

SME FINANCE MONITOR

3 month rolling analysis to end
January 2022

An independent report by
BVA BDRC, February 2022



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 was published in mid-August 2021 and the Q4 report and chart pack will be published in March 2022.

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 November 2021 to January 2022.

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.

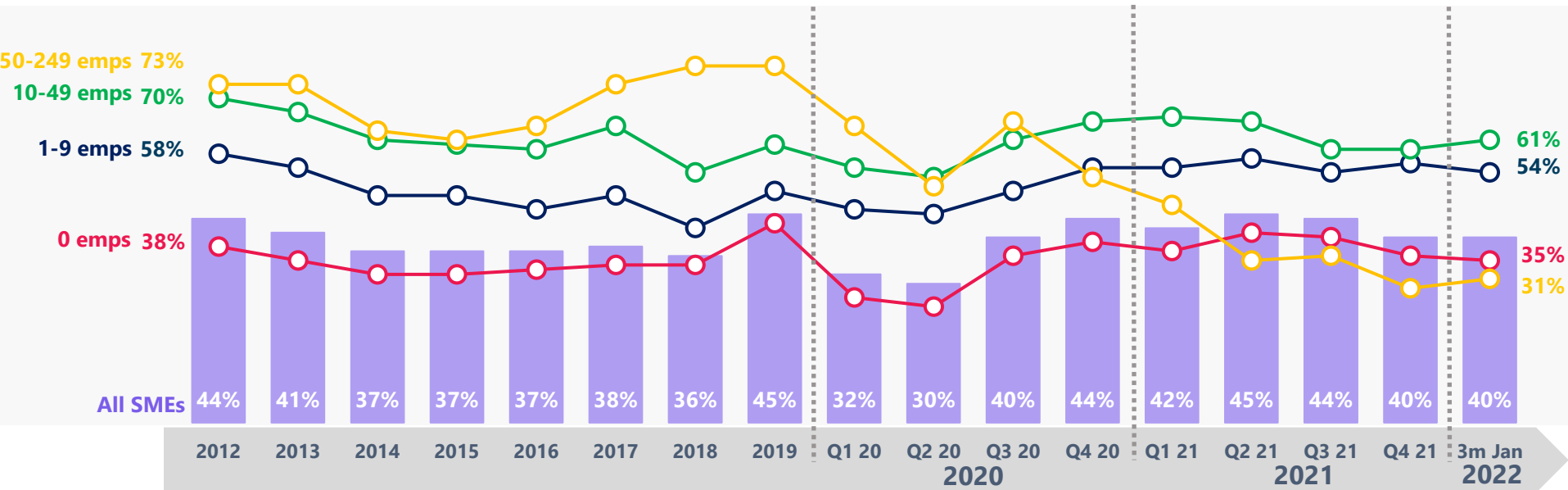
However, there have been slight changes to the “types of finance used” question and also to the definition of a “Permanent non-Borrower”. These initial results do not suggest the changes have had a major impact on results but will be monitored over time.

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.

40% of SMEs were using external finance in the 3 months to January, unchanged from Q4 2021. Larger SMEs with 50-249 employees remained less likely to be using finance than prior to Q4 2020

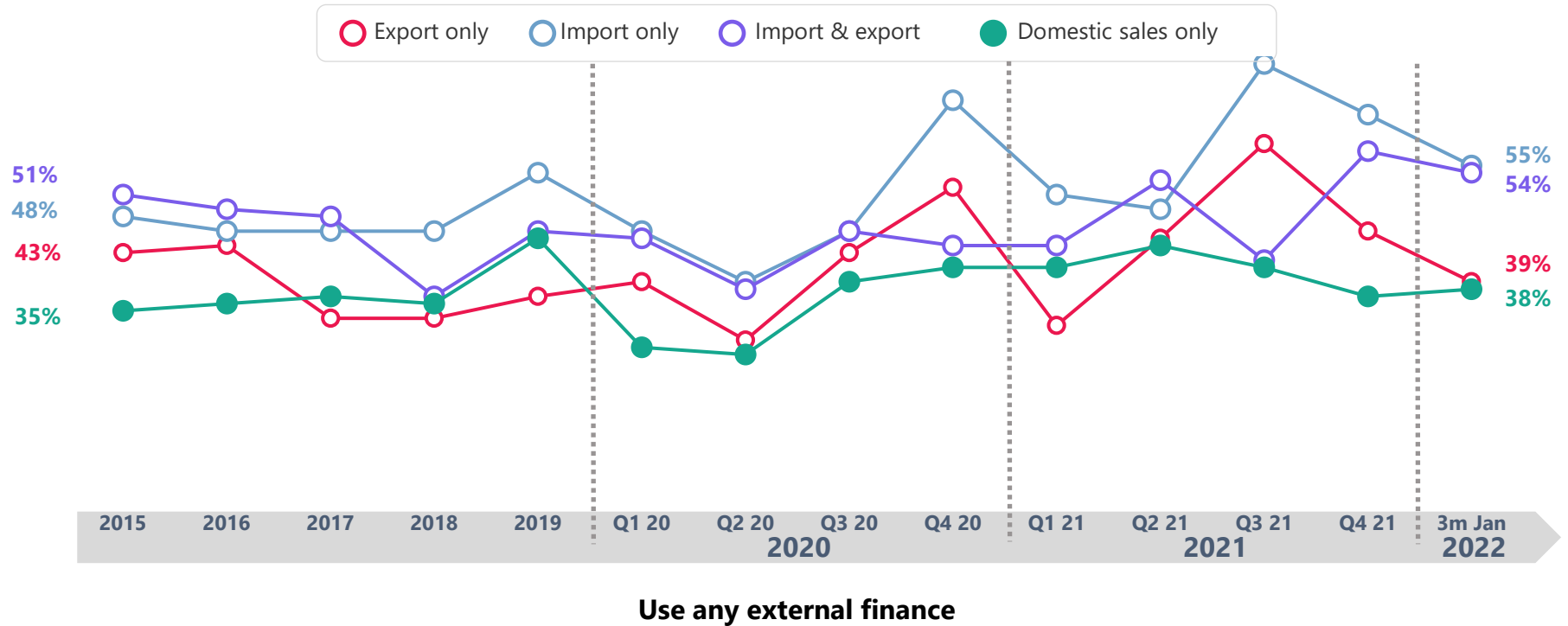
Time series: use of external finance per quarter



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 then remaining broadly stable since (40% for the 3 months to January). The largest SMEs with 50-249 employees remain less likely to be using finance than in 2020.

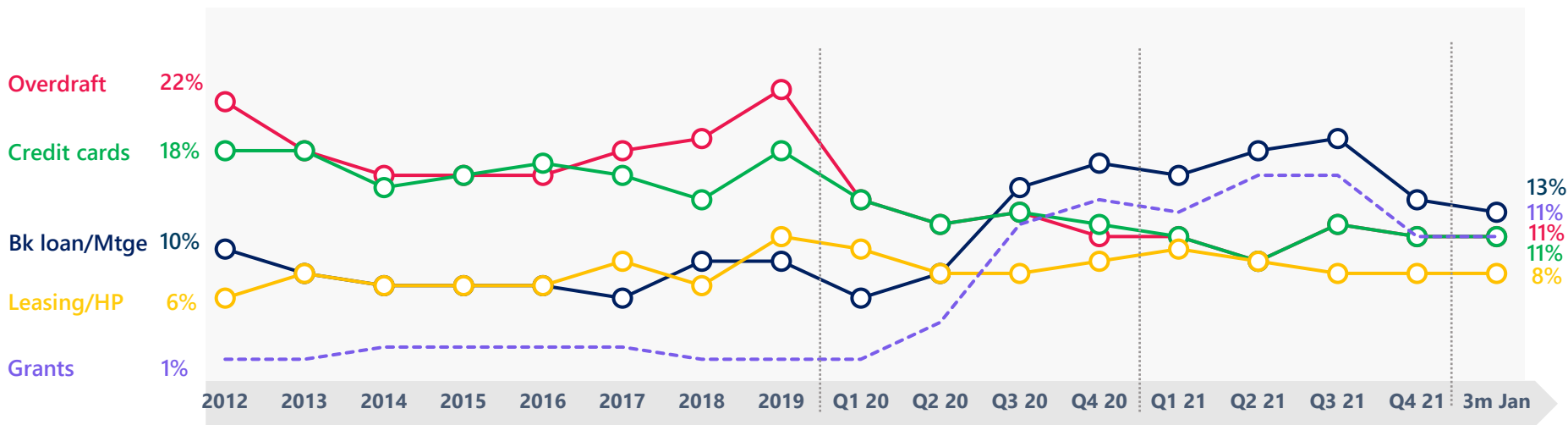
Use of finance remains more volatile amongst SMEs trading internationally. Import-only SMEs remain more likely than their peers to be using external finance, albeit at lower levels than previously seen. Export-only SMEs have seen a decline in use, now at similar levels as Domestic-only SMEs.

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



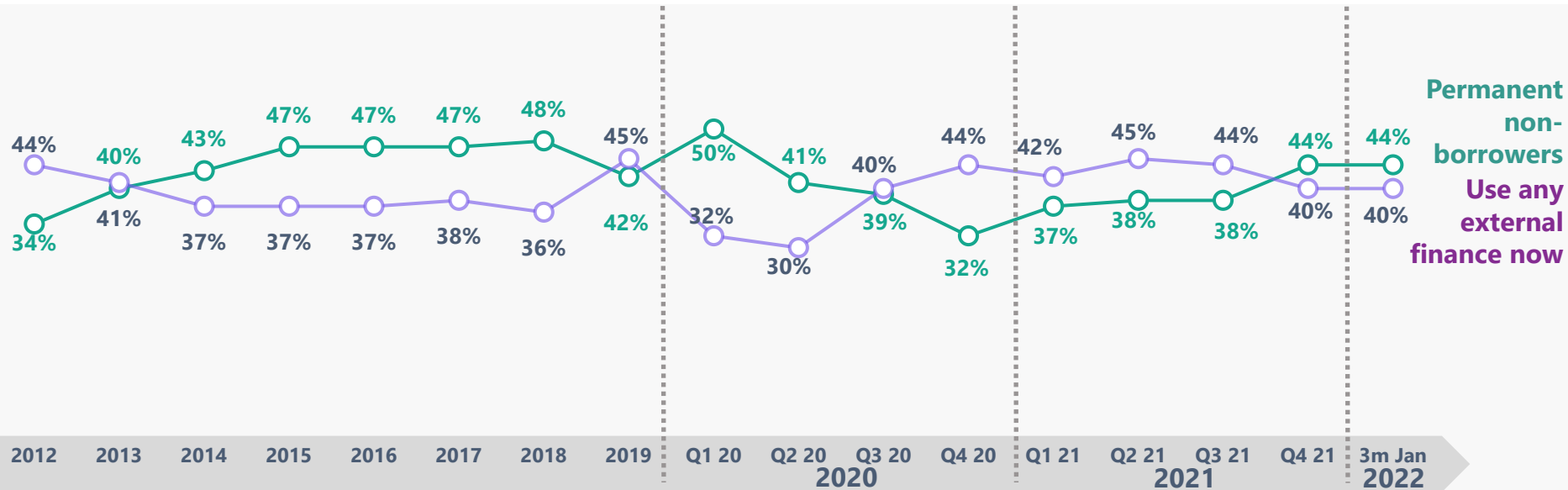
After having seen a marked decrease in the use of loans/commercial mortgages from Q3 2021 to Q4 2021, usage remained stable in the 3 months to January

Annual time series: Main forms of finance used



Q4 2021 saw the proportion of Permanent non-borrowers increase to 44%, the highest level seen since Q2 2020, which was also when it was higher than use of external finance. There was no change for the 3 months to January

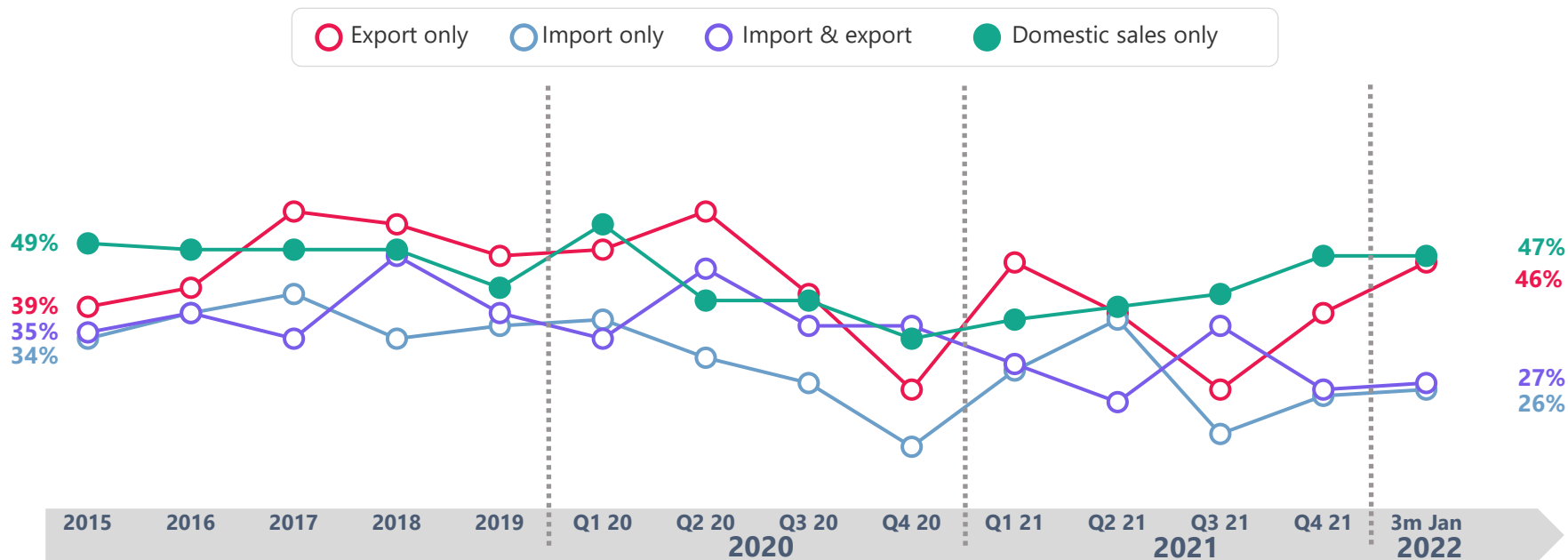
Time series: Permanent non-borrowers and users of external finance



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 44% remains stable from Q4 2021 and is the highest seen since Q2 2020, which is when there were last more PNBs than SMEs using finance. However, the proportion is still somewhat lower than was seen pre 2019 when almost half of SMEs met the definition.

After declining in H1 2021, Export-only SMEs have become increasingly likely to meet the definition of a Permanent non Borrower, nearing levels seen in Domestic-only SMEs who have become increasingly likely to meet the definition of a PNB themselves

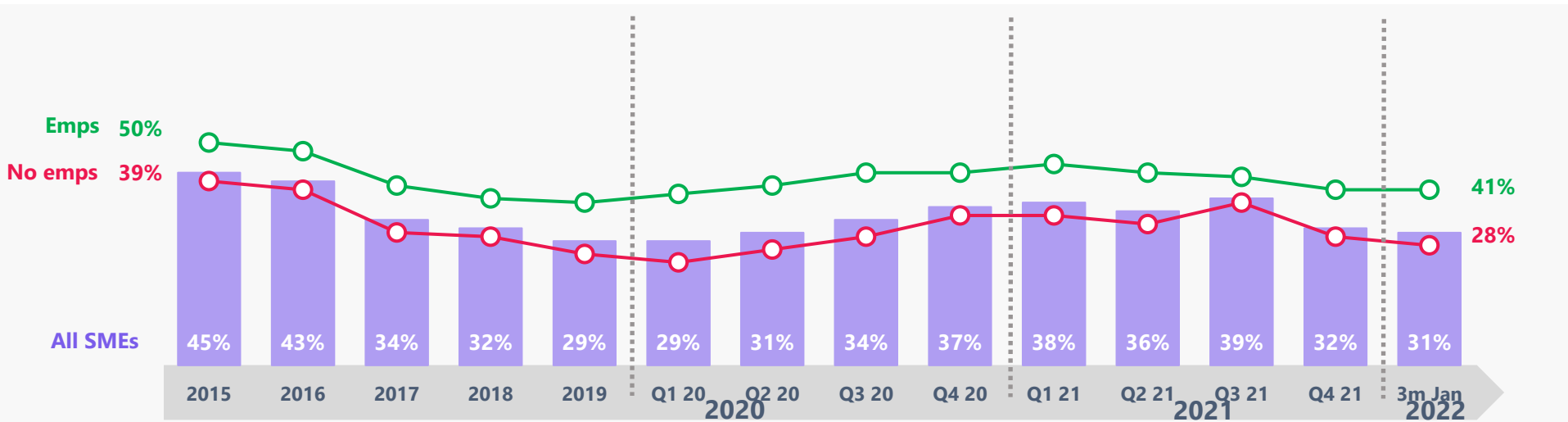
Time series: Permanent non-borrowers by extent of international trade alongside domestic sales



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

31% of SMEs were happy to use finance to grow. This is below the 39% recorded in Q3 2021, but more in line with pre-pandemic levels

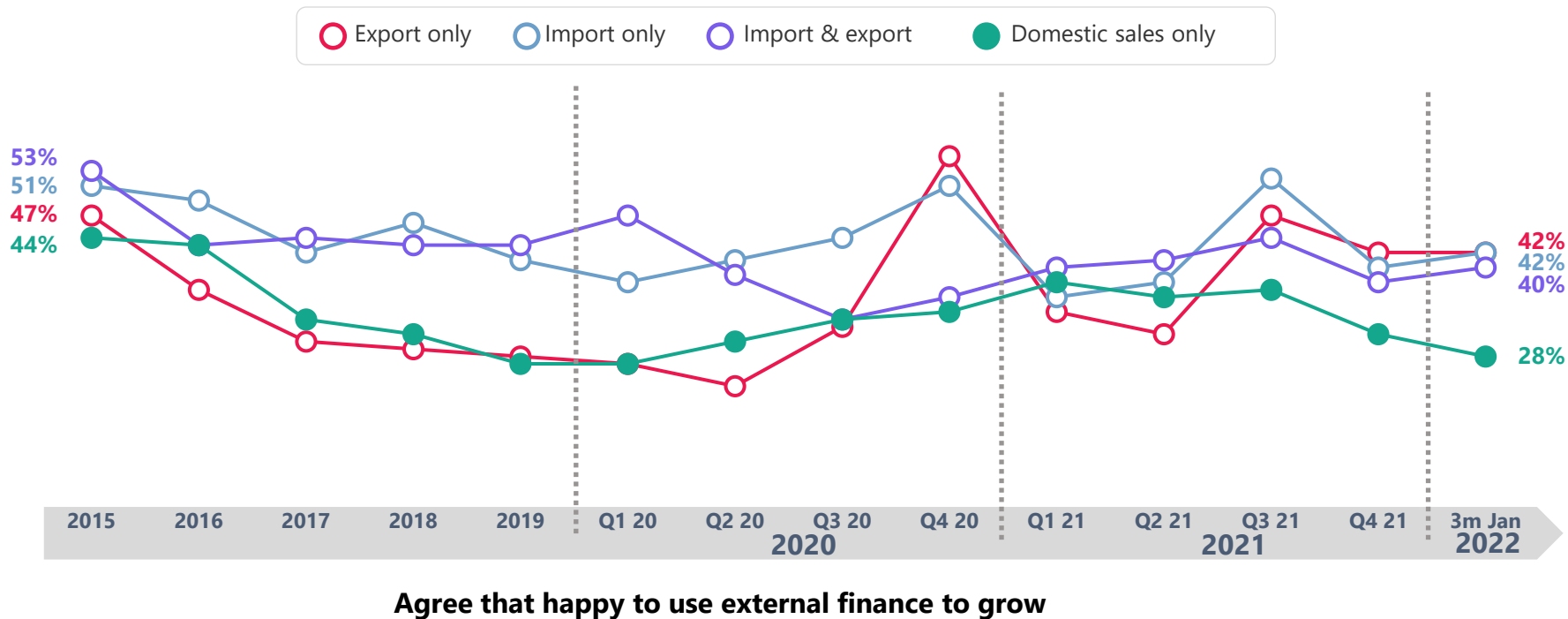
Time series: Agree that happy to use external finance to help business grow



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 Q4 2020 and remained broadly stable to Q3 2021. The current 31% is the lowest level seen since Q2 2020.

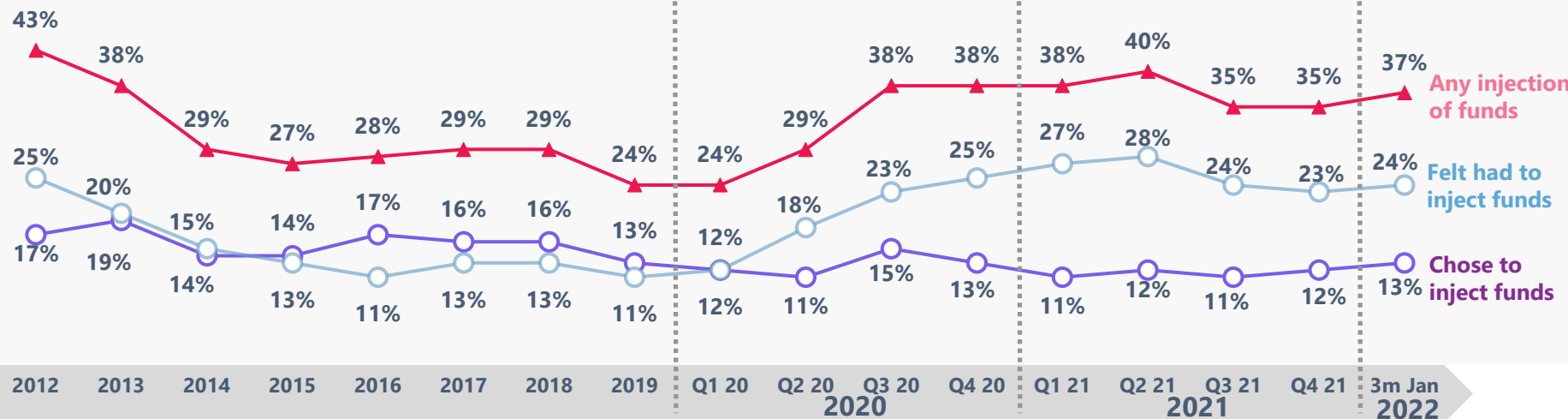
Domestic-only SMEs remained less likely to be happy to borrow to grow, all other groups remained fairly stable from Q4 2021, with slight increases seen in Import-only and fully international SMEs

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



37% of SMEs had injected personal funds in the past year, remaining slightly lower than the 40% in Q2 2021 as fewer SMEs felt they had to inject funds (now 24%), albeit still above levels seen pre-pandemic from 2014 onwards

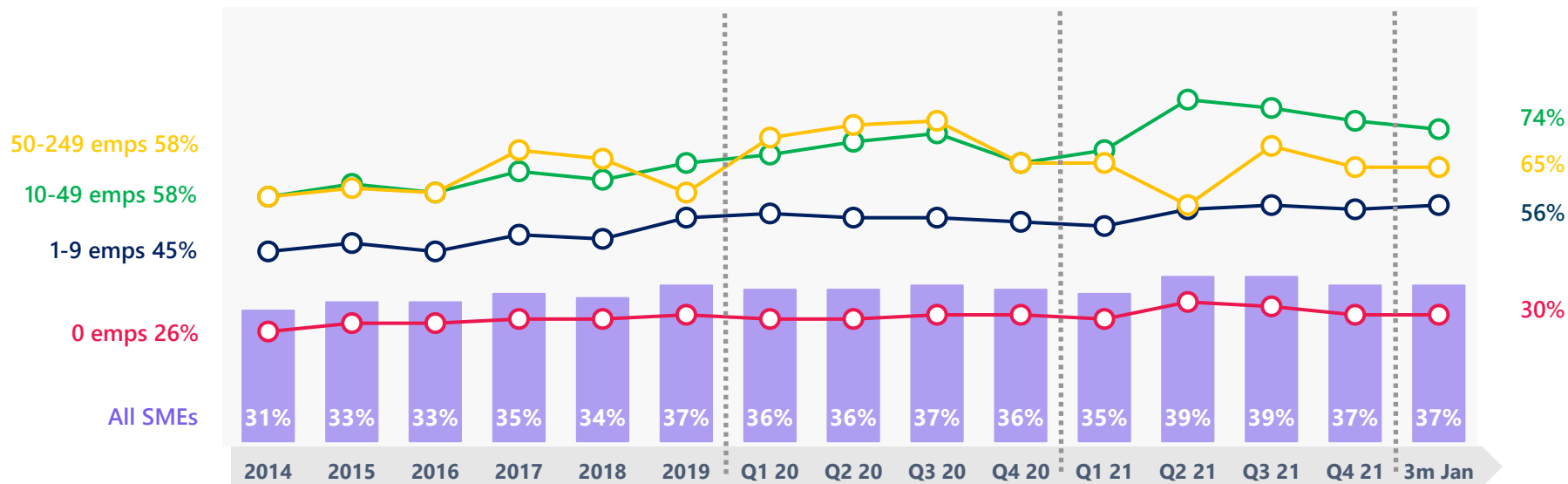
Time series: Injections of personal funds in previous 12 months



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 was then broadly stable to 2022. In the 3 mths to January, 37% reported an injection of funds, a slight increase from the latter half of 2021 as the number of SMEs (24%) feeling that they had to do so remains fairly stable

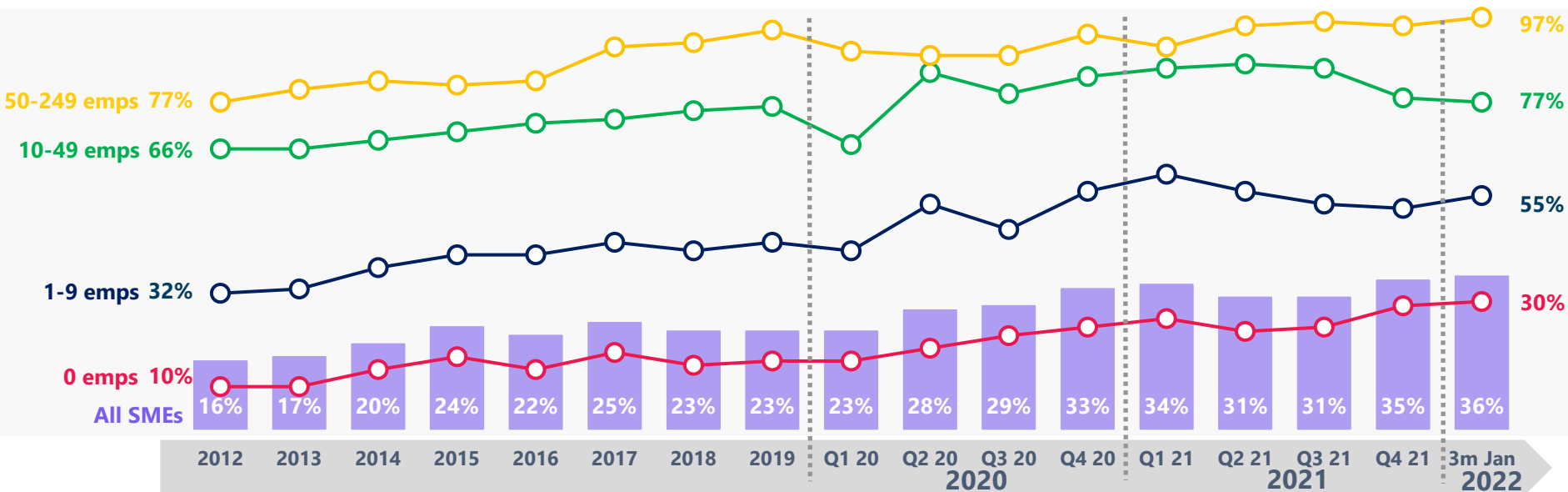
37% of SMEs were using trade credit, stable since Q2 2021 at a slightly higher level than typically seen pre-pandemic. Those with 10-49 employees remained the most likely to use trade credit, albeit at a slightly lower level than in Q2 2021

Time series: : Using trade credit



36% of SMEs held more than £10,000 of credit balances, in line with Q4 2021 overall due to more smaller SMEs holding such sums

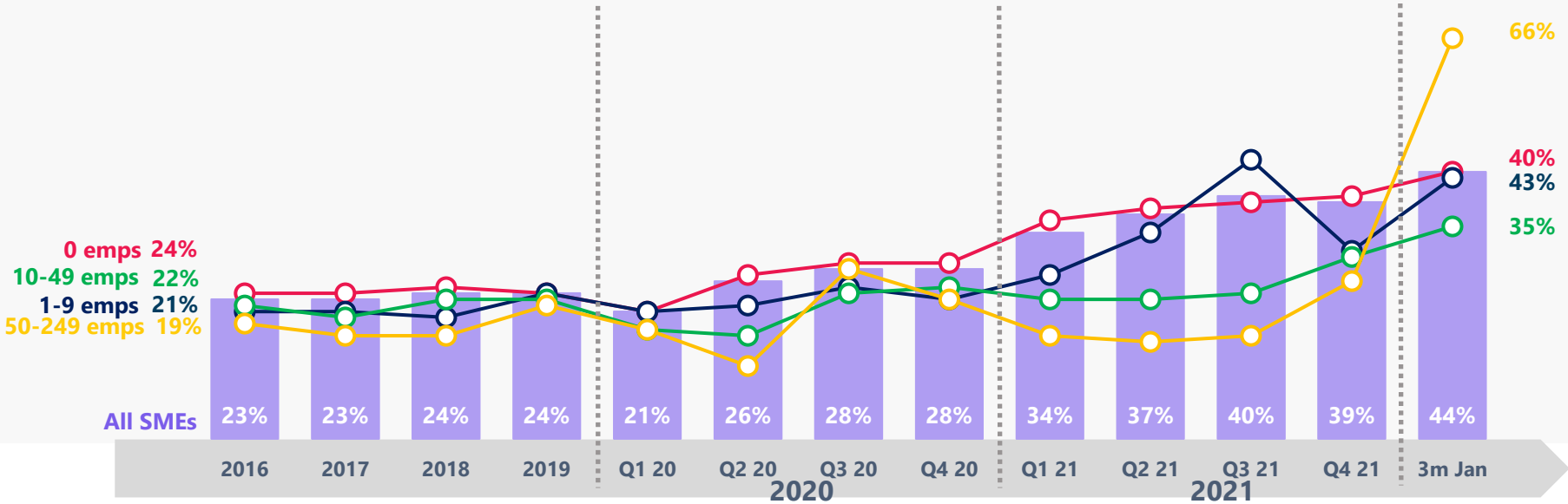
Time series: £10k credit balances held



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 was then somewhat lower in Q2 and Q3 2021 (31%) before returning to 35% in Q4 2021 and remaining fairly stable in the 3 months to January at 36% as more of the smaller SMEs held such sums

SMEs held the equivalent of 44% of their turnover in credit balances. Since the start of 2020, there has been a general increase in this percentage, seen across all size bands to varying degrees

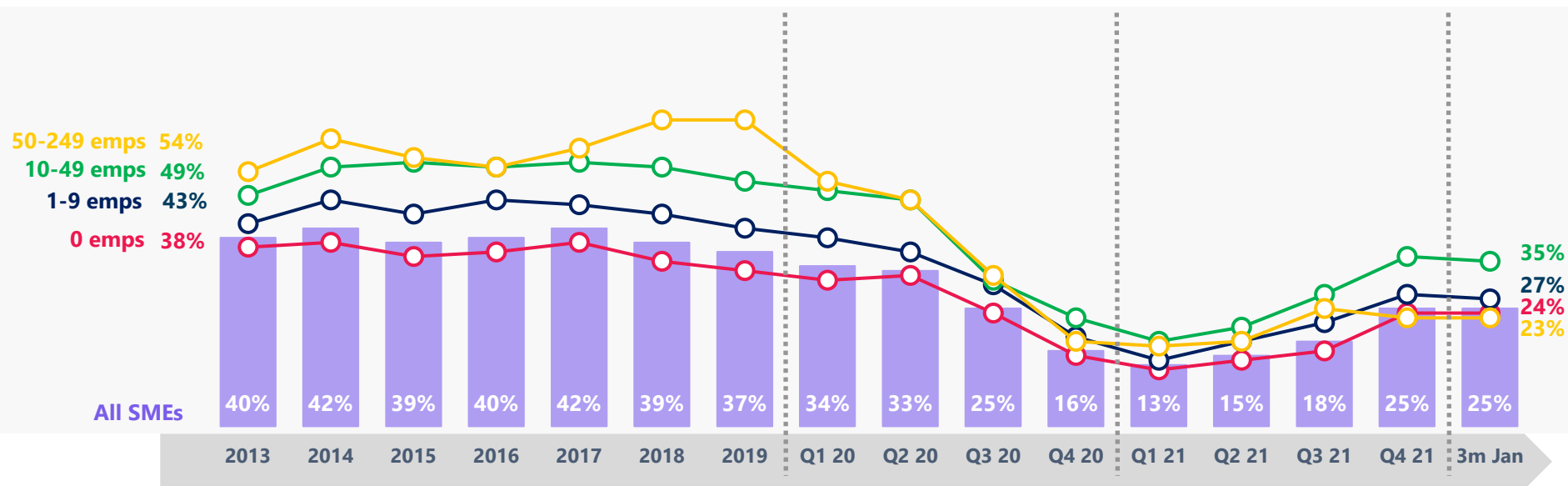
Time series: % of turnover held as credit balances



More recent analysis looks at credit balances held as a percentage of total turnover (both collected in bands, with mid-points used and noting that a number of SMEs will be reporting lower turnover now than pre-pandemic). For the 3 months to January 2022, SMEs held the equivalent of 44% of their turnover in credit balances on average, one of the highest proportions seen on the SME Finance Monitor. On a limited base size there was a marked increase in the percentage for those with 50-249 employees

The proportion of SMEs reporting growth in the last year was 25%, remaining stable from Q4 2021 and in line with Q3 2020, but below pre-pandemic levels

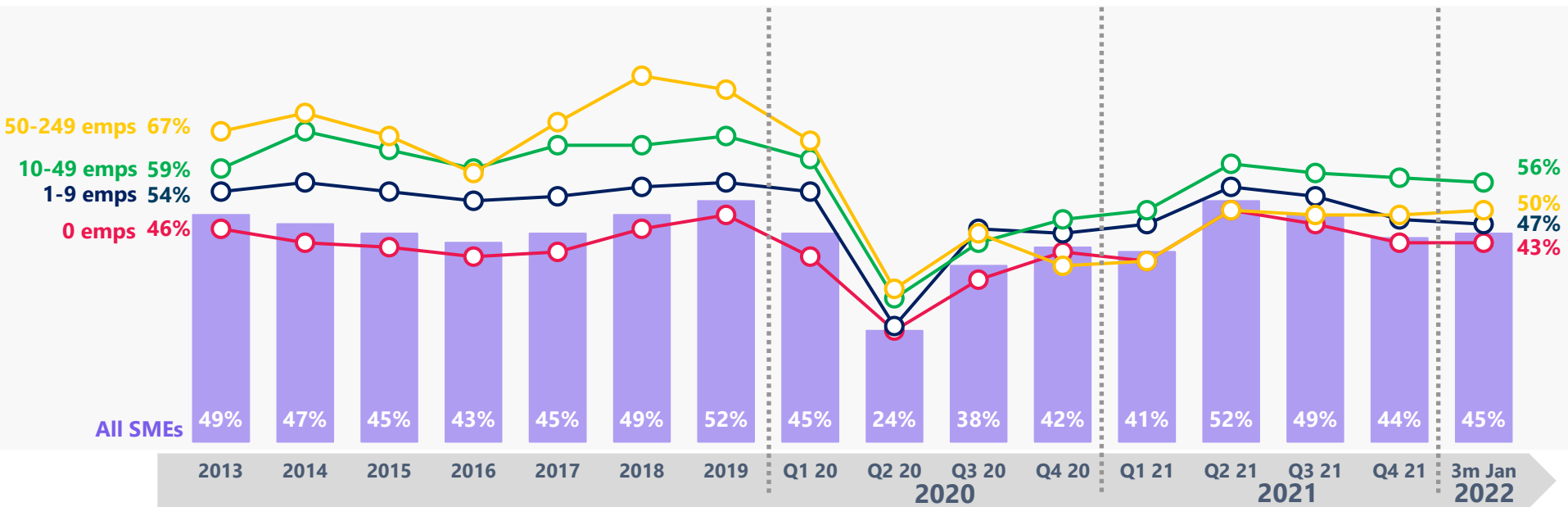
Time series: Have grown (excluding Starts)



2012 to 2019, the proportion of SMEs (excluding Starts) reporting growth varied little and was 37% for 2019. Reported growth in 2020 was initially broadly stable but then declined steadily across all size bands and was 13% for Q1 2021. It has increased slightly since and is 25% currently. 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 performance, the proportion increased to 65% in Q1 2021. It was 45% in the latest period, as slightly more SMEs reported growing and 30% remained the same size

After a sharp decline to 24% in Q2 2020, growth aspirations increased steadily, reaching 52% in Q2 2021. Since then there has been something of a decline in the proportion planning to grow, to 45% in the 3 months to January 2022

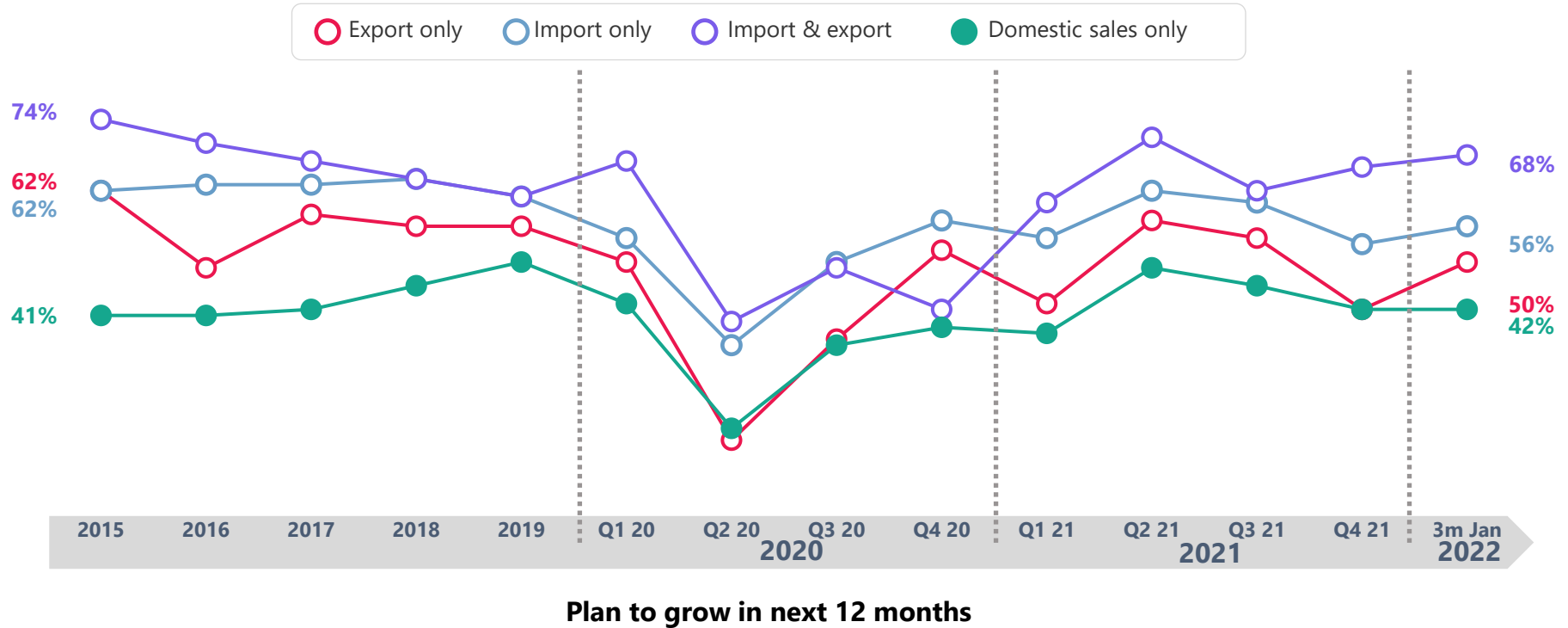
Time series: Have plans to grow



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. In the 3 months to January, however, 45% were planning to grow, still above the worst of the pandemic but lower than usually seen pre-pandemic

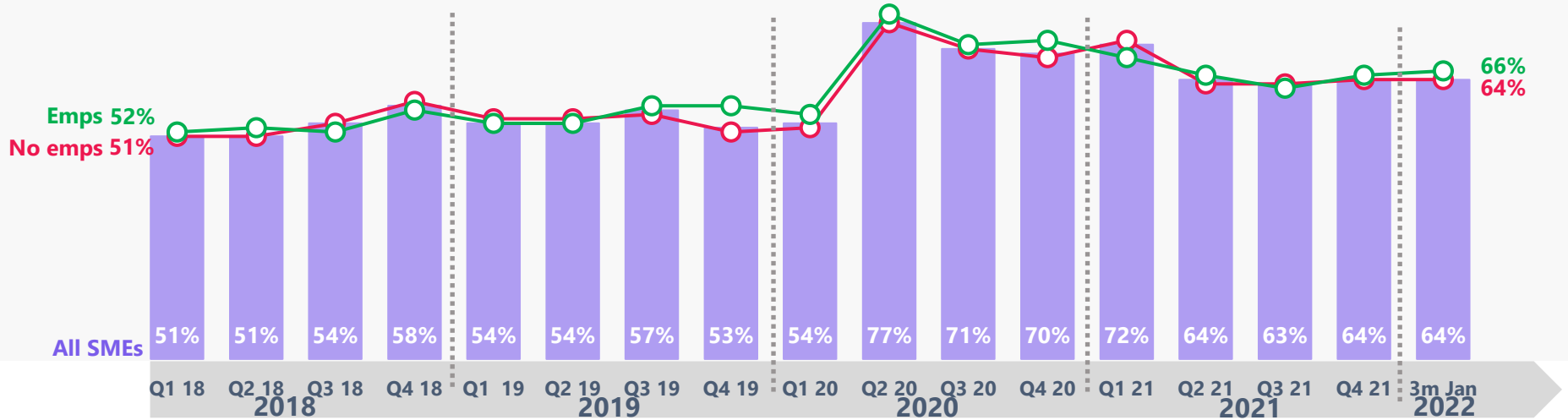
Growth aspirations amongst Domestic-only SMEs were stable but for other groups were somewhat higher than in Q4 2021

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



A stable 6 in 10 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

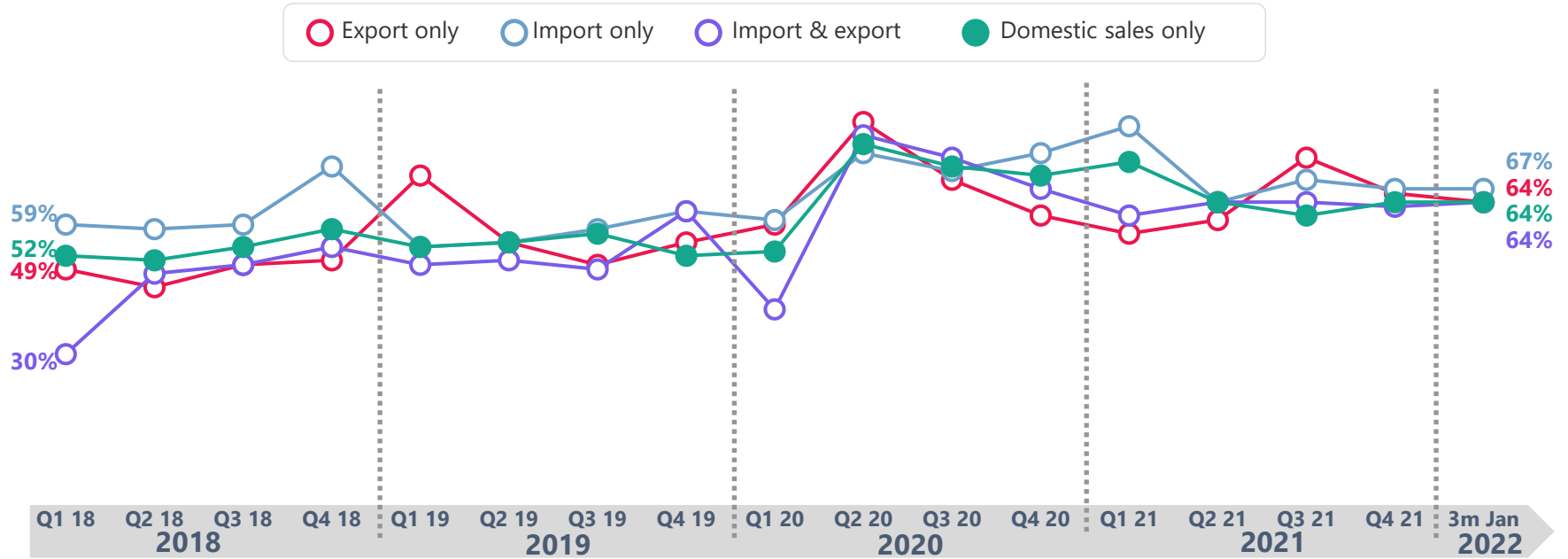
Time series: Agree that future is uncertain so being cautious



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. By Q2 2021, the proportion had declined to 64% and has been stable since, but remains higher than pre-pandemic levels

There remained little to choose between the levels of concern about the future by international trade.

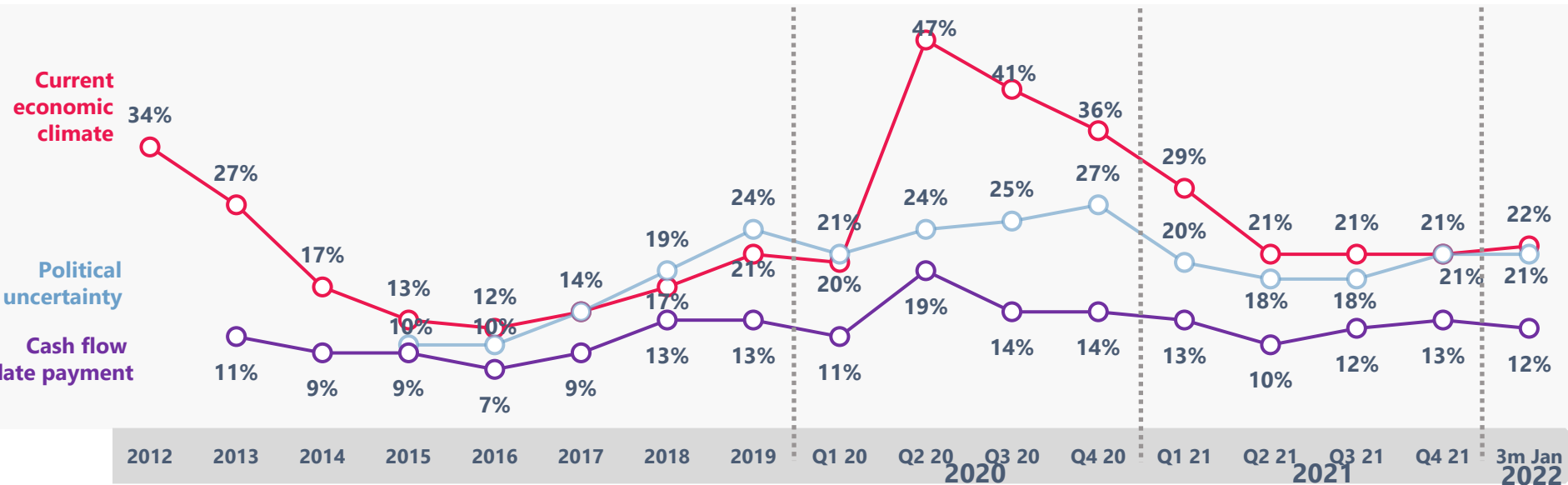
Time series: Agree that future is uncertain so being cautious



Future uncertain so being cautious

Concern about the economy, having increased to 47% in Q2 2020 was back at 21% by Q2 2021 and has remained stable since. Concerns about political uncertainty and cash flow/late payment increased slightly in Q4 2022, levels remained stable in the 3 months to January

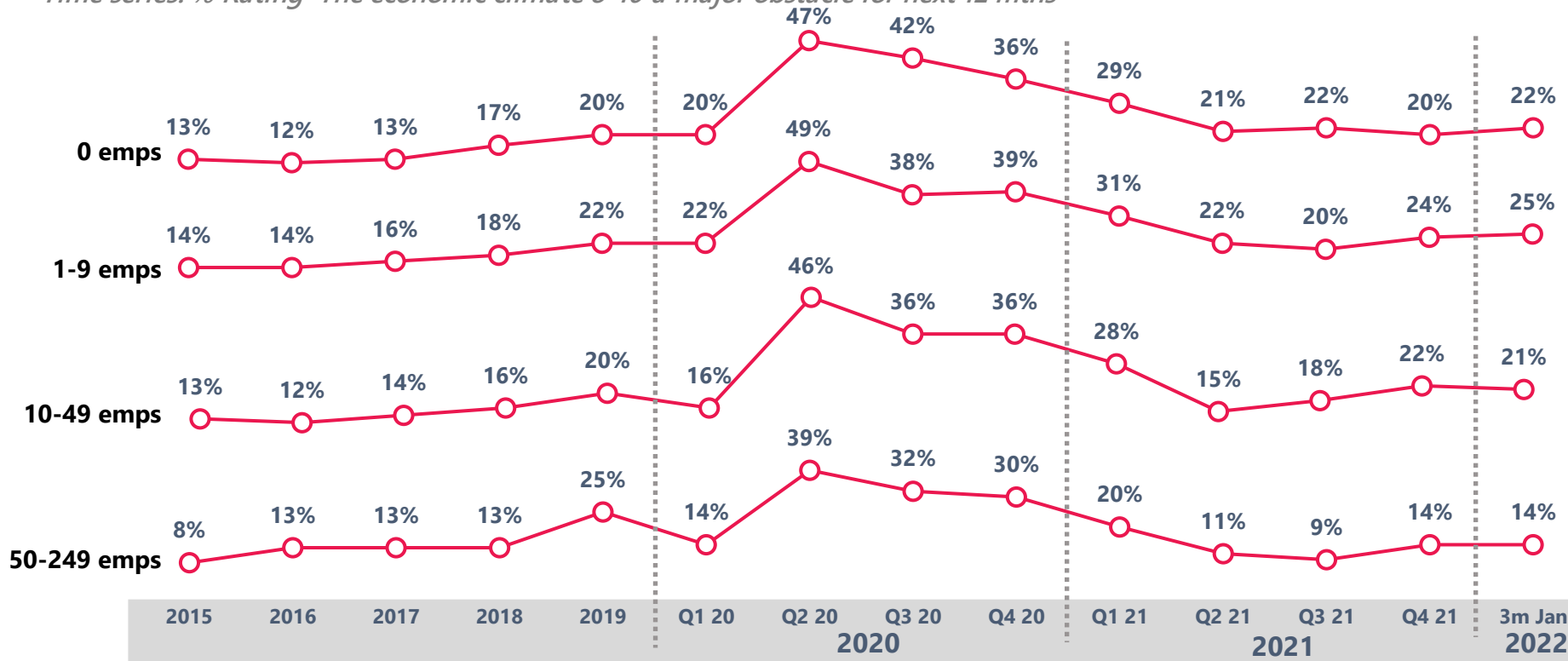
Time series: 8-10 Major obstacle to running business in next 12 months



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. It then declined, to 21% in Q2 2021 and stable since. Concern about political uncertainty increased to 27% in Q4 2020 but this was not maintained in 2021, but levels of concern about this and also cash flow/late payment were slightly higher in the 3 months to January than earlier in 2021

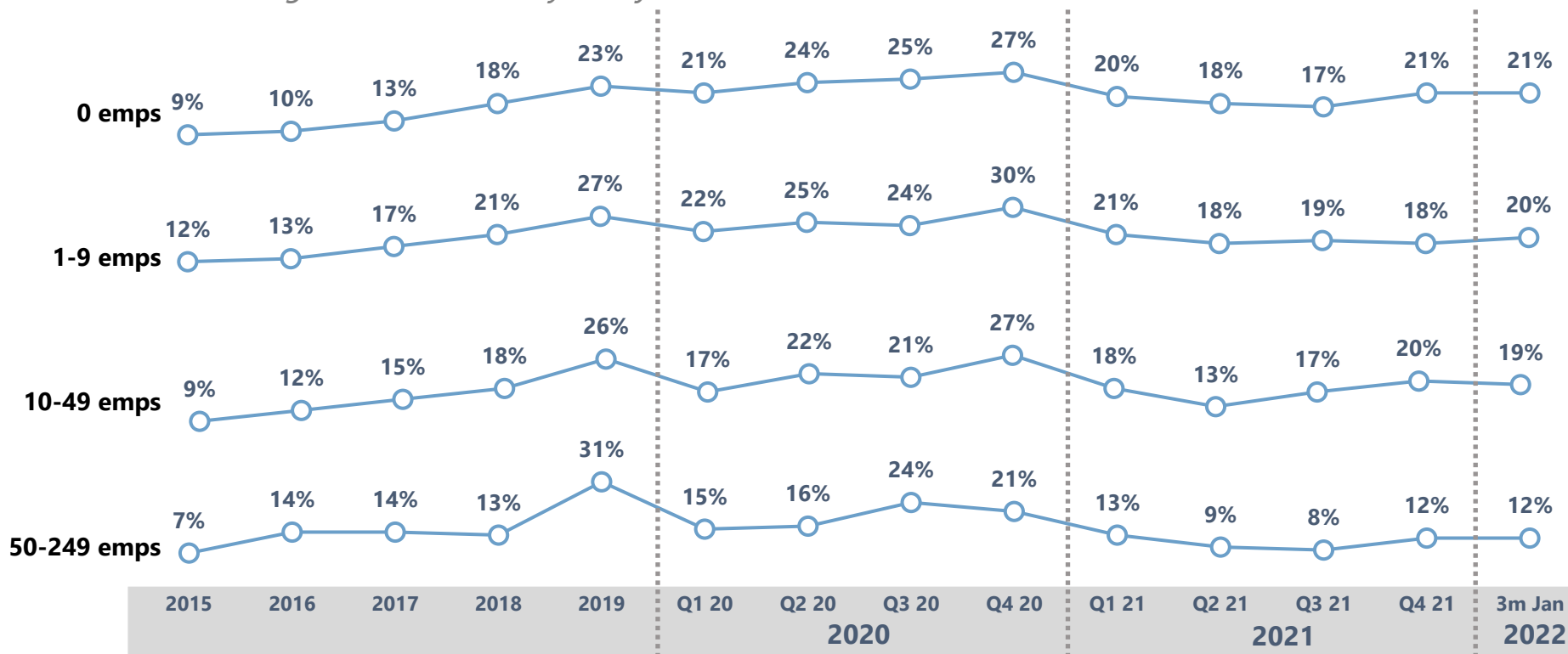
After a marked increase in Q2 2020 across all size bands, concern about the economic climate declined to Q2 2021. It has been broadly stable since, but has increased somewhat for those with 10-49 employees

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



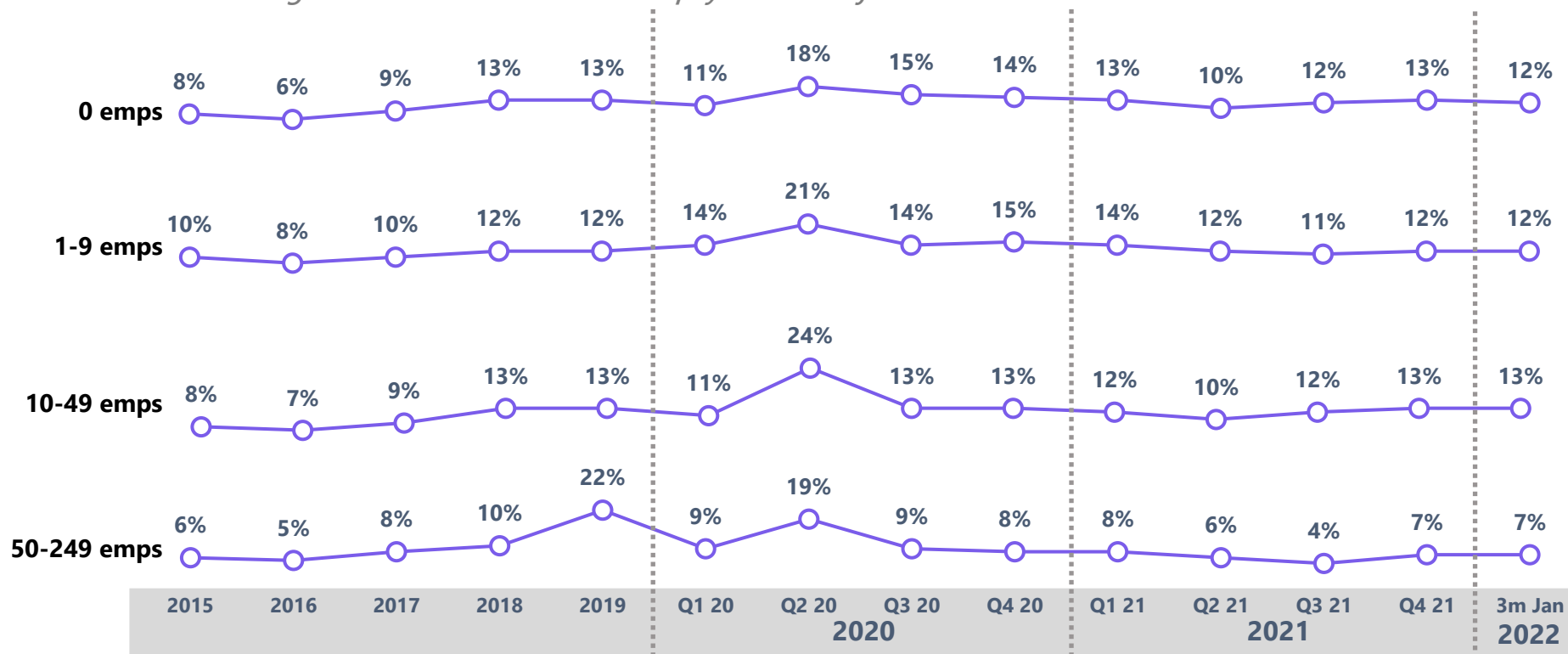
Concern about political uncertainty increased Q3 to Q4 2020 for all but the largest SMEs but was lower again in 2021. Since Q2 2021 it has been broadly stable, for all but those with 10-49 employees

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



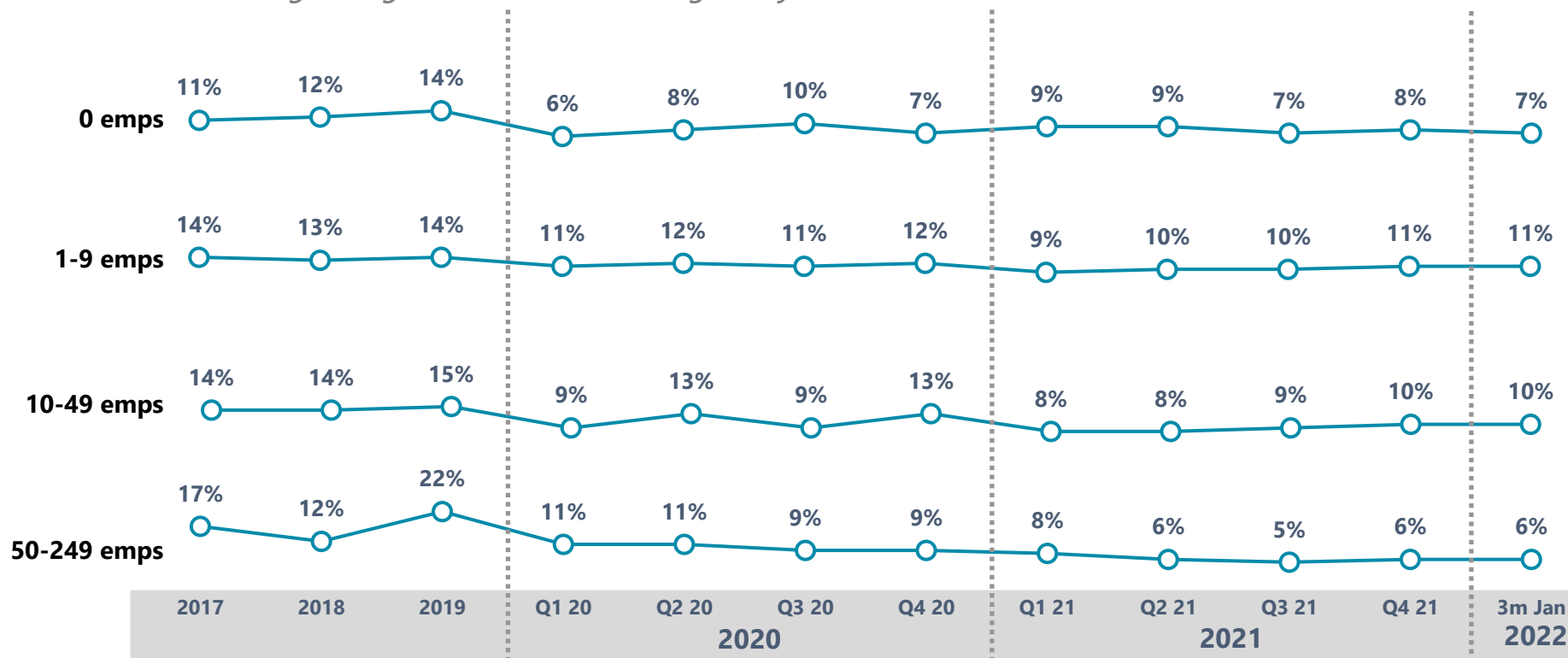
Levels of concern about cash flow and late payment remained broadly stable in 2021 and below the last peak in Q2 2020 and this remains the case in the 3 months to January 2022

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



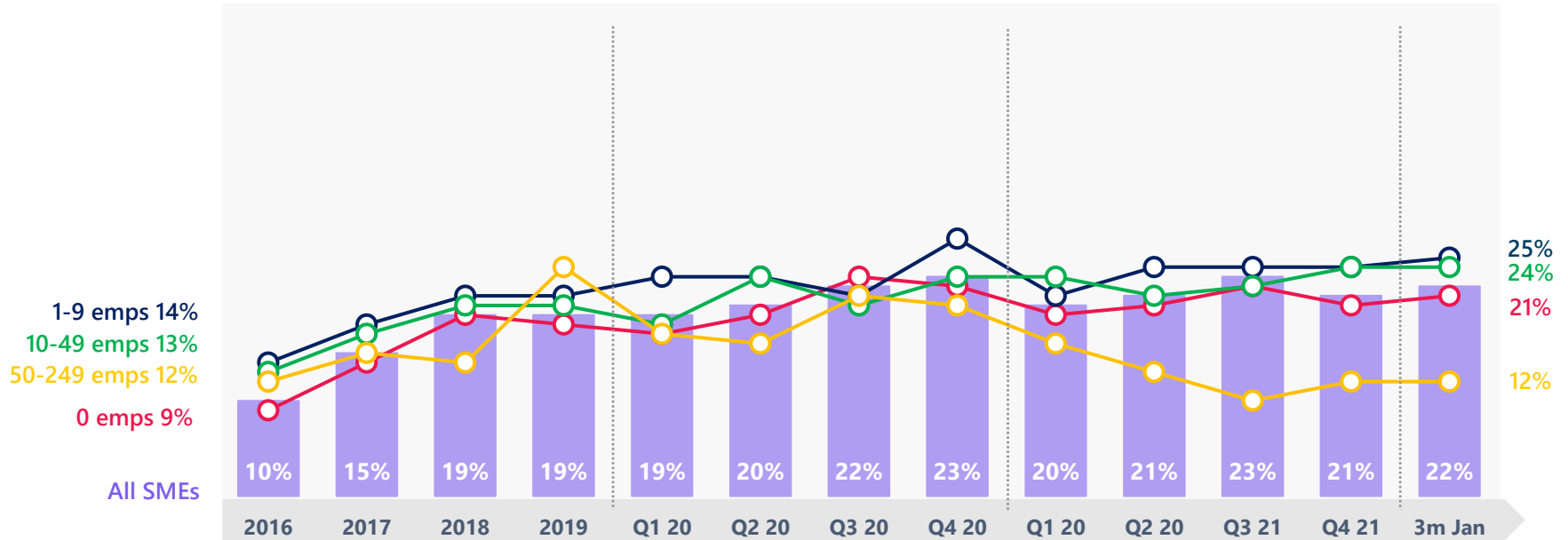
Levels of concern about the value of sterling have been broadly stable over recent quarters

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



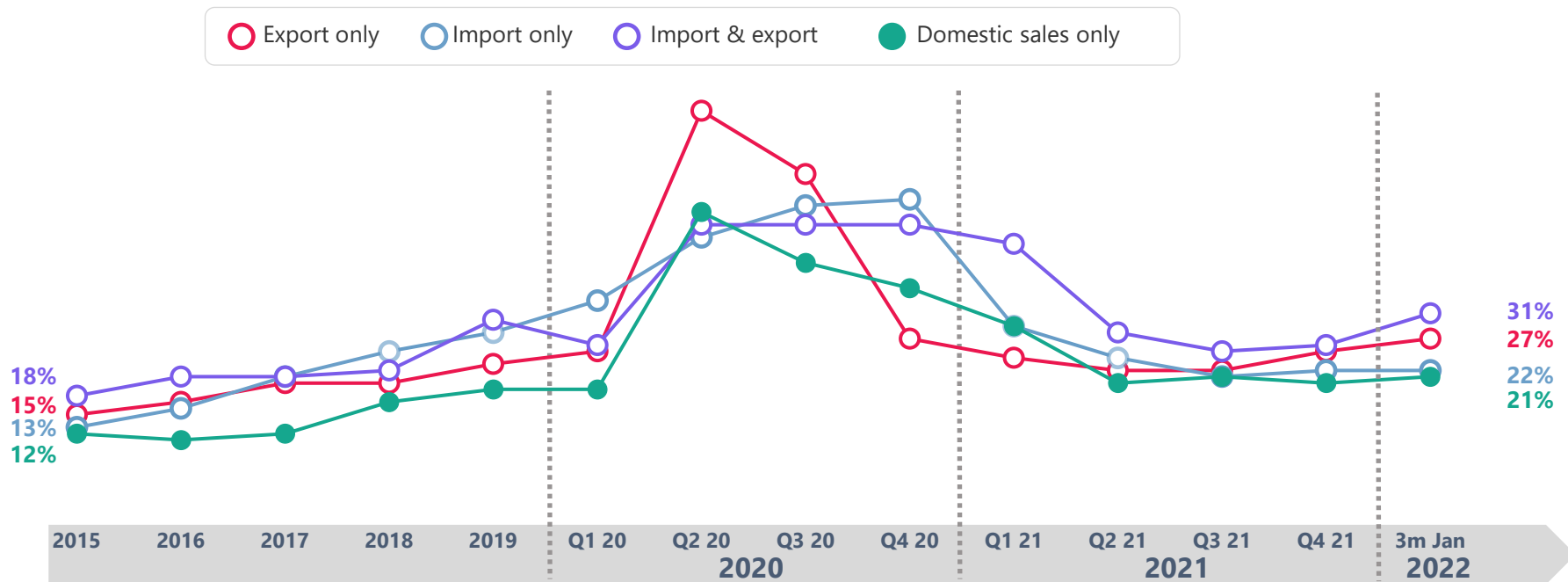
At the end of 2020, 23% of SMEs rated legislation/regulation/red tape as a major barrier, up from 10% in 2016. The proportion in 2021 and the 3 months to January 2022 has been broadly in line

Annual time series: % legislation/regulation / red tape 8-10 barrier



Levels of concern about the economic climate have seen a slight rise amongst Export-only and international SMEs in the 3 months to January 2022, but remain well below the peak in 2020

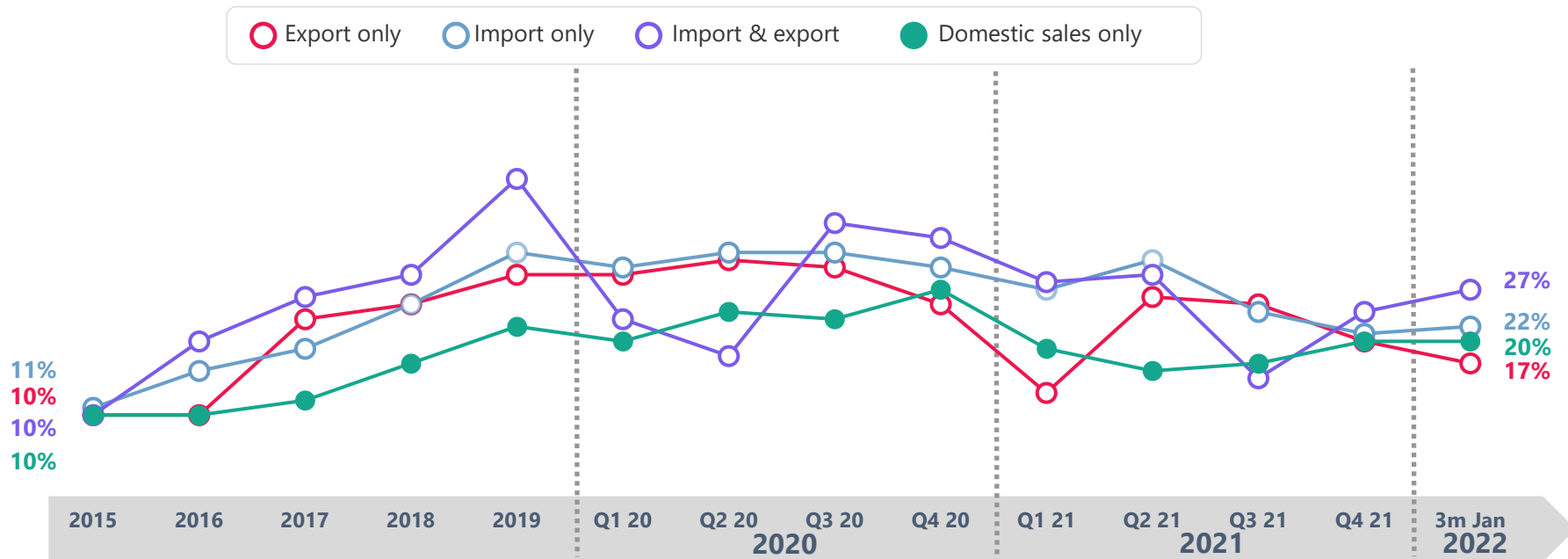
Time series: 8-10 economic climate by extent of international trade alongside domestic sales



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

Concern about political uncertainty amongst Domestic-only SMEs decreased steadily Q4 2020 to Q2 2021, but has increased slightly since. International SMEs have seen more volatility with an increase in concern amongst fully international SMEs from Q3 2021 to the 3 months to January 2022

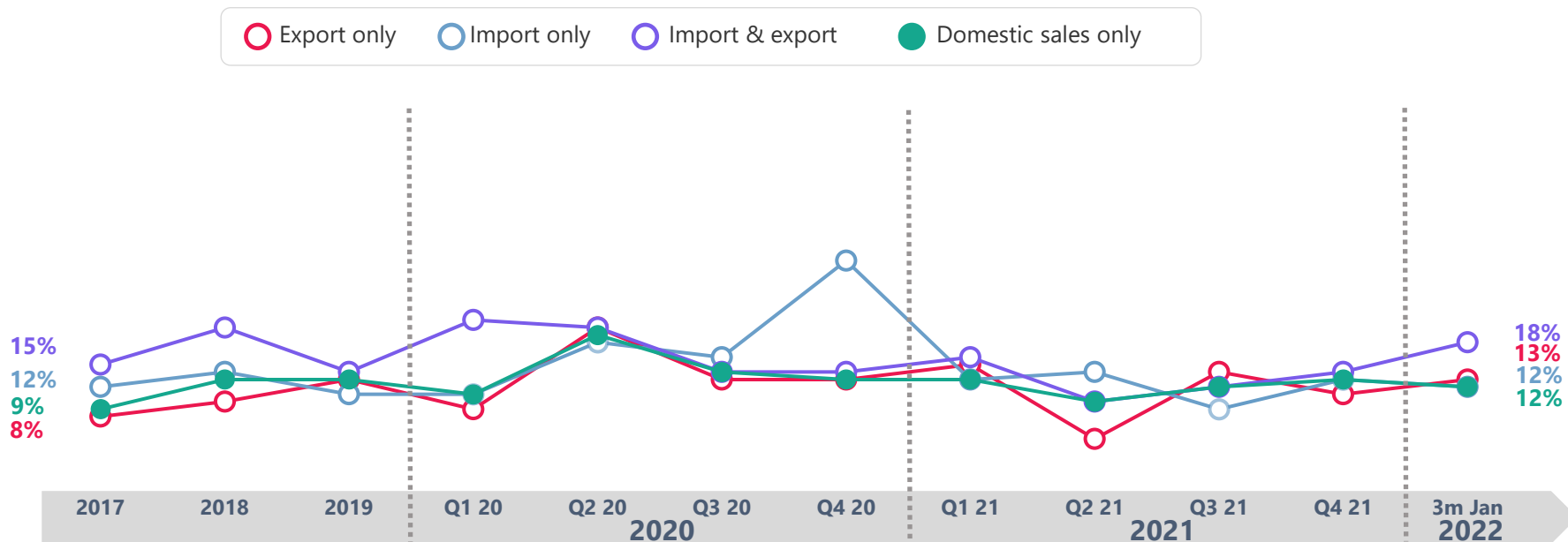
Time series: 8-10 political uncertainty by extent of international trade alongside domestic sales



Rating political uncertainty a major obstacle (8-10)

The proportion seeing cash flow / late payment as a barrier varied little between domestic and international SMEs in 2021. In the 3 months to January 2022 International SMEs are now slightly ahead of their peers having seen a steady increase from Q2 2021

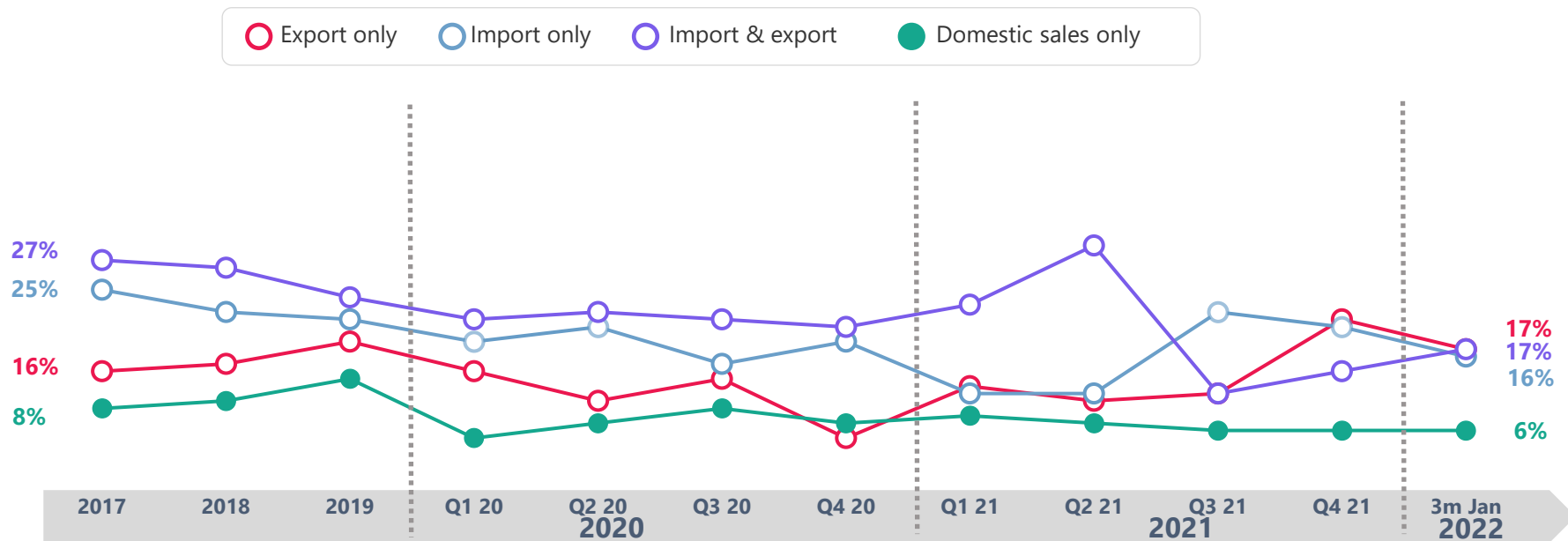
Time series: 8-10 cash flow / late payment by extent of international trade alongside domestic sales



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

Those with an element of international to their businesses remained more concerned than Domestic-only SMEs about the value of sterling, but typically at lower levels than were seen pre-pandemic

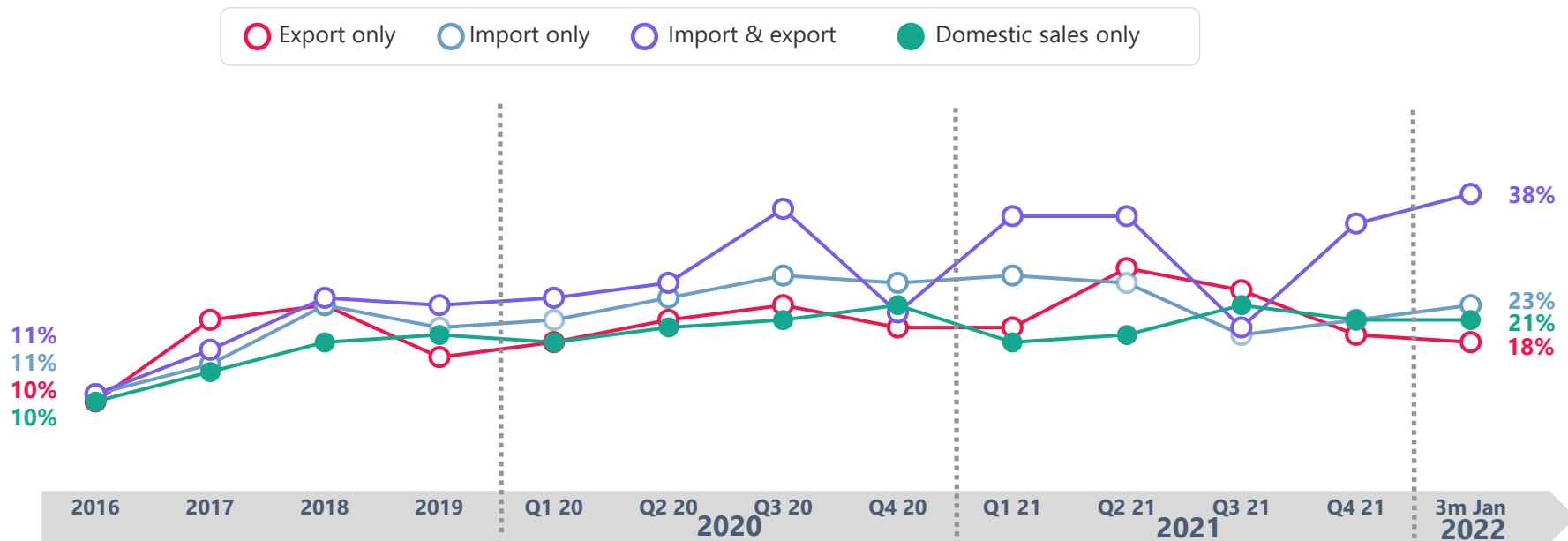
Time series: 8-10 changes in the value of sterling by extent of international trade alongside domestic sales



Rating changes in the value of sterling a major obstacle (8-10)

Fully international SMEs were once again more likely to see legislation/red tape as a barrier, now with a new high of 38% seeing it as a major obstacle in the 3 months to January 2022

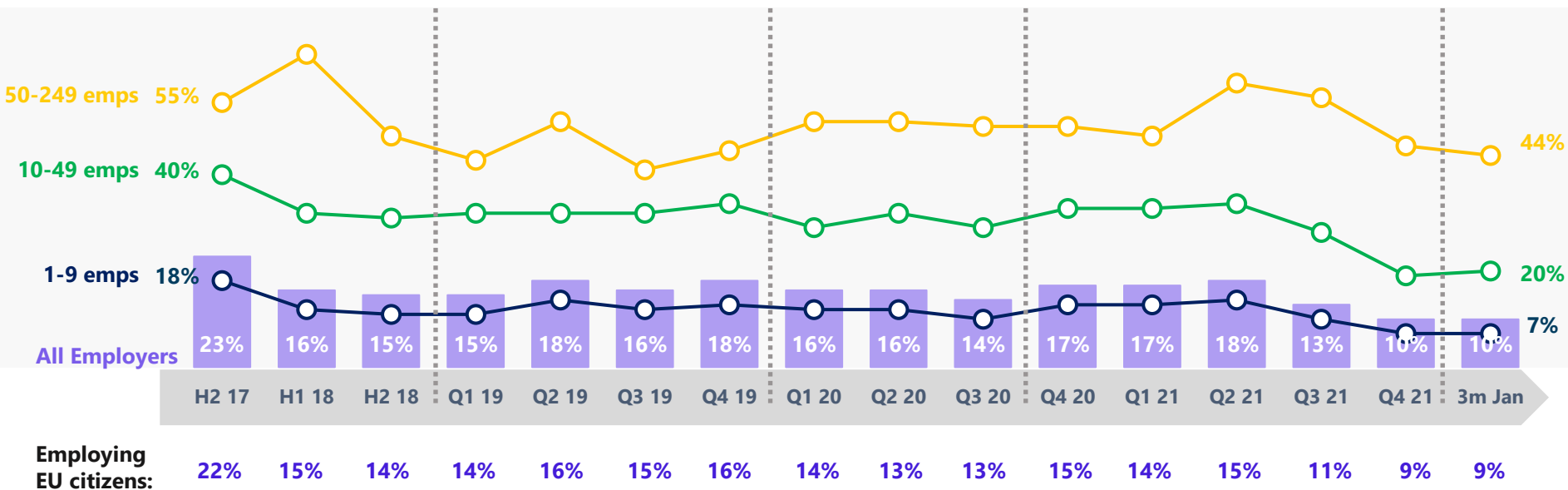
Time series: 8-10 changes in "legislation/regulation/red tape" by extent of international trade alongside domestic sales



Rating changes in legislation/regulation/red tape a major obstacle (8-10)

1 in 10 employers had employees from overseas, typically from the EU. This remains the lowest proportion recorded on SMEFM to date, remaining stable from Q4 2021

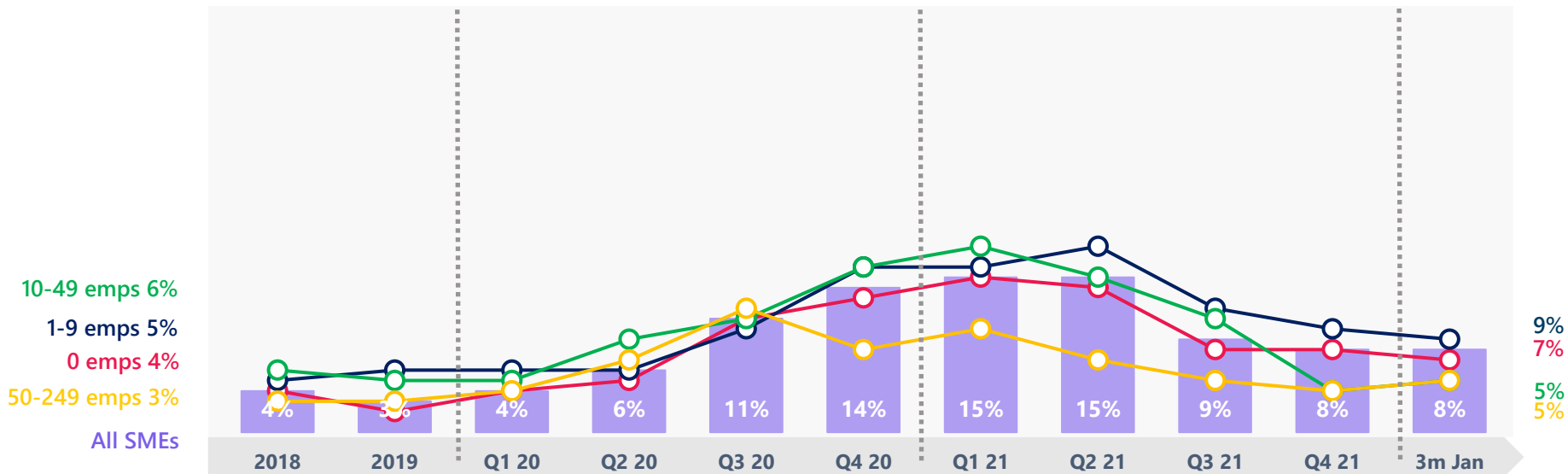
Time series: Employ non-UK staff (from the EU or elsewhere overseas)



When this question was first asked in H2 2017, a quarter (23%) of employers had staff from overseas. From the start of 2018 to Q2 2021 the proportion was lower, but fell to 13% in Q3 2021 and 10% in the current period, when 9% of employers had staff from the EU and 4% had staff from elsewhere.

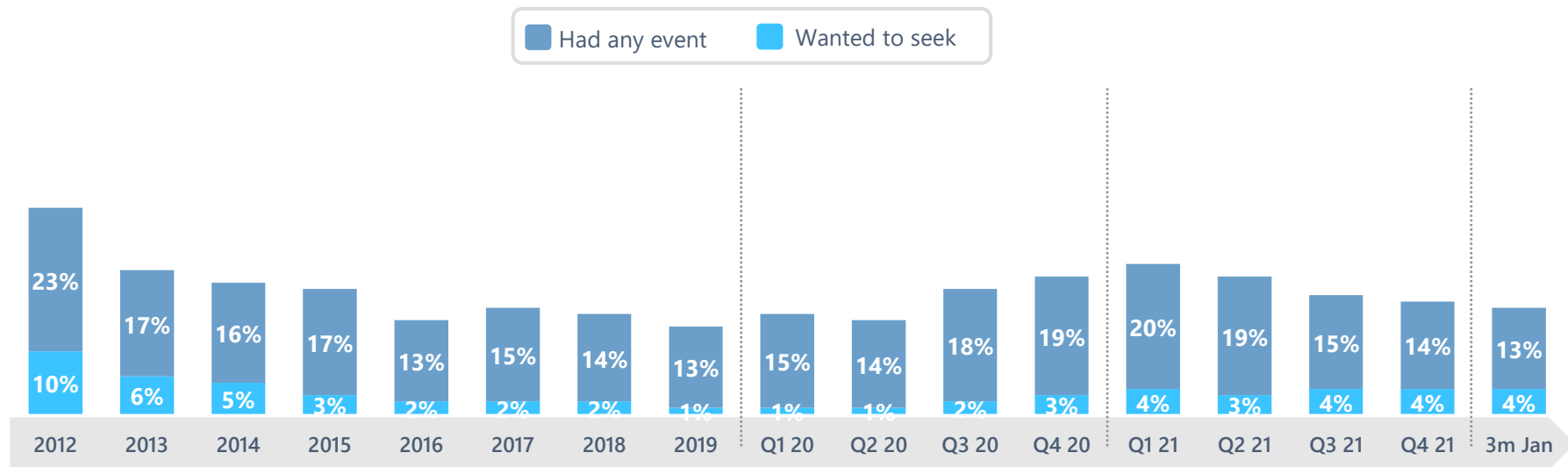
8% of SMEs reported having a need for external funding in the last 12 months, still higher than pre-pandemic levels but down from a peak of 15% in the first half of 2021

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



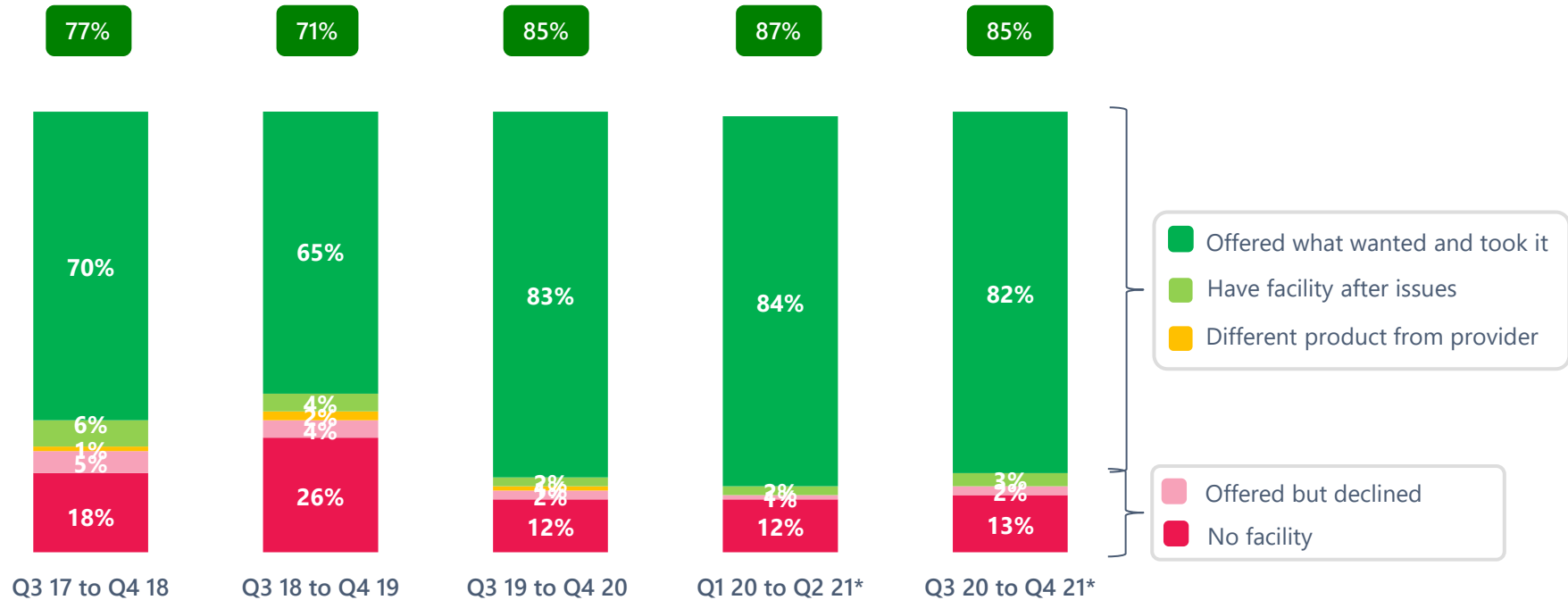
17% of SMEs reported any appetite for finance in the previous 12 months (an event or those who had wanted to seek finance), also lower than the last peak in Q1 2021 (24%) and more in line with the years immediately pre-pandemic

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

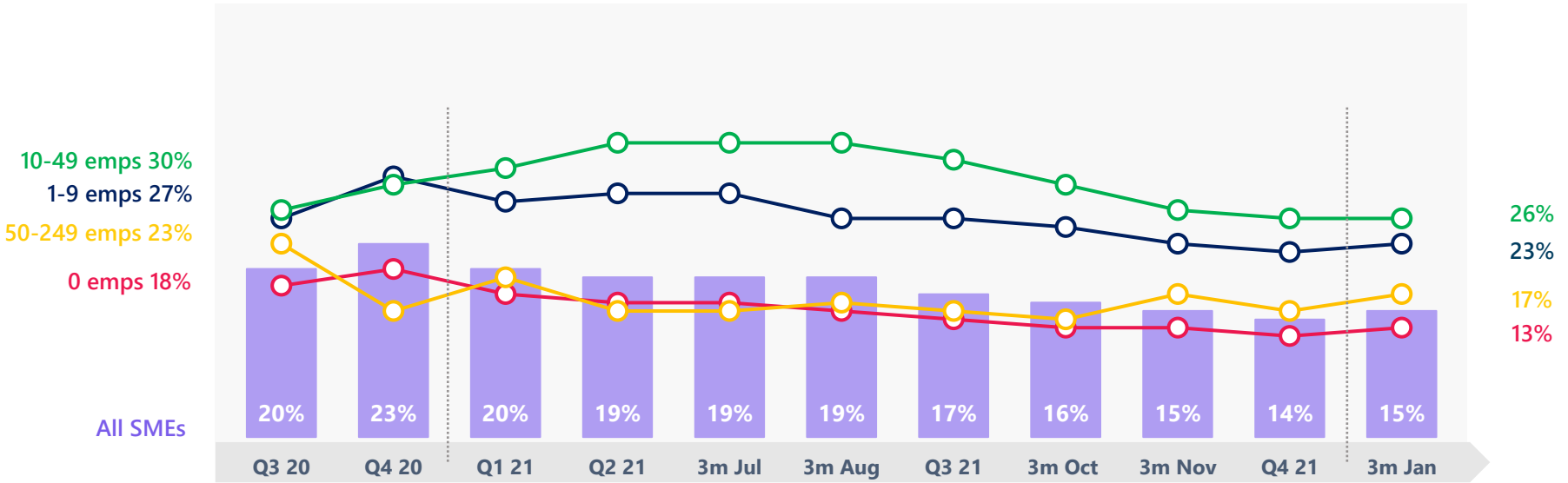
Global success rate: all applications reported from Q1 2018 to Q3 2021, occurring in the periods shown



This chart will be updated every quarter end
Last updated Q4 2021

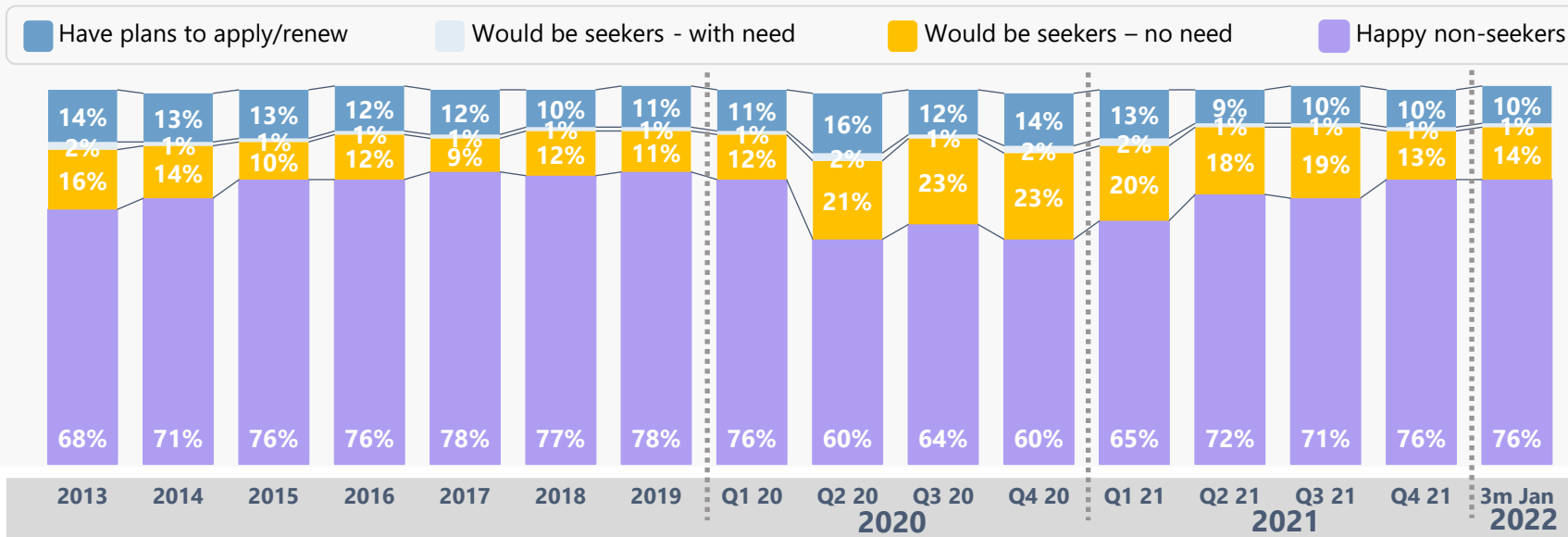
1 in 7 SMEs had approached a bank for Covid related finance. Those with 1-9 or 10-49 employees remained more likely to report such an approach, but the figures are still slightly lower than in Q4 2020

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



The marked increase seen in Q2 2020 in those planning to apply and those who expected to be 'Future would-be seekers of finance', was maintained to Q1 2021. Since then, total future demand has been slightly lower and is now in line with pre-pandemic levels

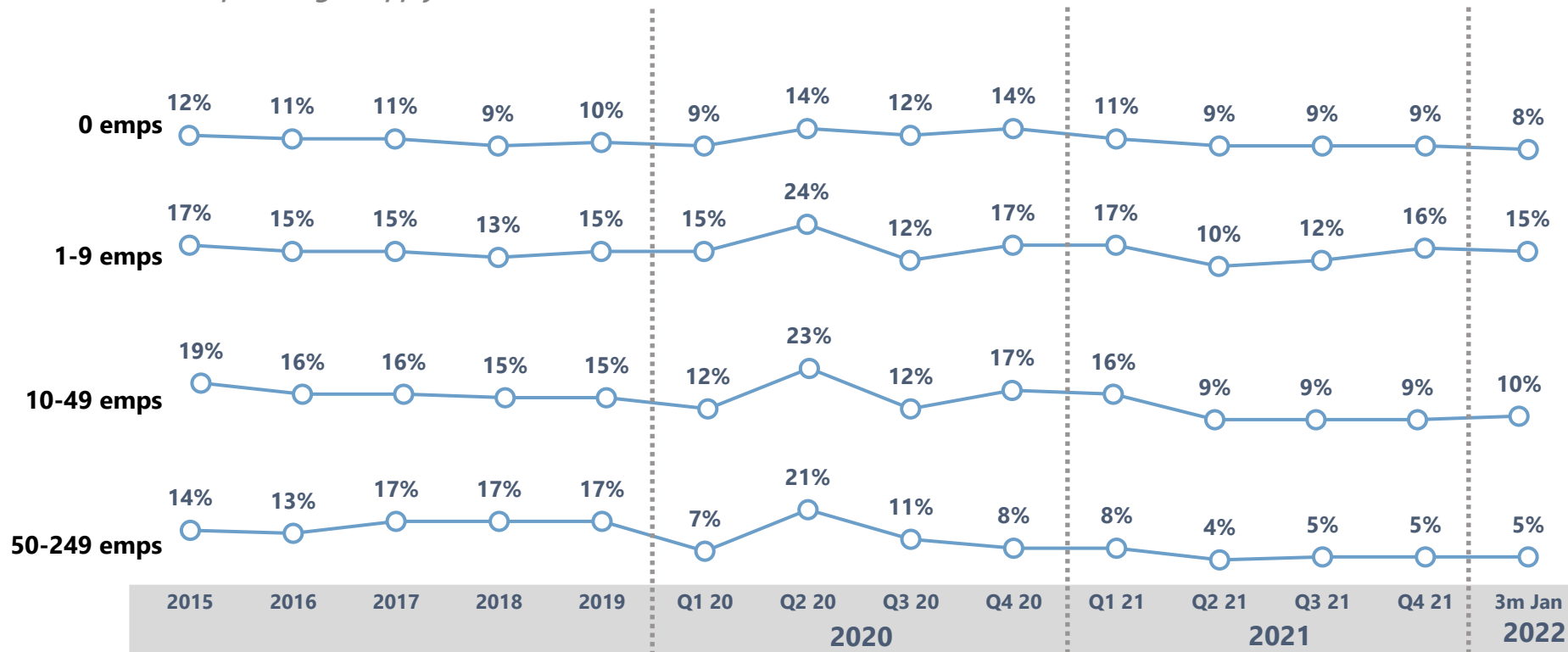
Time series: Anticipated borrowing profile for next 3 months after ...



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. It then reduced, to 60% for Q2 2020 but as future demand for finance dropped slightly, the proportion of Future happy non-seekers has increased and is currently 76%. The proportion with *any* future demand for finance reached 39% in Q2 2020, but had reduced to 28% by Q2 2021 and is 25% in the current period

The proportion planning to apply for finance increased across all size bands from Q1 to Q2 2020. It declined somewhat to Q2 2021 and has been broadly stable since, with the exception of those with 1-9 employees where future appetite for finance saw a general increase from Q2 2021

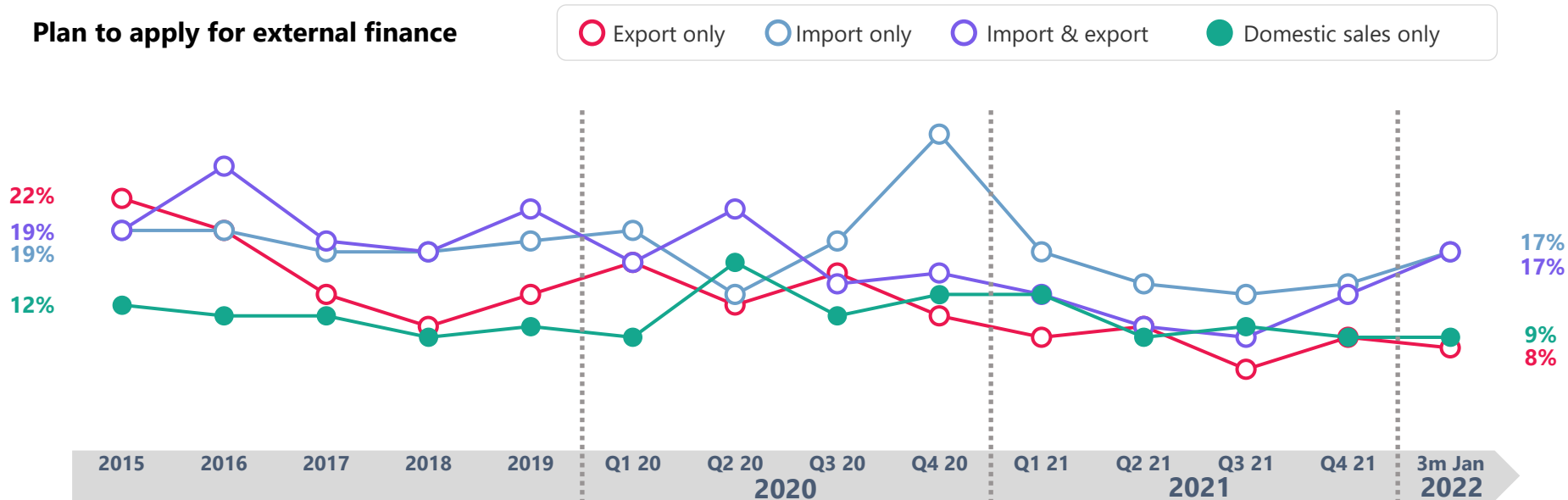
Time series: % planning to apply



There remains little to choose between Domestic and International SMEs in terms of plans to apply for future finance. Import-only and international SMEs have both seen an increase in plans to apply in the 3 months to January 2022

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

Plan to apply for external finance

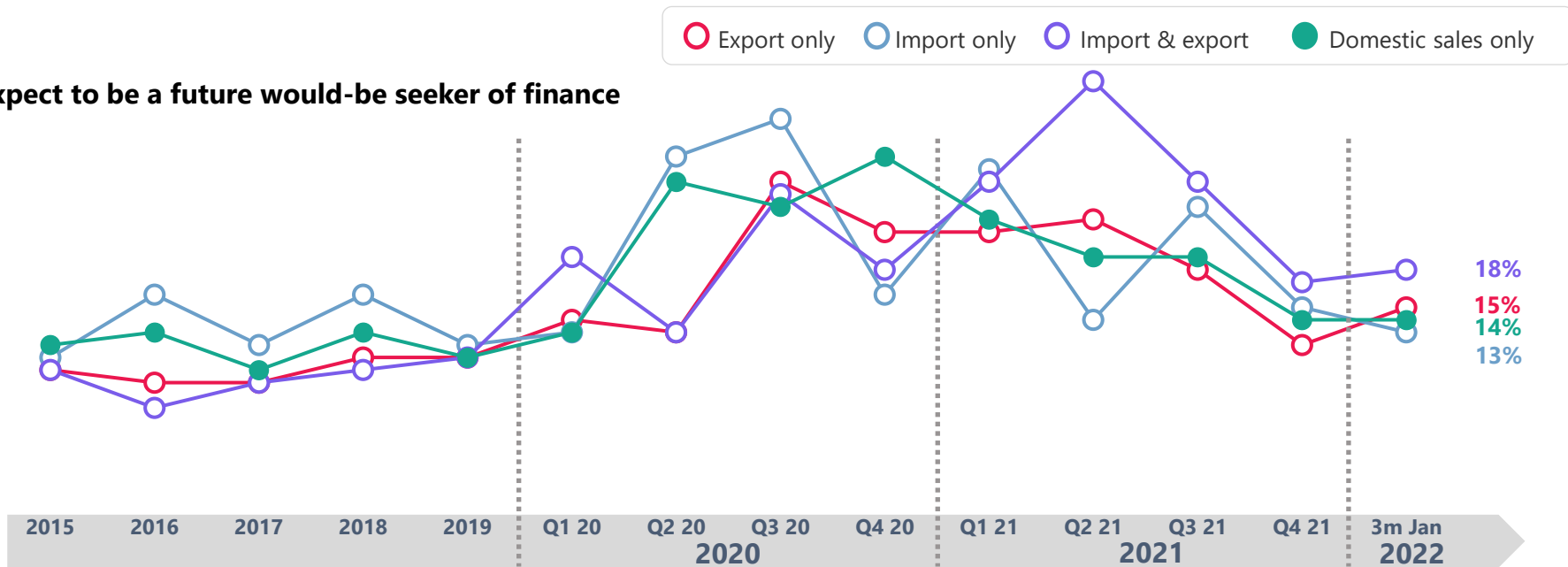


Appetite for finance amongst those with an element of international to their business has varied over time. Overall they have become less likely to be planning to apply for external finance. In the current period, Import-only and International SMEs are ahead of their peers in their plans to apply for finance.

There is no consistent pattern for international SMEs in terms of FWBS, but overall, there remains fewer FWBS currently than at the end of 2020 or in the first half of 2021

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

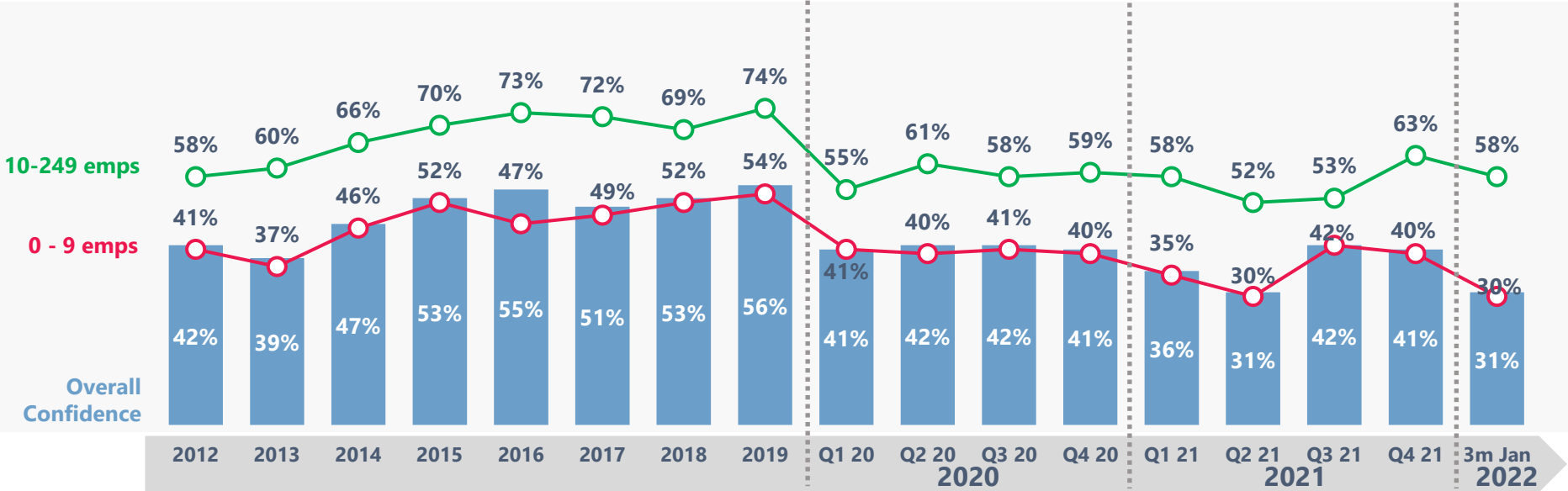
Expect to be a future would-be seeker of finance



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 initially saw an increase in this group in 2021 but this has not been maintained

Overall levels of confidence in a successful application started to build back in Q3 2021 but have now fallen to levels seen in Q2 2021. Lower confidence was reported by smaller would-be applicants in continued contrast to confidence amongst their larger peers

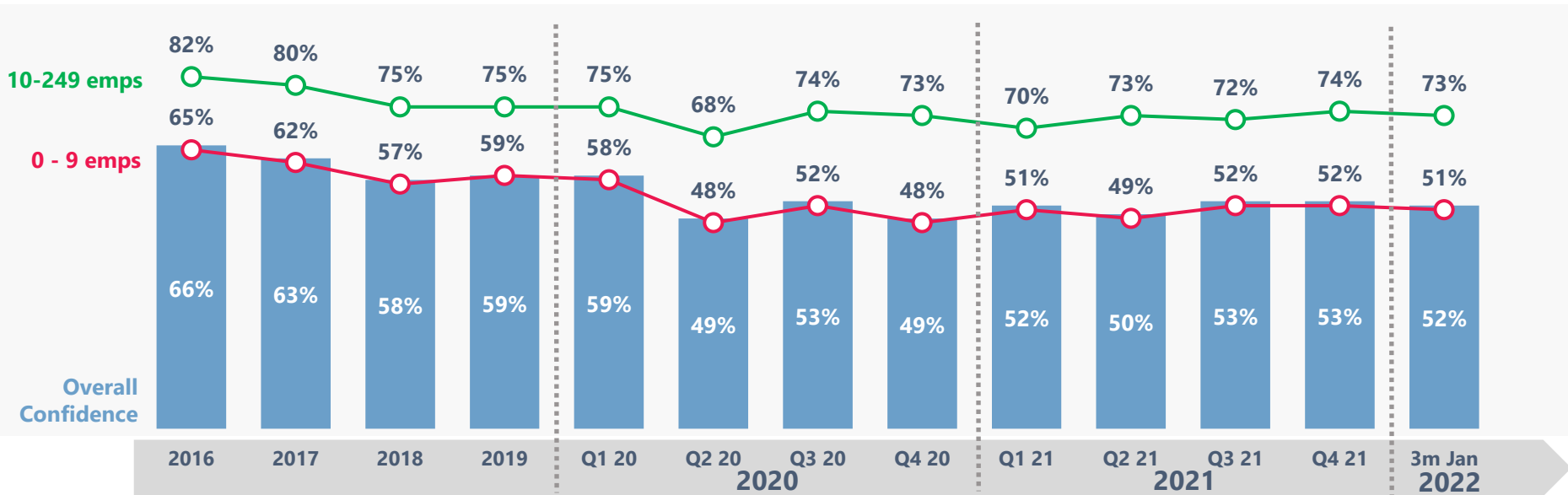
Time series: Confidence (very/fairly) bank will agree to facility next 3 months – by size



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 to 31% in Q2 2021. It appeared to rebuild to some extent, at 42% in Q3 2021 and 41% currently with markedly higher confidence amongst those with 10-249 employees who plan to apply. However, in the 3 months to January 2022, it has fallen again to 31%, the lowest level seen to date.

Confidence amongst hypothetical applicants declined from Q1 to Q2 2020 but has been more stable since with around half of such SMEs confident of success, rising to three quarters of larger SMEs, still below pre-pandemic levels

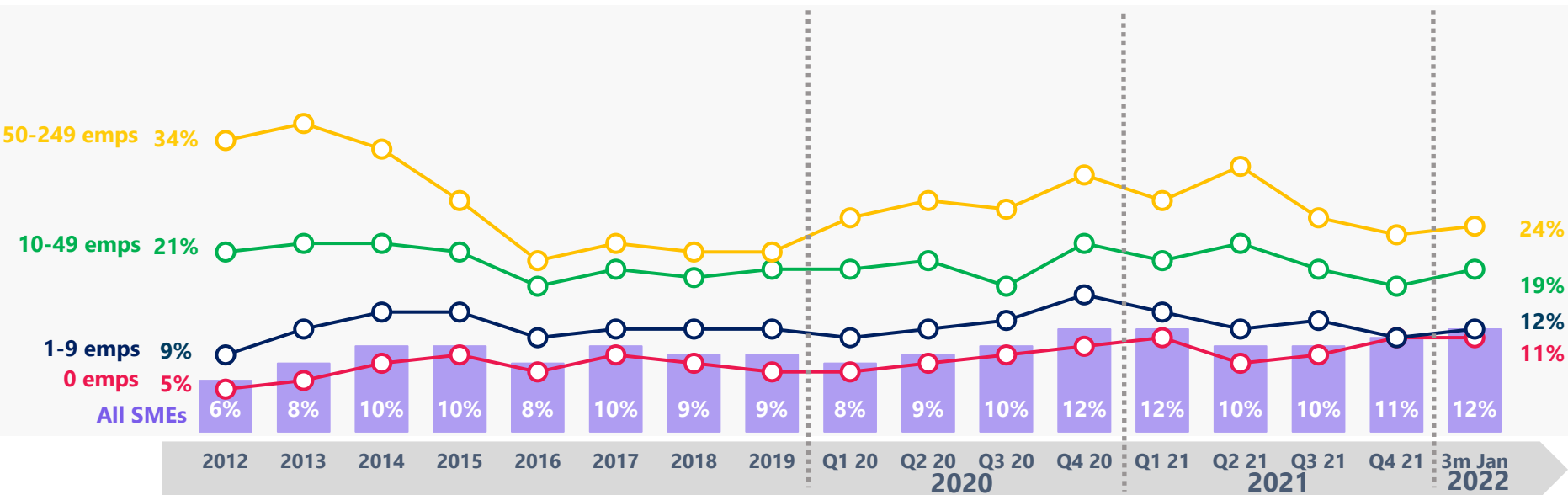
Time series: Confidence (very/fairly) bank would agree to facility next 3 months – by size



Half (53%) 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 once again more confident than those of a similar size who are planning to apply (73% v 58%). Smaller hypothetical applicants are less confident of success, compared to larger hypothetical applicants but they are more confident than those of a similar size planning to apply (51% v 30%, 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 in Q1 2021. It has been stable since, currently 12%

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 has remained at 10-11% for the rest of 2021. This remained fairly stable in the 3 months to January 2022, at 12%.

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

