***
New borrowers (all)	***9%***	***13%***	***9%***	***12%***	***15%***	***14%***	***9%***	***11%***	***9%***

Q14b All SMEs using relevant forms of external finance excl DK

The table below summarises two key groups amongst all SMEs: Those now using finance when they weren't before and those now using more finance than before (which includes those new finance users):

- 11% of all SMEs were now using finance when they weren't before and this was most likely to be the case for those with 1-9 employees, in Hotels & restaurants or Transport and those trading for 2-9 years. Excluding the PNBs increases this proportion to 17% of remaining SMEs.
- 21% were now using more finance than pre-pandemic (using finance when they weren't before, taking additional facilities or using existing facilities more). This was more likely to be the case for those with 10-49 employees, in Hotels & Restaurants or Transport or trading for 6-9 years. Excluding the PNBs increases this proportion to 34% of remaining SMEs.

Change in use of finance Over time – all SMEs By date of interview – row percentages	Using finance for first time (all) 2021	Using more finance than before (all) 2021
All SMEs	**11%**	**21%**
0 emp	10%	18%
1-9 emps	14%	30%
10-49 emps	10%	33%
50-249 emps	3%	20%
Minimal external risk rating	8%	21%
Low	11%	24%
Average	10%	20%
Worse than average	11%	19%
Agriculture	9%	22%
Manufacturing	13%	24%
Construction	9%	17%
Wholesale/Retail	12%	23%
Hotels & Restaurants	15%	29%
Transport	14%	27%
Property/ Business Services	9%	17%
Health	11%	20%
Other	9%	20%
Starts	8%	13%
2-5 years	16%	25%
6-9 years	16%	28%
10-15 years	12%	23%
15+ years	9%	20%
All excl PNBs	17%	34%

Q14b All SMEs excl DK

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, including their ability to repay the borrowing they had. Note this is just one of three occasions during the survey when questions are asked about ability to repay, with combined analysis of all 3 repayment questions included below.

Over the course of 2021:

- The proportion concerned about their ability to repay declined from 22% to 15%, back in line with Q1 2020 when this question was first asked.
- Around a fifth said that their borrowing was secured, with little variation over time.
- A stable minority of SMEs using external finance said the interest rate was linked to LIBOR (6-7%).

Use of external finance

Over time – all SMEs using external finance By date of interview	Q1 2020	Q2 2020	Q3 2020	Q4 2020	Q1 2021	Q2 2021	Q3 2021	Q4 2021
Unweighted base:	*2159*	*2073*	*2420*	*2368*	*2315*	*2295*	*1972*	*2029*
You are concerned about ability to meet finance repayments over next 12 mths	14%	29%	21%	24%	22%	16%	18%	15%
Some or all of the borrowing is secured	21%	19%	19%	23%	21%	16%	20%	21%
You have borrowing linked to LIBOR	7%	9%	7%	8%	7%	6%	6%	6%

Q78c All SMEs using external finance

The table below looks at the change in the proportion of SMEs using external finance who were concerned about their ability to repay in the coming months at this question. During 2021, the overall proportion dropped from 22% to 15%, with declines seen across all sizes of business, with the exception of the largest SMEs with 50-249 employees, where levels of concern were stable and the lowest of any size band.

Concerned about ability to repay Over time – all SMEs using external finance By date of interview	Q1 2020	Q2 2020	Q3 2020	Q4 2020	Q1 2021	Q2 2021	Q3 2021	Q4 2021
All SMEs using external finance	**14%**	**29%**	**21%**	**24%**	**22%**	**16%**	**18%**	**15%**
0 emp	14%	30%	23%	24%	23%	17%	19%	15%
1-9 emps	15%	30%	18%	25%	23%	16%	16%	17%
10-49 emps	8%	27%	18%	16%	15%	9%	10%	9%
50-249 emps	4%	19%	11%	10%	6%	9%	4%	6%

Q78c All SMEs using external finance

Analysis by sector is shown below. The smaller base sizes make the scores more volatile quarter to quarter, but those in the Hotels & Restaurant and Transport sectors, the most worried in 2020, are less likely to be worried now than they were then, albeit the Hotel & Restaurant sector remains the most concerned about its ability to repay borrowing:

Concern re repaying Over time. All SMEs using finance – row percentages	Q1 2020	Q2 2020	Q3 2020	Q4 2020	Q1 2021	Q2 2021	Q3 2021	Q4 2021
All SMEs	**14%**	**29%**	**21%**	**24%**	**22%**	**16%**	**18%**	**15%**
Agriculture	21%	25%	22%	15%	6%	22%	8%	17%
Manufacturing	8%	26%	18%	16%	11%	28%	13%	15%
Construction	8%	39%	17%	18%	18%	8%	21%	16%
Wholesale/Retail	20%	22%	17%	15%	23%	19%	11%	10%
Hotels & Restaurants	25%	44%	29%	40%	29%	25%	14%	25%
Transport	11%	29%	32%	41%	39%	22%	16%	18%
Property/ Business Services	9%	25%	16%	19%	13%	15%	17%	10%
Health	14%	22%	29%	25%	20%	16%	16%	10%
Other	27%	34%	29%	25%	33%	9%	32%	20%

Q78c All SMEs using external finance

In 2021 as a whole, 20% of SMEs using external finance were concerned about their ability to repay.

- Those who reported that they were now borrowing when they hadn't been pre-pandemic were the most concerned about being able to repay (29%) together with 27% of those SMEs that had taken on additional facilities due to the pandemic.
- Those who were making more use of their existing facilities were somewhat less concerned about repayment (14%) as were those using similar facilities to before (11%).

ALL REPAYMENT CONCERNS AND ACTION TAKEN

As mentioned above, from Q2 2021 SMEs have been asked at several stages in the questionnaire whether they were concerned about making repayments on their external finance and if so what steps, if any, they were taking to resolve those concerns. This section looks at all those who are concerned at all and the steps taken to resolve that concern for Q2 to Q4 2021 when all 3 questions were asked.

- As described above, all of those using any external finance were asked if they were concerned about their ability to meet finance repayments over the next 12 months. Q2-4 2021, 16% said that they were, and this was more likely to be the case for smaller SMEs, those with a worse than average risk rating and those in the Hotel & Restaurant sector.
- As reported above, those who had been successful with an application for pandemic funding from their main bank were asked how concerned they were about repaying it. For Q2 to Q4 2021, 21% of such SMEs reported that they were concerned and again it was smaller SMEs and those with a poorer risk rating that were more concerned.
- Finally, amongst the very small group with a new facility from another provider, levels of concern about repayment were lower, at 15%.

For Q2 to Q4 2021, the equivalent of 9% of all SMEs expressed concern at one or more of these questions, as reported below by key demographics. Most concern was expressed in those with a poorer risk rating, and those in Hotels & Restaurants. Excluding the PNBs increased the proportion concerned to 14% of remaining SMEs.

Amongst those borrowing now when they hadn't been pre-pandemic, 32% expressed concern about repayment, as did 31% who had taken on additional facilities. This compared to 14% of those making ore use of existing facilities and 10% of those using similar amounts of finance to pre-pandemic

Any repayment concern (all SMEs) Over time By date of interview – row percentages	Q2-Q4 2021
All SMEs	**9%**
0 emp	8%
1-9 emps	11%
10-49 emps	7%
50-249 emps	3%
Minimal external risk rating	6%
Low	7%
Average	8%
Worse than average	10%
Agriculture	9%
Manufacturing	11%
Construction	8%
Wholesale/Retail	8%
Hotels & Restaurants	15%
Transport	12%
Property/ Business Services	6%
Health	8%
Other	10%
All excl PNBs	14%
Starts	8%
2-5 years trading	11%
6-9 years	11%
10-15 years	10%
15 years+	7%

Repcon All SMEs from Q2 2021

As the table below shows, 22% of concerned SMEs had already spoken to their lender and a further 23% planned to, with limited variation by size:

Response to repayment concerns Q2-Q4 2021	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*949*	*206*	*437*	*260*	*46**
Have spoken to lender	22%	22%	20%	19%	27%
Have not spoken to lender but plan to	23%	23%	23%	19%	14%
Have no plans to speak to lender	55%	55%	57%	62%	59%

Qbb4 All SMEs with repayment concerns

Indicatively, on limited base sizes to date:

- Half of those who had spoken to their lender had agreed a repayment plan (50%). A further 16% were discussing options but had not yet agreed a plan while 1 in 10 (9%) were offered a repayment option but chose not to take it.
- 6 in 10 of those who had spoken to their lender were very satisfied (scores 7-10) with the response.
- 6 in 10 of those planning to speak to their lender said they would be asking about options available under the Pay as you Grow scheme.

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. It was only slightly higher in 2021 at 31%.

Detailed breakdowns by the types of products 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 varied less quarter to quarter in 2021 than in 2020. Use of core finance changed only slightly 2020 to 2021 but there was more variation in use of other forms of finance, as the table below shows.

Back in 2012, 36% of SMEs were using any form of core finance, declining to 29% in 2014. The proportion has been stable since, with the exception of 2019 when 39% of SMES were using such finance.

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 back at 5 in 10 for both 2020 (48%) and 2021 (51%):

Currently use any core finance Over time – all SMEs By date of interview – row percentages	2014	2015	2016	2017	2018	2019	2020	2021
All SMEs	**29%**	**30%**	**30%**	**31%**	**32%**	**39%**	**29%**	**31%**
0 emp	25%	25%	27%	27%	29%	37%	24%	26%
1-9 emps	40%	40%	37%	39%	36%	42%	39%	43%
10-49 emps	50%	50%	50%	53%	46%	52%	48%	51%
50-249 emps	55%	53%	57%	64%	70%	71%	50%	30%
Minimal external risk rating	35%	39%	39%	39%	41%	40%	32%	37%
Low	34%	39%	38%	38%	34%	41%	35%	37%
Average	30%	31%	33%	30%	31%	35%	28%	29%
Worse than average	26%	24%	26%	28%	30%	39%	27%	29%
Agriculture	36%	36%	36%	40%	40%	48%	35%	35%
Manufacturing	37%	31%	33%	35%	31%	37%	29%	35%
Construction	25%	26%	32%	30%	29%	42%	29%	29%
Wholesale/Retail	41%	36%	39%	39%	37%	45%	37%	35%
Hotels & Restaurants	34%	37%	33%	36%	36%	42%	38%	41%
Transport	29%	29%	28%	29%	30%	38%	32%	35%
Property/ Business Services	26%	29%	27%	26%	27%	32%	26%	28%
Health	22%	26%	27%	36%	45%	52%	22%	22%
Other Community	25%	29%	30%	26%	32%	34%	23%	28%
All excl PNBs	51%	55%	57%	57%	61%	67%	48%	51%

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 2020 and just slightly higher for 2021 at 24%, the highest level recorded to date on the SME Finance Monitor:

Currently use other forms of finance Over time – all SMEs By date of interview – row percentages	2014	2015	2016	2017	2018	2019	2020	2021
All SMEs	**17%**	**17%**	**16%**	**18%**	**12%**	**16%**	**18%**	**24%**
0 emp	13%	13%	14%	14%	9%	13%	15%	21%
1-9 emps	25%	26%	23%	25%	18%	22%	27%	33%
10-49 emps	37%	37%	33%	40%	28%	33%	37%	45%
50-249 emps	40%	36%	35%	44%	49%	33%	36%	28%
Minimal external risk rating	21%	22%	20%	25%	14%	20%	22%	26%
Low	18%	22%	20%	20%	14%	19%	25%	27%
Average	15%	15%	16%	15%	11%	13%	18%	23%
Worse than average	18%	15%	16%	17%	12%	16%	16%	24%
Agriculture	21%	22%	24%	26%	15%	24%	22%	28%
Manufacturing	17%	18%	18%	19%	11%	15%	20%	28%
Construction	15%	13%	15%	17%	11%	14%	17%	22%
Wholesale/Retail	21%	22%	19%	22%	16%	22%	20%	28%
Hotels & Restaurants	20%	19%	20%	18%	12%	17%	26%	38%
Transport	20%	20%	20%	22%	14%	20%	25%	27%
Property/ Business Services	15%	15%	14%	14%	10%	12%	16%	21%
Health	13%	15%	12%	15%	12%	12%	14%	19%
Other Community	15%	19%	17%	17%	10%	16%	17%	27%
All excl PNBs	30%	32%	31%	33%	22%	27%	31%	40%

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%), but lower and more in line with previous years in 2020 and 2021 (both 18%):

External finance currently used Over time – all SMEs	2014	2015	2016	2017	2018	2019	2020	2021
Unweighted base:	*20,055*	*20,046*	*18,000*	*18,012*	*18,002*	*18,000*	*17,768*	*16,486*
Only use core products	20%	20%	21%	21%	25%	29%	18%	18%
Only use other forms of finance	8%	8%	7%	8%	5%	6%	8%	12%
Use both forms of finance	9%	9%	10%	10%	7%	9%	10%	13%
Use none of these forms of finance	63%	63%	62%	62%	64%	55%	63%	57%

Q15 All SMEs

Changes in the use of core finance has typically been the main contributor to the increase or decline in the proportion of SMEs using no finance at all, notably in 2019. The proportions using only other forms of finance, or both other and core forms of finance, remained more stable, but both are somewhat higher in 2021 than previously seen, due to the increase in the use of grants.

During 2020 and 2021:

- Those who only use core forms of finance became more concerned about their ability to repay in Q2 2020 (28% from 15%) and 1 in 4 reported concern every quarter until Q2 2021 when 20% were concerned. At the end of the year 18% were concerned.
- Concern amongst those only using other forms of finance also increased markedly in Q2 2020 (25% from 8%), but concern abated almost as quickly and has been 9-15% since Q3 2020, ending the year at 6%.
- Like their peers, those using both core and other forms of finance became more concerned about their ability to repay in Q2 2020 (37% from 15%). Concern remained at these higher levels for the rest of 2020 and into 2021, but started to decline from Q2 2021 onwards, ending the year at 19%, in line with those only using core finance.

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 2021. 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:

External finance currently used YEQ4 21 – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*16,486*	*3313*	*5466*	*5260*	*2447*
Core products (any)	31%	26%	43%	51%	30%
-Bank loan	16%	13%	24%	26%	16%
-Bank overdraft	11%	9%	15%	18%	14%
-Credit cards	11%	9%	15%	25%	15%
-Commercial mortgage	2%	1%	4%	6%	4%
-Any other overdraft*	*	*	*	*	*
-Any other loan*	3%	3%	5%	8%	2%
Other forms of finance (any)	24%	21%	33%	45%	28%
-Leasing or hire purchase	9%	6%	13%	28%	22%
-Loans from directors, family & friends	4%	3%	8%	7%	4%
-Equity from directors, family & friends	2%	1%	3%	5%	2%
-Invoice finance	1%	1%	2%	5%	6%
-Grants	14%	13%	17%	19%	5%
-Crowd funding / peer to peer*	*	*	*	*	*
-Asset based lending*	*	*	*	1%	2%
-Selective/single invoice finance*	*	*	1%	1%	*
Any of these	*43%*	*38%*	*56%*	*62%*	*37%*
None of these	*57%*	*62%*	*44%*	*38%*	*63%*

Q15 All SMEs – new definition from Q1 2018*

Amongst SMEs with employees, 56% were using external finance – 44% were using any form of core finance and 35% any of the other forms of finance listed.

SMEs that import and/or export were asked about use of Export/Import finance. YEQ4 2021, 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, risk rating, or over time.

The table below details the use of all of these forms of funding over recent quarters. The increase from Q3 2020 in the use of loans and also in Grants (reflect the forms of finance used to support businesses during the pandemic.

Use of external finance

Over time – all SMEs By date of interview	Q4 2019	Q1 2020	Q2 2020	Q3 2020	Q4 2020	Q1 2021	Q2 2021	Q3 2021	Q4 2021
Unweighted base:	*4500*	*4505*	*4511*	*4500*	*4252*	*4263*	*4250*	*3888*	*4085*
Core products (any)*	38%	26%	25%	32%	31%	32%	31%	32%	29%
-Bank overdraft	22%	14%	12%	13%	11%	11%	9%	12%	11%
-Bank loan	8%	5%	7%	15%	16%	15%	16%	18%	14%
-Comm. Mortgage	1%	1%	2%	1%	2%	2%	2%	2%	1%
-Credit cards	19%	14%	12%	13%	12%	11%	9%	12%	11%
-Any other overdraft*	*	*	*	*	*	*	*	*	*
-Any other loan*	1%	*	*	3%	2%	3%	5%	3%	3%
Other forms of finance (any)*	15%	14%	13%	21%	26%	25%	27%	23%	23%
-Leasing, hire purchase or vehicle finance	11%	10%	8%	8%	9%	10%	9%	7%	8%
-Loans from directors/family/friends	4%	2%	3%	4%	5%	5%	4%	3%	4%
-Equity from directors/family/friends	1%	1%	1%	2%	2%	2%	2%	2%	1%
-Invoice finance	1%	1%	1%	1%	2%	1%	1%	1%	2%
-Grants	1%	1%	4%	12%	14%	13%	16%	15%	11%
-Crowd funding/ peer to peer*	1%	1%	*	*	*	*	*	*	*
-Asset based lending*	*	*	*	*	1%	*	*	*	*
-Selective/single invoice finance*	*	*	*	1%	1%	*	*	*	1%
Any form of finance – all SMEs*	*43%*	*32%*	*30%*	*40%*	*44%*	*42%*	*45%*	*43%*	*40%*

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 2014. In 2021, use of bank loans/commercial mortgages reached 17% and Grants 14%, with little change otherwise:

Use of forms of finance Over time – all SMEs By date of interview	2014	2015	2016	2017	2018	2019	2020	2021
Core products (any)*	29%	30%	30%	31%	32%	39%	29%	31%
-Bank overdraft	*16%*	*16%*	*16%*	*18%*	*19%*	*23%*	*13%*	*11%*
-Bank loan/Commercial mortgage	*7%*	*7%*	*7%*	*6%*	*9%*	*9%*	*12%*	*17%*
-Credit cards	*15%*	*16%*	*17%*	*16%*	*14%*	*18%*	*13%*	*11%*
*-Any other overdraft**	-	-	-	-	*	*	*	*
*-Any other loan**	-	-	-	-	*1%*	*1%*	*1%*	*3%*
Other forms of finance (any)*	17%	17%	16%	18%	12%	16%	18%	24%
-Leasing, hire purchase or vehicle finance	*7%*	*7%*	*7%*	*9%*	*7%*	*11%*	*9%*	*9%*
-Loans/Equity from directors/family/friends	*8%*	*8%*	*6%*	*5%*	*4%*	*4%*	*4%*	*5%*
-Invoice finance	*3%*	*2%*	*3%*	*3%*	*1%*	*1%*	*1%*	*1%*
-Grants	*2%*	*2%*	*2%*	*2%*	*1%*	*1%*	*8%*	*14%*
*-Crowd funding/ peer to peer**	-	-	-	-	*	*	*	*
*-Asset based lending**	-	-	-	-	*	*	*	*
*-Selective/single invoice finance**	-	-	-	-	*	*	*	*
Any Finance	*37%*	*37%*	*37%*	*38%*	*36%*	*45%*	*37%*	*43%*

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: 58% of those SMEs using any external finance were only using one of the forms of finance listed, the equivalent of 25% of all SMEs.

The table below shows the number of forms of finance used by all SMEs for YEQ4 2021 (including the 57% using no external finance). With the exception of the largest SMEs, around 1 in 4 used one type of finance, while SMEs with employees were more likely to be using 3 or more forms of finance:

Forms of external finance currently used YEQ4 2021 – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*16,486*	*3313*	*5466*	*5260*	*2447*
None	57%	62%	44%	38%	63%
1 form of finance	25%	24%	28%	22%	13%
2 forms of finance	10%	9%	15%	15%	7%
3 forms of finance	5%	4%	6%	12%	7%
4 or more forms of finance	3%	1%	7%	14%	10%

58% of those using a single form of finance YEQ4 2021 were using one of the core products, now very loan-focussed: 28% were using a bank loan, 12% an overdraft, while 12% were using a credit card. 42% were using an 'other' product: 26% were using grants while 8% were using leasing/HP.

The table below shows how the number of products being used has changed over recent quarters. Whilst overall use of any finance has varied during the pandemic, the proportion of SMEs using 2 or more forms of finance has varied very little since Q3 2020 (16-19%)

Number of forms of finance Over time – all SMEs By date of interview	Q1 2020	Q2 2020	Q3 2020	Q4 2020	Q1 2021	Q2 2021	Q3 2021	Q4 2021
Unweighted base:	*4505*	*4511*	*4500*	*4252*	*4263*	*4250*	*3888*	*4082*
No finance used	68%	70%	60%	56%	58%	55%	57%	60%
1 form of finance	20%	19%	23%	25%	24%	26%	24%	24%
2 or more forms of finance	12%	11%	17%	19%	18%	18%	19%	16%

As already reported, use of bank loans and grants was notably higher from H2 2020 onwards than before. In 2021 overall, 7% of all SMEs were only using a bank loan and 6% were only using grants as their source of external finance.

2% of SMEs (YEQ4 2021) said that they were using an additional form of external finance not on the list detailed in full above, with no difference by size:

- Those also using a specified form of finance were slightly more likely to be using an additional form of finance (3% 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 Q1-3 2021 when this question was included are shown below. 14% of SMEs using leasing, HP and/or vehicle finance used their main bank to some extent for this finance, lower than the 1 in 3 doing so in 2019 and with little variation by size:

Source of leasing/vehicle finance Q1-3 21 – all SMEs using such finance	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*2545*	*163*	*636*	*1264*	*482*
Any main bank/banking group	14%	12%	16%	16%	13%
-All through main bank / banking group	*12%*	*12%*	*14%*	*11%*	*9%*
-Some through main bank / banking group	*1%*	*-*	*3%*	*5%*	*3%*
All through other provider	86%	88%	84%	84%	87%

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

Analysis over time is provided in the table below. It 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 was stable at 32% for 2019. In both 2020 and 2021 however the proportion was notably lower at 15% and 14%, and across all size bands:

Any bank involvement

Over time – all SMEs using leasing By date of interview – row percentages	2017	2018	2019	2020	Q1-3 2021
All	**21%**	**33%**	**32%**	**15%**	**14%**
0 emp	20%	33%	34%	14%	12%
1-9 emps	20%	32%	27%	16%	16%
10-49 emps	28%	34%	27%	16%	16%
50-249 emps	40%	39%	40%	18%	13%

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

PERSONAL ELEMENTS TO BUSINESS FINANCE

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

PERSONAL ELEMENT – INJECTIONS OF PERSONAL FUNDS

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

In Q2 2021, 4 in 10 SMEs (40%), reported an injection of personal funds, twice the proportion in Q4 2019 (20%). This was due to more SMEs feeling that they 'had' to inject funds (from 8% to 28% over the same period). Since then the proportion reporting any injection has declined slightly, to 35% in Q4 2021 as fewer SMEs felt that they 'had' to inject funds (23%):

Personal funds in last 12 months

Over time – all SMEs By date of interview	Q4 2019	Q1 2020	Q2 2020	Q3 2020	Q4 2020	Q1 2021	Q2 2021	Q3 2021	Q4 2021
Unweighted base:	*4500*	*4505*	*4511*	*4500*	*4252*	*4263*	*4250*	*3888*	*4085*
Inject personal funds – you <u>chose</u> to do to help the business grow and develop	12%	12%	11%	15%	13%	11%	12%	11%	12%
Inject personal funds – you felt you had no choice about this, that you <u>had</u> to do it	8%	12%	18%	23%	25%	27%	28%	25%	23%
Any personal funds	***20%***	***24%***	***29%***	***38%***	***38%***	***38%***	***40%***	***36%***	***35%***
Not something you have done	80%	76%	71%	62%	62%	62%	60%	64%	65%

Q15d All SMEs

The most likely to have felt that they 'had' to inject personal funds at the 'peak' in Q2 2021 were those in the Hotel & Restaurant sector (36%), Starts (40%) or those using external finance (33%), compared to 5% of those with 50-249 employees, 20% in Agriculture and 17% of Permanent non-borrowers.

Taking a longer term view, in 2012-13, 4 in 10 SMEs had injected funds, increasing to 3 in 10 in 2014. As the table below shows, this proportion was then stable until a further decline to 24% in 2019, followed by notable increases in both 2020 (32%) and 2021 (37%):

Personal funds in last 12 months Over time – all SMEs	2014	2015	2016	2017	2018	2019	2020	2021
Unweighted base:	*20,055*	*20,046*	*18,000*	*18,012*	*18,002*	*18,000*	*17,768*	*16,486*
Inject personal funds – you chose to do to help the business grow and develop	14%	14%	17%	16%	16%	13%	13%	11%
Inject personal funds – you felt you had no choice about this, that you had to do it	15%	13%	11%	13%	13%	11%	19%	26%
Any personal funds	*29%*	*28%*	*28%*	*29%*	*29%*	*24%*	*32%*	*37%*
Not something you have done	71%	72%	72%	71%	71%	76%	68%	69%

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 and 69% in 2021.

The more detailed analysis below is based on the combined results YEQ4 2021 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 21 – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*16,486*	*3313*	*5466*	*5260*	*2447*
Inject personal funds – you chose to do to help the business grow and develop	11%	12%	10%	4%	3%
Inject personal funds – you felt you had no choice about this, that you had to do it	26%	28%	21%	10%	5%
Any personal funds	*37%*	*40%*	*31%*	*14%*	*8%*
Not something you have done	63%	60%	69%	86%	92%

Q15d All SMEs

Amongst SMEs with employees, 28% reported any injection of personal funds – 9% who chose to do so and 19% who felt that they had no choice.

Injections of personal funds increased markedly with risk rating, from 16% of those with a minimal risk rating to 47% of those with a worse than average risk rating:

Personal funds in last 12 months

YEQ4 21 – all SMEs	Total	Min	Low	Avge	Worse/ Avge
Unweighted base:	*16,486*	*3007*	*4494*	*4549*	*2867*
Inject personal funds – you chose to do to help the business grow and develop	11%	6%	7%	10%	15%
Inject personal funds – you felt you had no choice about, that you had to do	26%	10%	17%	25%	32%
Any personal funds	*37%*	*16%*	*24%*	*35%*	*47%*
Not something you have done	63%	84%	76%	65%	53%

Q15d All SMEs

Those sectors that have struggled more in the pandemic were more likely to report an injection of funds. 44% of those in the Hotel & Restaurant sector and 46% in Transport had seen an injection of personal funds (and to have felt that they had to make the injection) with little difference otherwise by sector (31-38%):

Personal funds in last 12 months

YEQ4 21 – all SMEs	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Hlth SWrk	Other Comm
Unweighted base:	*982*	*1704*	*2908*	*1859*	*1167*	*1601*	*3536*	*1039*	*1690*
Chose to inject	12%	8%	10%	12%	10%	11%	13%	11%	11%
Had to inject	20%	23%	23%	22%	34%	35%	23%	26%	27%
Any funds	*32%*	*31%*	*33%*	*34%*	*44%*	*46%*	*36%*	*37%*	*38%*
Not put funds in	68%	69%	67%	66%	56%	54%	64%	63%	62%

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 and 2021, 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	2014	2015	2016	2017	2018	2019	2020	2021
All SMEs	**29%**	**28%**	**28%**	**29%**	**29%**	**24%**	**32%**	**37%**
0 emp	30%	29%	29%	31%	29%	25%	34%	40%
1-9 emps	29%	26%	24%	28%	27%	23%	29%	31%
10-49 emps	17%	16%	13%	14%	13%	13%	15%	14%
50-249 emps	9%	8%	9%	7%	6%	5%	9%	8%
Minimal external risk rating	17%	17%	13%	12%	14%	11%	18%	16%
Low	21%	19%	18%	21%	18%	17%	22%	24%
Average	25%	24%	25%	25%	26%	23%	30%	35%
Worse than average	36%	33%	33%	38%	34%	29%	37%	47%
Agriculture	27%	26%	27%	27%	28%	28%	31%	32%
Manufacturing	30%	27%	23%	28%	30%	24%	29%	31%
Construction	29%	25%	26%	25%	26%	24%	31%	33%
Wholesale/Retail	27%	27%	28%	30%	31%	22%	34%	34%
Hotels & Restaurants	33%	29%	30%	34%	31%	30%	39%	44%
Transport	30%	31%	31%	37%	24%	24%	38%	46%
Property/ Business Services	29%	27%	30%	27%	30%	24%	28%	36%
Health	29%	27%	24%	29%	21%	17%	30%	37%
Other Community	31%	34%	28%	33%	34%	26%	35%	38%
PNBs	19%	19%	20%	21%	20%	18%	22%	27%
All excl PNBs	37%	35%	35%	37%	36%	29%	39%	44%

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 but unlike in previous years this was slightly more likely to have been a necessity than a choice. For older businesses, an injection of personal funds remained less likely to have happened at all and where it had, a higher proportion of those injections were still felt to have been a necessity:

Personal funds in last 12 months YEQ4 21 – all SMEs	Starts	2-5 yrs	6-9 yrs	10-15 yrs	15 yrs+
Unweighted base:	*882*	*1194*	*1447*	*2983*	*9980*
Inject personal funds – you chose to do to help the business grow and develop	24%	12%	8%	8%	7%
Inject personal funds – you felt you had no choice about this, that you had to do it	37%	31%	26%	22%	20%
Any personal funds	*61%*	*43%*	*34%*	*30%*	*27%*
Not something you have done	39%	57%	66%	70%	73%

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 (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 that situation was reversed in 2020 with less use of external finance and more injections of personal funds (47%), increasing to 61% in 2021.

Those using a *personal* account for their business banking remained more likely to have put personal funds in at all (44% v 36% of those with a business account YEQ4 2021).

SMEs currently using external finance were somewhat more likely to have received an injection of personal funds (41% YEQ4 2021) than those not currently using external finance (34%) and were also somewhat more likely to say they had felt that there had been no choice (31% v 21%, both higher than in 2020).

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 (75%) and to say that they had had no choice (66%):

Personal funds in last 12 months YEQ4 21 – all SMEs	Total	Had an event	Would-be seeker	Happy non-seeker
Unweighted base:	*16,486*	*3204*	*282*	*13,000*
Inject personal funds – you chose to do to help the business grow and develop	11%	10%	9%	12%
Inject personal funds – you felt you had no choice about, that you had to do	26%	41%	66%	20%
Any personal funds	*37%*	*51%*	*75%*	*32%*
Not something you have done	63%	49%	25%	68%

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, was then stable before a further decline in 2019 to 24%. However, in 2020 and 2021 the figure was higher again at 32% and 37%:

- Amongst those that had had a borrowing event, injections fell from 52% in 2012 to 35% in 2019 before increasing to 44% in 2020 and 51% in 2021. Amongst Happy non-seekers it declined from 37% in 2012 to 22% in 2019, with smaller increases in 2020 and 2021 (to 28% and then 32%).
- There were more injections of personal funds amongst the small group of Would-be seekers of finance, increasing 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% and 75% in 2021 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 (89% excluding DK answers).

Of the 11% that used a personal account, almost all (95%) were 0 employee businesses. So, whilst 14% 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 and 2021 (itwas slightly higher in 2020 at 15%).

YEQ4 2021, SMEs using a personal account were:

- Less likely to be using external finance (35% used external finance, compared to 43% of those using a business account) or to have had a borrowing event (13% v 17%), but were no more likely to meet the definition of a PNB (40% v 39%).
- More likely to have put personal funds into the business (44% v 36% of those with a business account).

In 2021, SMEs using a personal account for their business banking were less likely to be using external finance, and as the analysis below shows, this has typically been the case over recent years. 35% of those using a personal account were also using any external finance compared to 43% of those with a business bank account (both higher than in 2020 but not back to the higher levels seen in 2019):

External finance currently used Over time – all SMEs	2015	2016	2017	2018	2019	2020	2021
Use business account:							
Use core finance	*31%*	*33%*	*32%*	*33%*	*40%*	*30%*	*32%*
Use any finance	*39%*	*40%*	*40%*	*38%*	*46%*	*38%*	*43%*
Use personal account for business:							
Use core finance	*22%*	*21%*	*24%*	*26%*	*33%*	*22%*	*20%*
Use any finance	*28%*	*26%*	*30%*	*29%*	*38%*	*29%*	*35%*

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.

16% of SMEs using finance had any facility in a personal name, the equivalent of 7% 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: 20% of finance users with 0 employees had some facility in their personal name (the equivalent of 8% of all 0 employee SMEs) compared to less than 1% of those with 50-249 employees. SMEs using finance who also had an average or worse than average risk rating were more likely to have a facility in a personal name (17% and 22%), than those with a minimal or low risk rating (both 6%):

Have element of finance in personal name YEQ4 21 – row percentages	Of those using finance	Equivalent % of all such SMEs
Total	**16%**	**7%**
0 employees	20%	8%
1-9 employees	9%	5%
10-49 employees	2%	1%
50-249 employees	*	*
Minimal risk rating	6%	3%
Low risk rating	6%	3%
Average risk rating	17%	7%
Worse than average risk rating	22%	9%
Use a personal bank account	59%	20%
Use a business bank account	12%	5%

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 6 in 10 (59%) said that some or all of the facilities that they had were in their personal name. Those with a business account who used finance were much less likely to say that any of the facilities were in their personal name (12%).

As a result, amongst all SMEs, those using a personal account for their business were much more likely to have a facility in their personal name (20%) than those using a business account (5%), or SMEs overall (7%).

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 2021 (excl DK)

Overdrafts	11% of all SMEs with an overdraft said it was in a personal name, of which 89% were 0 employee SMEs. 5% said they had overdrafts in both personal and business names. 15% 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	7% of all SMEs with a loan said it was in a personal name, of which 89% were 0 employee SMEs. 4% said they had loans in both personal and business names. 10% of 0 employee SMEs with a loan said that it was in a personal name. This declined by size to 2% 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	13% of SMEs using any other form of finance said it was in a personal name, of which 89% were 0 employee SMEs. 5% said they had facilities in both personal and business names. 17% of 0 employee SMEs using other forms of finance 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.

TRADE CREDIT

38% of SMEs regularly purchased products or services from other businesses on credit (YEQ4 2021), increasing as before by size of SME:

- 31% of those with 0 employees regularly purchased on credit
- 54% of those with 1-9 employees
- 75% of those with 10-49 employees
- 64% of those with 50-249 employees

Overall use of trade credit increased slightly to 2019 (31% in 2014 to 37% in 2019) and has been stable since. All sizes of SME were more likely to be using trade credit in 2021 than they had been in 2014, though in the shorter term, there was no increase in use of trade credit 2019 to 2021 for those with 0 and 1-9 employee SMEs while SMEs with 10-49 employees have become increasingly more likely to be using trade credit since 2019 (66% to 75%) with more variation over time for those with 50-249 employees:

Currently use trade credit Over time – all SMEs By date of interview – row percentages	2014	2015	2016	2017	2018	2019	2020	2021
All SMEs	**31%**	**33%**	**33%**	**35%**	**34%**	**37%**	**36%**	**38%**
0 emp	26%	28%	28%	29%	29%	30%	30%	31%
1-9 emps	45%	47%	45%	49%	48%	53%	53%	54%
10-49 emps	58%	61%	59%	64%	62%	66%	70%	75%
50-249 emps	58%	60%	59%	69%	67%	59%	72%	64%

Q14y All SMEs

58% of SMEs with employees used trade credit in 2021.

Those using external finance (loans, overdrafts etc) remained more likely to also be using trade credit (48% YEQ4 2021) 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 (63%), 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 21 – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*16,486*	*3313*	*5466*	*5260*	*2447*
Receive trade credit	**38%**	**31%**	**54%**	**75%**	**64%**
Have less of a need for external finance	*24%*	*20%*	*34%*	*44%*	*38%*
Do not have less of a need for external finance	*13%*	*10%*	*19%*	*30%*	*25%*
Not sure	*1%*	*1%*	*2%*	*1%*	*2%*
Do not receive trade credit	62%	69%	46%	25%	36%
% of those with TC where it reduces need	*63%*	*65%*	*63%*	*59%*	*59%*

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 then 24% in 2020 and 2021. 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	2021
All SMEs	**21%**	**22%**	**23%**	**24%**	**23%**	**26%**	**24%**	**24%**
0 emp	18%	18%	20%	20%	18%	22%	19%	20%
1-9 emps	31%	31%	31%	33%	33%	38%	35%	34%
10-49 emps	39%	41%	41%	48%	44%	49%	47%	44%
50-249 emps	43%	37%	39%	52%	52%	45%	48%	38%

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 (56% and 50% respectively). Across all risk ratings, around 6 in 10 of those receiving trade credit went on to say that it reduced their need for external finance:

Impact of receiving trade credit YEQ4 21 – all SMEs	Total	Min	Low	Avge	Worse /Avge
Unweighted base:	*16,486*	*3007*	*4494*	*4549*	*2867*
Receive trade credit	**38%**	**56%**	**50%**	**38%**	**31%**
Have less of a need for external finance	*24%*	31%	32%	25%	19%
Do not have less of a need for external finance	*13%*	*23%*	*17%*	*12%*	*10%*
Not sure	*1%*	*2%*	*1%*	*1%*	*1%*
Do not receive trade credit	62%	44%	50%	62%	69%
% of those with TC where it reduces need	*63%*	*55%*	*64%*	*66%*	*61%*

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 2-5 years who were the most likely to say it reduced their need for finance:

Impact of receiving trade credit YEQ4 21 – all SMEs	Starts	2-5 yrs	6-9 yrs	10-15 yrs	15 yrs+
Unweighted base:	*882*	*1194*	*1447*	*2983*	*9980*
Receive trade credit	**29%**	**30%**	**36%**	**38%**	**44%**
Have less of a need for external finance	*18%*	*21%*	*24%*	*24%*	*27%*
Do not have less of a need for external finance	*9%*	*8%*	*11%*	*13%*	*16%*
Not sure	*1%*	*	*2%*	*1%*	*1%*
Do not receive trade credit	71%	70%	64%	62%	56%
% of those with TC where it reduces need	*62%*	*70%*	*67%*	*63%*	*61%*

Q14y/y4 All SMEs

SMEs in the Wholesale/Retail sector (56%) were the most likely to receive trade credit while those in Construction and Manufacturing were the most likely to see their need for finance reduced (both 66% of those using trade credit):

Trade credit in last 12 months

YEQ4 21 – all SMEs	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop / Bus	Hlth Swk	Other Comm
Unweighted base:	*982*	*1704*	*2908*	*1859*	*1167*	*1601*	*3536*	*1039*	*1690*
Receive TC	42%	54%	53%	56%	37%	32%	31%	19%	23%
Have less of a need for external finance	*25%*	*36%*	*35%*	*34%*	*22%*	*20%*	*20%*	*11%*	*14%*
Do not have less of a need for external finance	*15%*	*18%*	*16%*	*20%*	*14%*	*10%*	*11%*	*8%*	*9%*
Not sure	*1%*	*1%*	*1%*	*2%*	*1%*	*1%*	*1%*	***	*1%*
Do not receive TC	58%	46%	47%	44%	63%	68%	69%	81%	77%
% where TC reduces need	*59%*	*67%*	*66%*	*61%*	*59%*	*63%*	*65%*	*58%*	*61%*

Q14y/y4 All SMEs

YEQ4 2021, 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 (30%) 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 (83% YEQ4 2021) than having access to trade credit (63% – of a different group of SMEs).
- Overall, 34% of SMEs YEQ4 2021 said that their need for finance was reduced either through credit balances or trade credit, increasing by size of SME (29% for 0 employee SMEs, 49% for those with 1-9 employees, 61% for those with 10-49 employees and 54% 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.

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 2021:

- 43% of SMEs were using external finance as defined earlier in the chapter (i.e. loans, overdrafts, invoice finance etc).
- An additional 17% of SMEs were not using external finance but were receiving trade credit.
- And finally, a further 14% of SMEs were using neither external finance, nor trade credit, but had seen an injection of personal funds into the business (also defined earlier).

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 43% to 74%.

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. In 2020, 74% of SMEs were using business funding, the highest proportion to date, due to more use of external finance and injections of personal funds:

Use of business funding Over time – all SMEs	2014	2015	2016	2017	2018	2019	2020	2021
Unweighted base:	***20,055***	***20,046***	***18,000***	***18,012***	***18,002***	***18,000***	***17,768***	***16,486***
Use external finance	37%	37%	37%	38%	36%	45%	37%	43%
Do not use finance but do use trade credit	15%	16%	15%	16%	18%	16%	19%	17%
Do not use the above but injected personal funds	12%	11%	11%	11%	11%	8%	12%	14%
Total business funding	***63%***	***64%***	***63%***	***65%***	***65%***	***70%***	***68%***	***74%***

All SMEs

Looking specifically at YEQ4 2021 in more detail, SMEs with 1-9 or 10-49 employees were more likely to be using business funding (with injections of personal funds adding little to the total, compared to 0 employee SMEs). Since 2019, SMEs with 50-249 employees have become more likely to mention trade credit in this context (32% in 2021 compared to 14% in 2019) which only slightly compensates for lower use of external finance (37% from 77%) in their overall use of business funding (71% from 91%):

Wider definition of business funding YEQ4 21 – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*16,486*	*3313*	*5466*	*5260*	*2447*
Use external finance	43%	38%	56%	62%	37%
Do not use finance but do use trade credit	17%	16%	21%	26%	32%
Do not use the above but injected personal funds	14%	17%	6%	1%	2%
Total business funding	*74%*	*71%*	*83%*	*89%*	*71%*

Q14y/y4 All SMEs

Analysis by other demographics showed that:

- There was little difference in the use of business funding by risk rating (75-77%) with the exception of those with an average risk rating (70%), who were less likely to be using external finance or to have injected personal funds
- Use of business funding declined very slightly by age of business, from 79% of Starts (where 29% reported an injection of personal funds in this context) to 71-72% of those trading for 10-15 or more than 15 years.
- The proportion using business funding varied from 65% in Health to 83% in Wholesale/Retail with higher use of external finance and trade credit.