

SME FINANCE MONITOR

3 month rolling analysis to end
April 2022

An independent report by
BVA BDRC, May 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 Q4 2021 report and chart pack was published in mid-March 2022 and the Q2 chart pack will be published in August 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 February to April 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 and reporting

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.

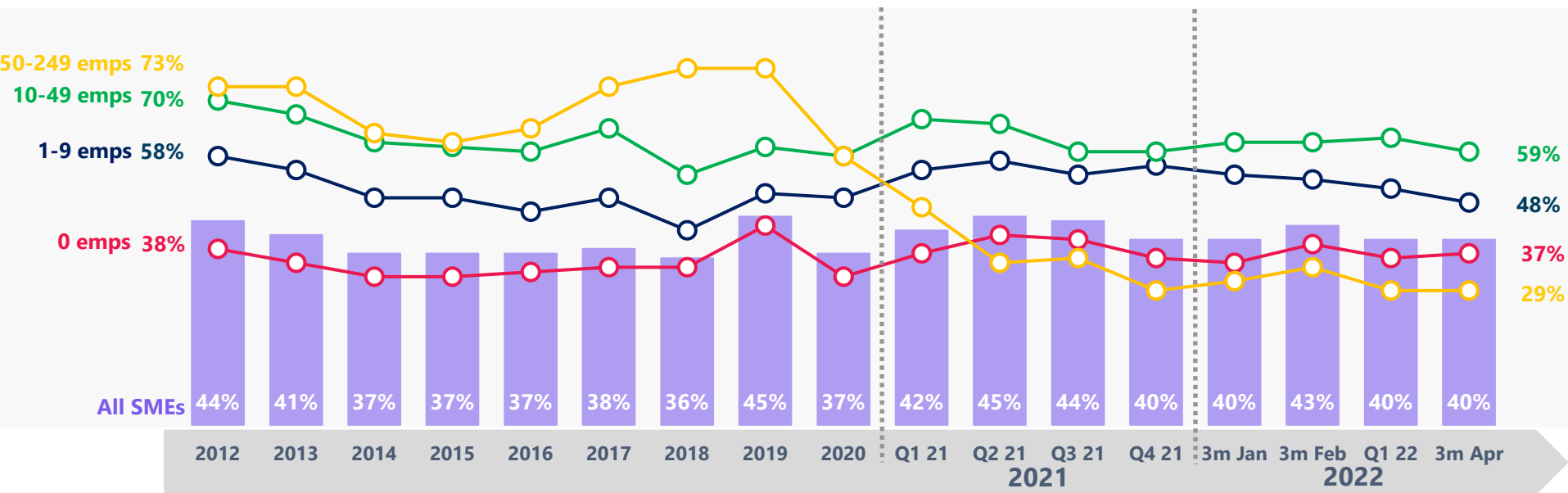
All of the changes have been reported on in full from the Q2 2019 SME Finance Monitor report, published in September 2019

This pack has been updated to reflect the new questionnaire and some new data included.

From March 2022, some additional charts have been included to cover topical issues such as increasing costs and the new trading arrangements with the EU.

A stable 40% of SMEs were using external finance, still in line with Q4 2021, albeit those with 1-9 employees have become less likely to use external finance

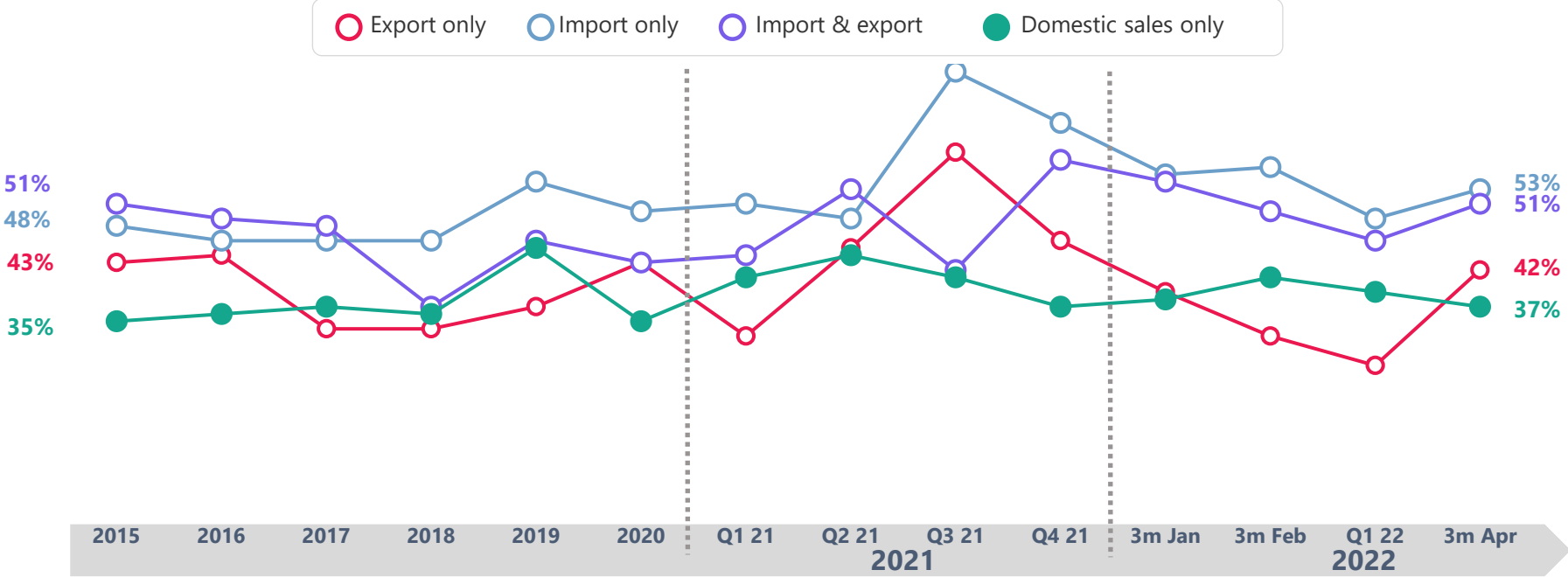
Time series: use of external finance per quarter



For 2019 as a whole, 45% of SMEs were using external finance, declining to 37% for 2020 as a whole. The increase in 2021 to 44-45% has not been entirely maintained into 2022 (currently 40%). SMEs with 1-9 employees have become less likely to report using finance (from 56% in Q4 2021 to 48% currently), with other sizes of SME more stable

In the most recent 3 month period, SMEs with an element of international to their business have become more likely to report using external finance, but use remains lower than in Q4 2021

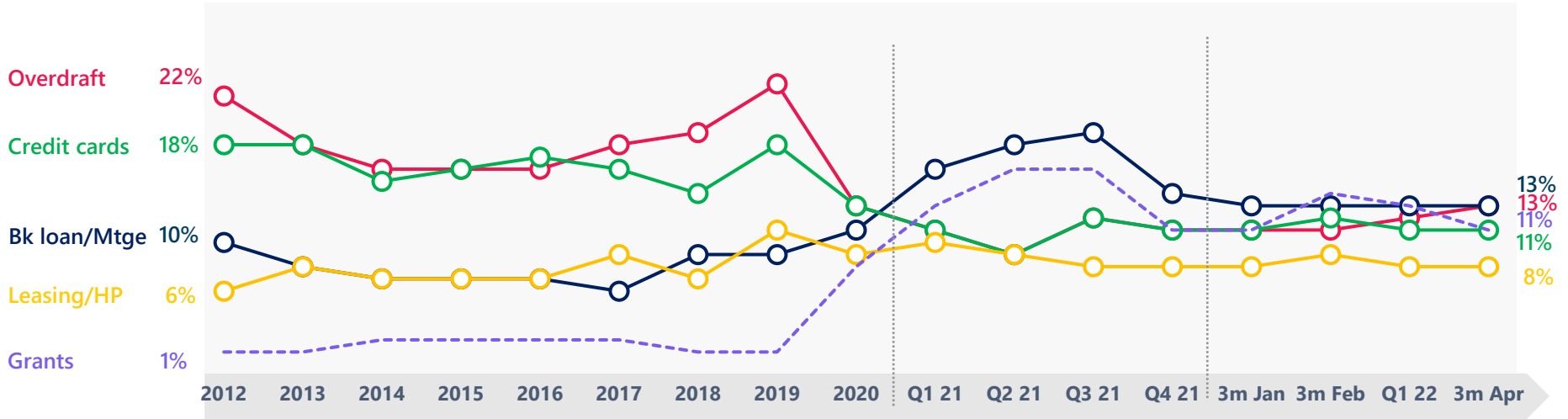
Time series: use of external finance by extent of international trade alongside domestic sales



Use any external finance

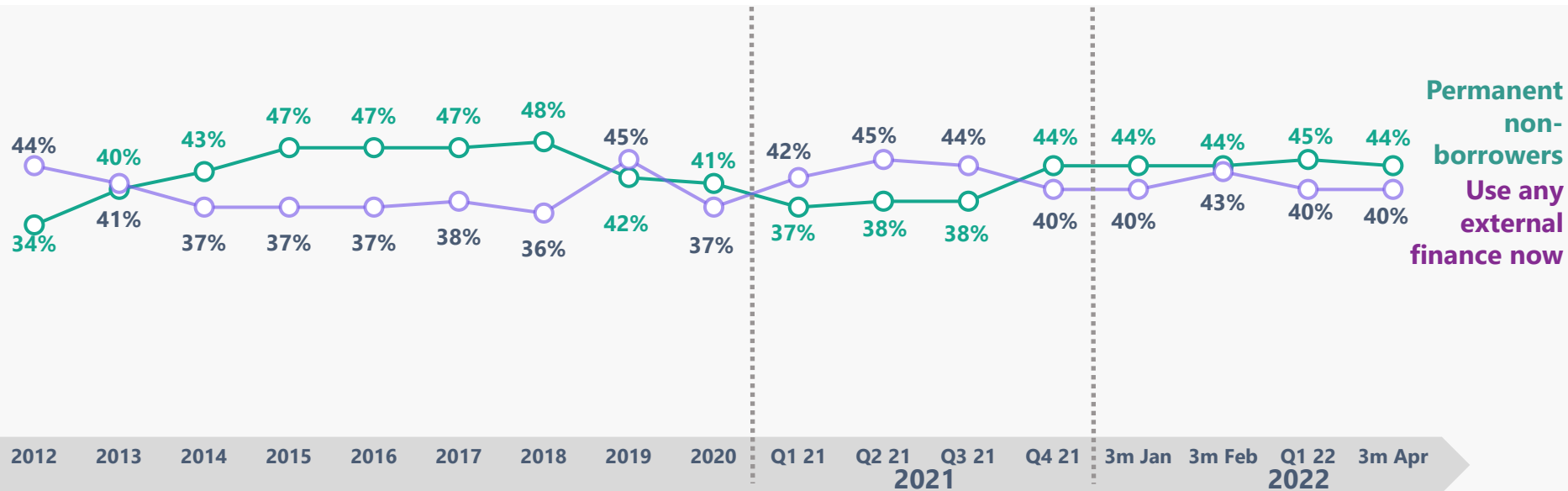
As use of grants declined slightly, loans/commercial mortgages and overdrafts were the most common forms of finance used, but by the narrowest of margins

Annual time series: Main forms of finance used



Both the proportion of Permanent non-borrowers and the proportion using finance have been stable since Q4 2021

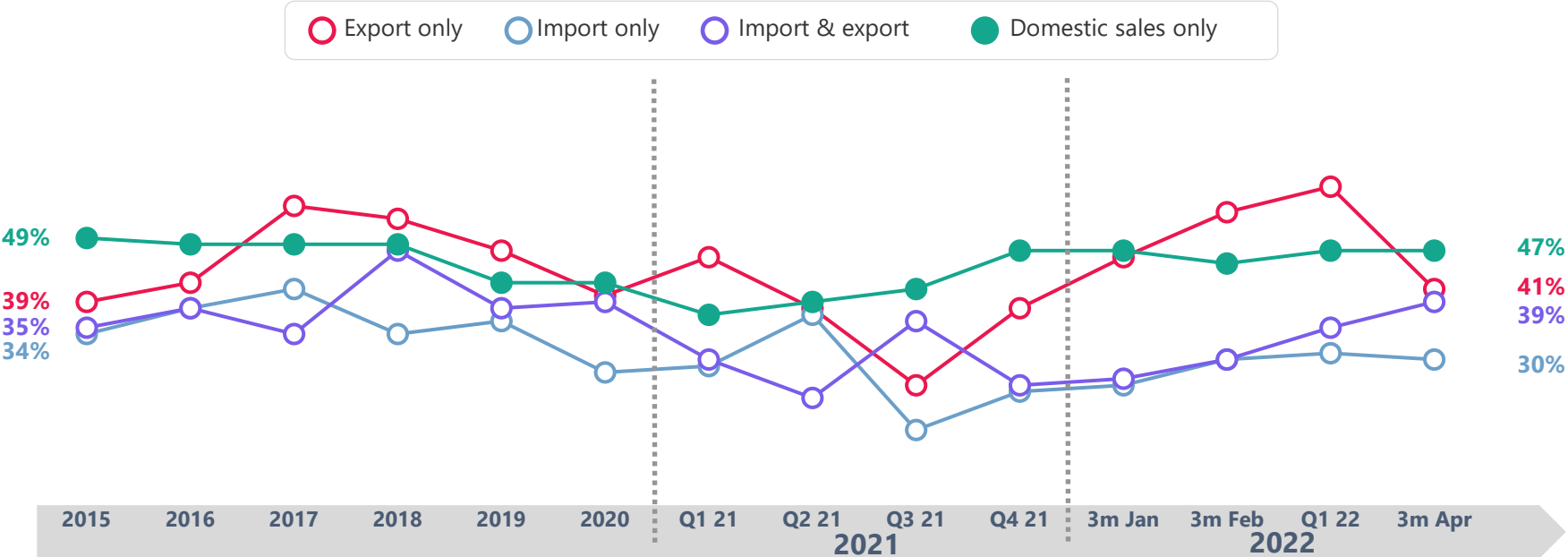
Time series: Permanent non-borrowers and users of external finance



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 2020, which is when there were last more PNBs than SMEs using finance. The proportion is slowly getting closer to pre 2019 when almost half of SMEs met the definition.

As more export-only SME reported using external finance, fewer of them met the definition of a PNB, back to levels seen in Q4 2021. Domestic SMEs were once again the most likely to meet the definition

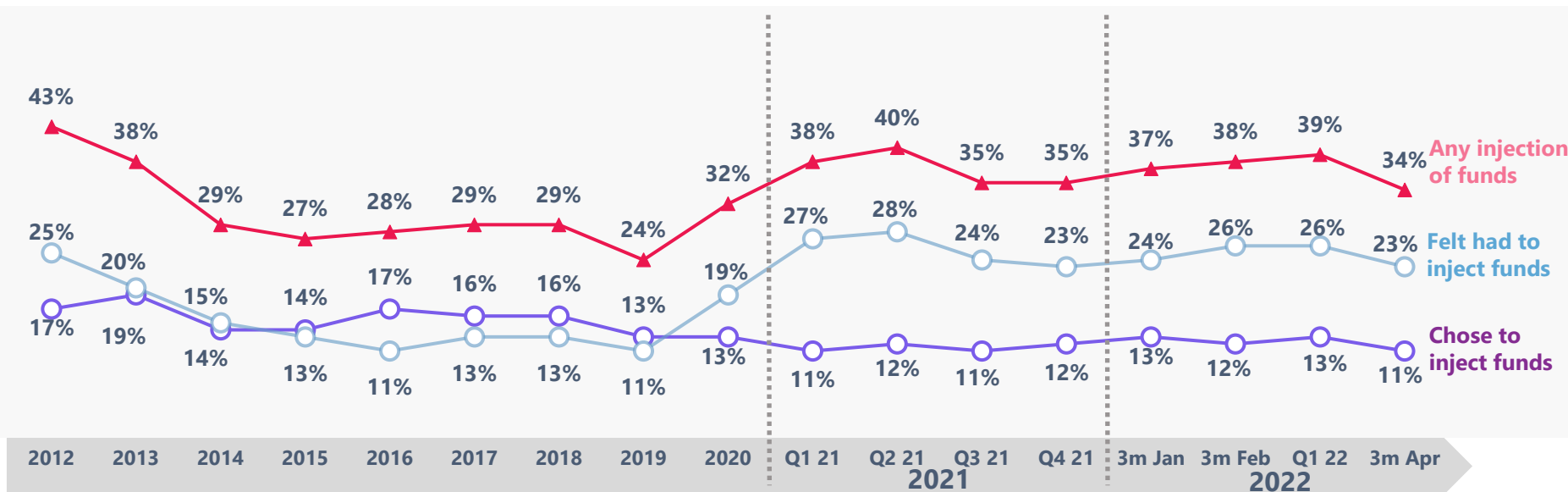
Time series: Permanent non-borrowers by extent of international trade alongside domestic sales



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

34% of SMEs had injected personal funds in the past year, back below the 40% in Q2 2021. SMEs remained more likely to feel that they had to inject funds (23%), twice as many as had chosen to (11%)

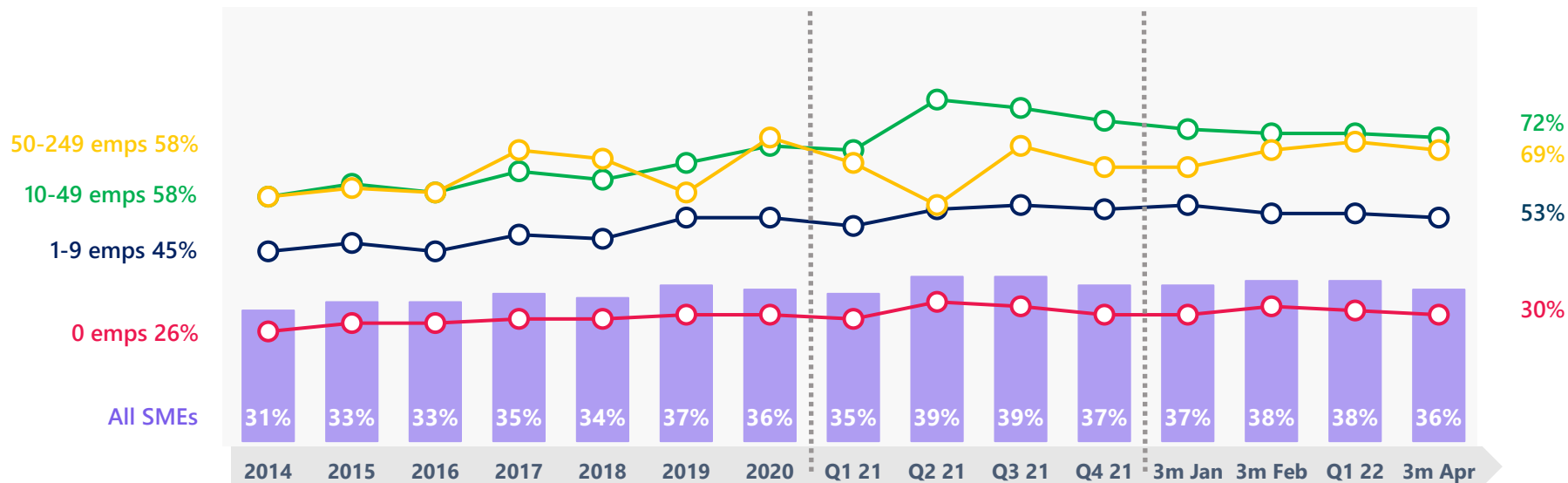
Time series: Injections of personal funds in previous 12 months



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 to 32% in 2020 and 40% in Q2 2021. After a slight decline to 35% in the second half of 2021, 39% reported an injection in Q1 2022, but in the latest period the proportion was back in line with Q4 2021 at 34%

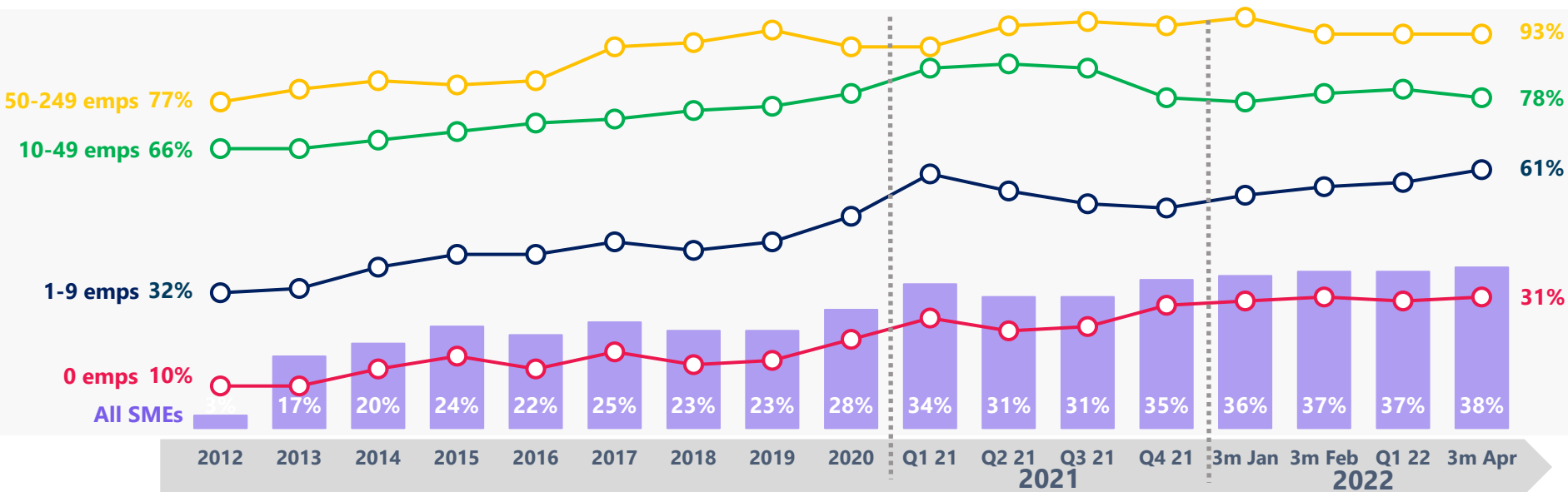
36% of SMEs were using trade credit, stable since Q4 2021 and once again in line with the proportion seen immediately pre-pandemic. Those with more than 10 employees remained the most likely to use trade credit

Time series: : Using trade credit



A stable 38% of SMEs held more than £10,000 of credit balances, a slight increase on Q4 2021. SMEs with 1-9 employees, who have become less likely to use external finance recently, have become more likely to report holding such sums

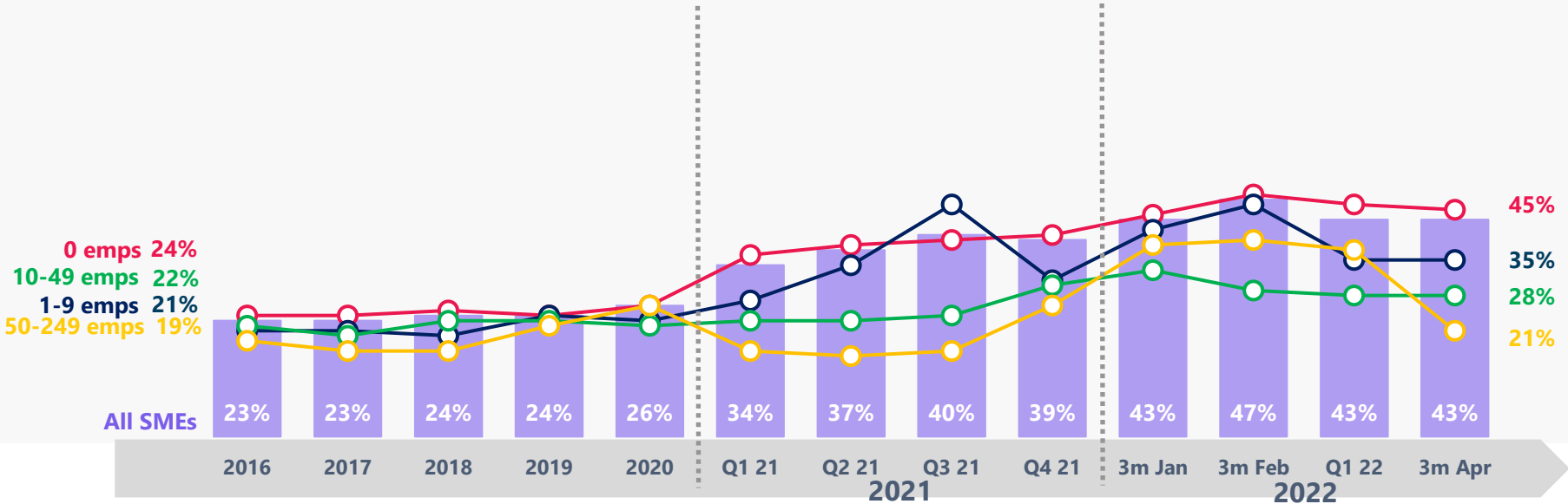
Time series: £10k credit balances held



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 to 2019. During 2020, the proportion of SMEs holding such sums increased steadily, to 28% for the year as a whole. Over 30% of SMEs held such sums in each quarter of 2021, reaching 35% in Q4 2021 and currently 38%

SMEs held the equivalent of 43% of their turnover in credit balances. This remains higher than seen prior to 2021

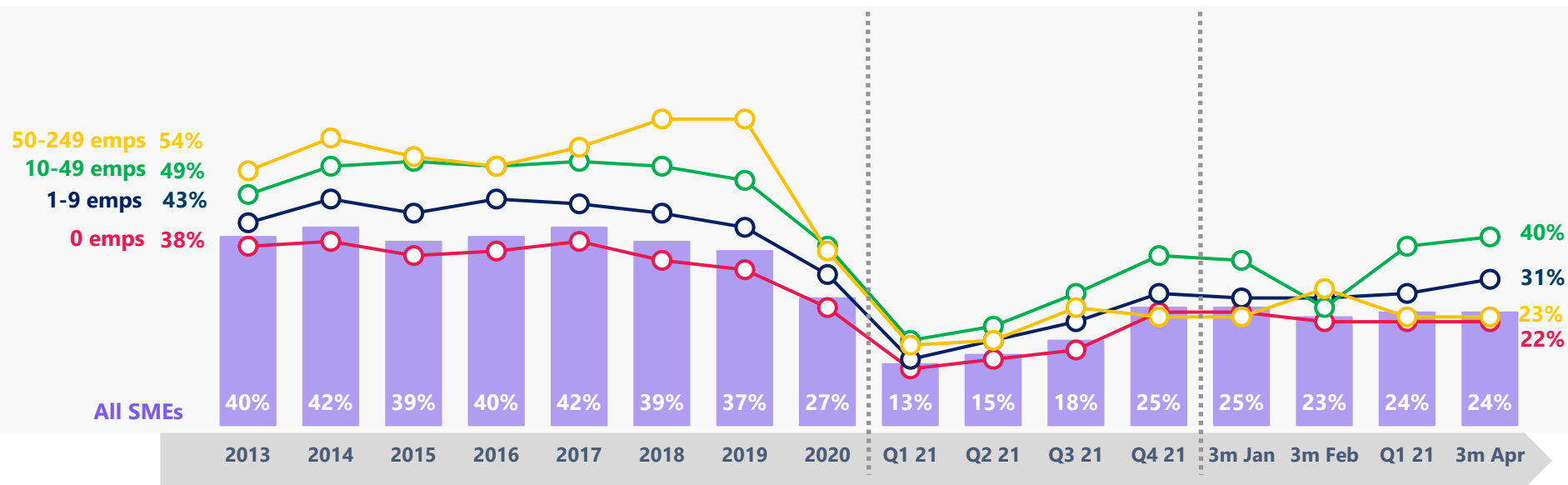
Time series: % of turnover held as credit balances



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 April 2022, SMEs held the equivalent of 43% of their turnover in credit balances on average, clearly above levels pre-pandemic.

The proportion of SMEs reporting growth in the last year increased to 25% in Q4 2021 and has remained stable overall since, still below pre-pandemic levels

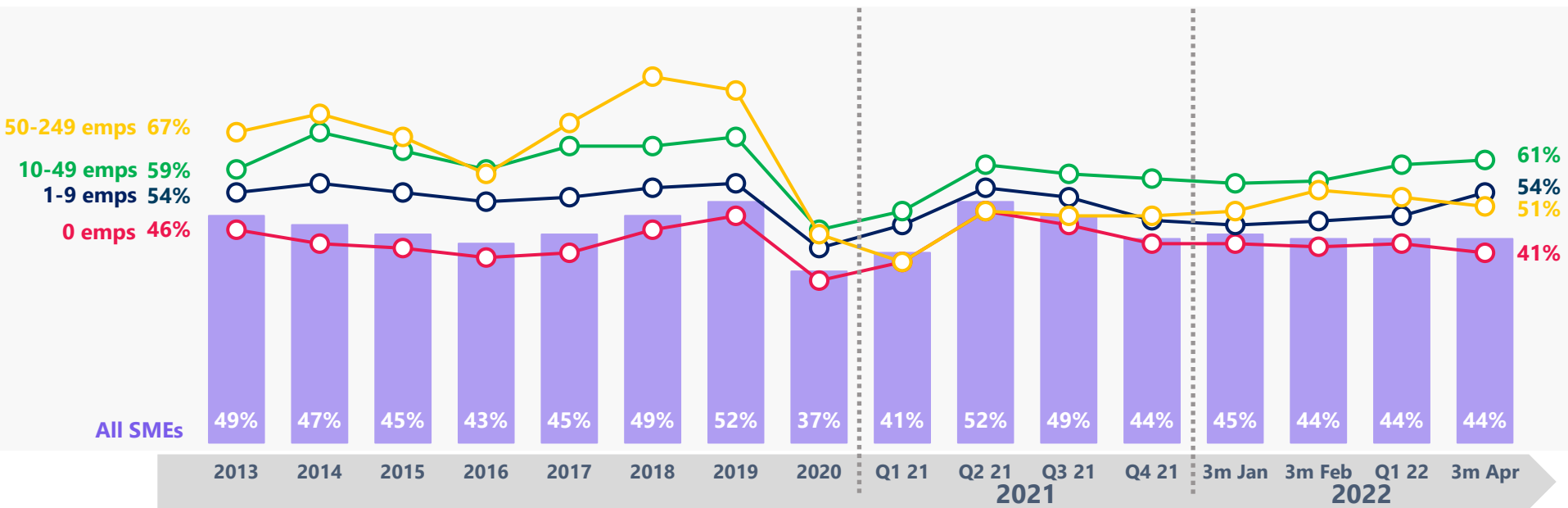
Time series: Have grown (excluding Starts)



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 27% for the year as a whole. It increased during 2021 to 25% in Q4 and has been stable since. 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 41% in the latest period, as 35% of SMEs remained the same size

After a sharp decline in Q2 2020, growth aspirations increased steadily, reaching 52% in Q2 2021. By Q4 2021, a slightly lower proportion, 44%, was planning to grow, and this has remained stable since, still slightly below pre-pandemic levels

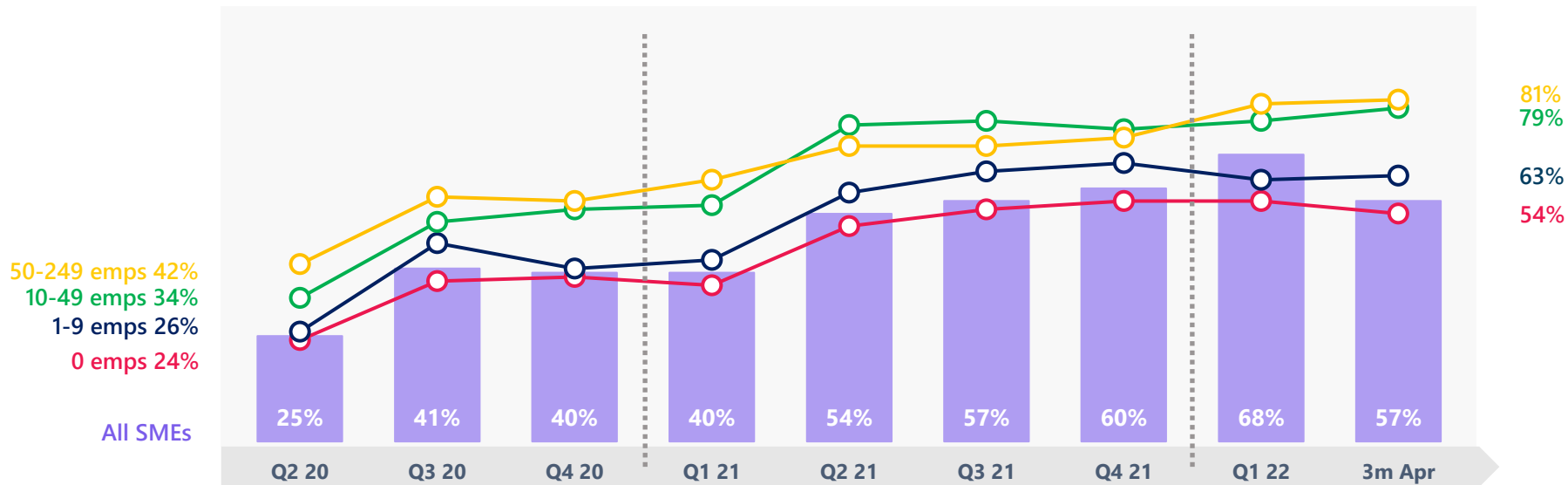
Time series: Have plans to grow



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 and 37% for the year as a whole. Growth aspirations then increased, to 52% for Q2 2021. Since Q4 2021, 44%-45% have been planning to grow, still above the worst of the pandemic but lower than seen immediately pre-pandemic

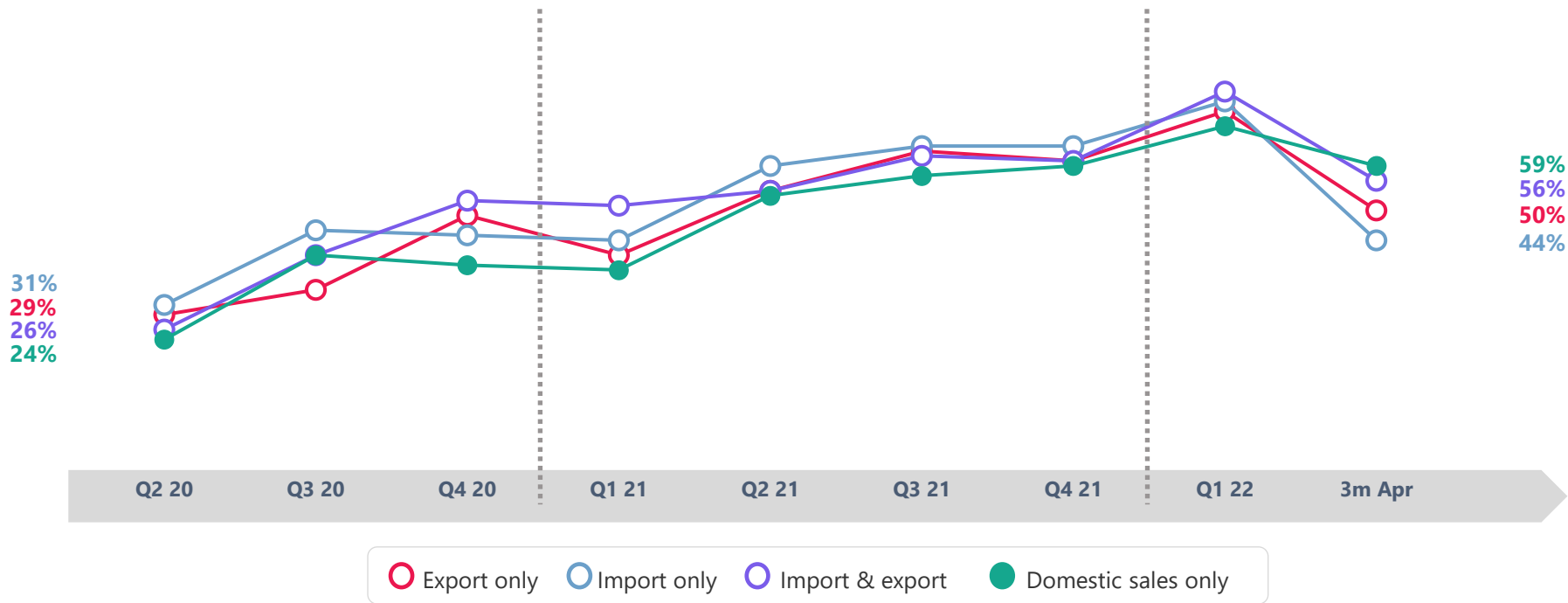
From the start of the pandemic to Q1 2022 there has been a steady increase in the proportion of SMEs in a 'good mood' about their business, notably the larger ones. The latest figures to April are somewhat lower, in line with the latter half of 2021

NEW Time series: In a 'good' mood about the business (7-10)



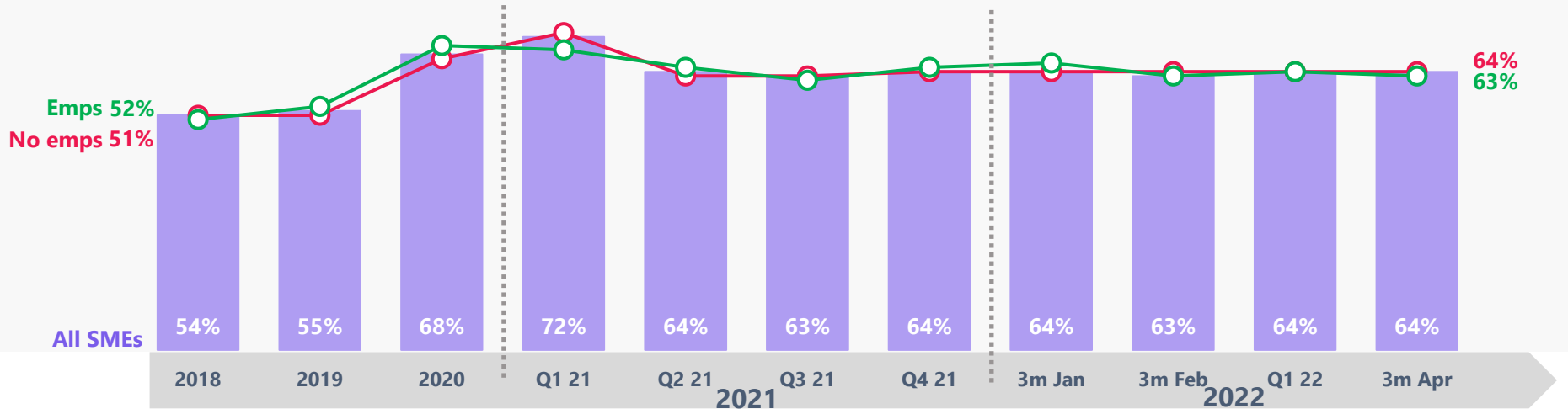
Having seen similar improvements in business mood since Q2 2020, the decline in the latest period was also seen across all SMEs but slightly more so for those trading overseas

NEW Time series: In a 'good' mood about the business (7-10) by extent of international trade



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 68% feeling cautious in 2020

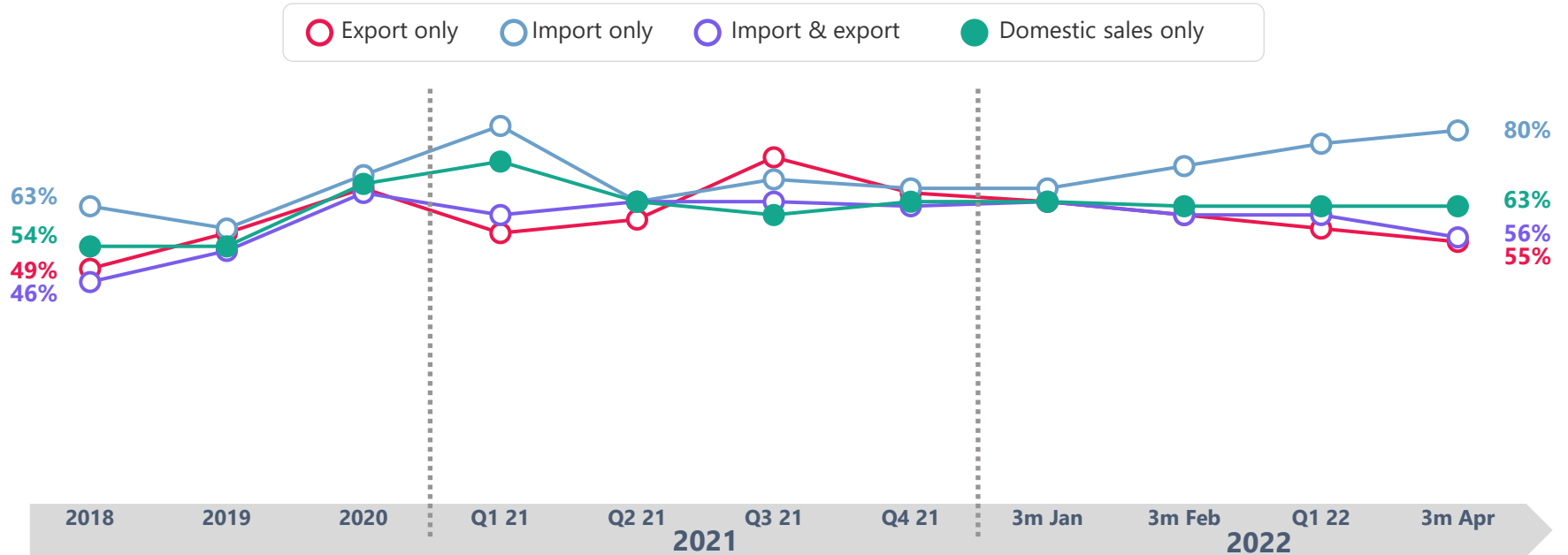
Time series: Agree that future is uncertain so being cautious



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 with concern increasing during 2020 to 68% for the year as a whole. By Q2 2021, the proportion had declined to 64% and has been stable since, but remains higher than pre-pandemic levels

Import only SMEs remained more likely to feel cautious in the current climate when compared to their counterparts, back at levels seen in Q1 2021

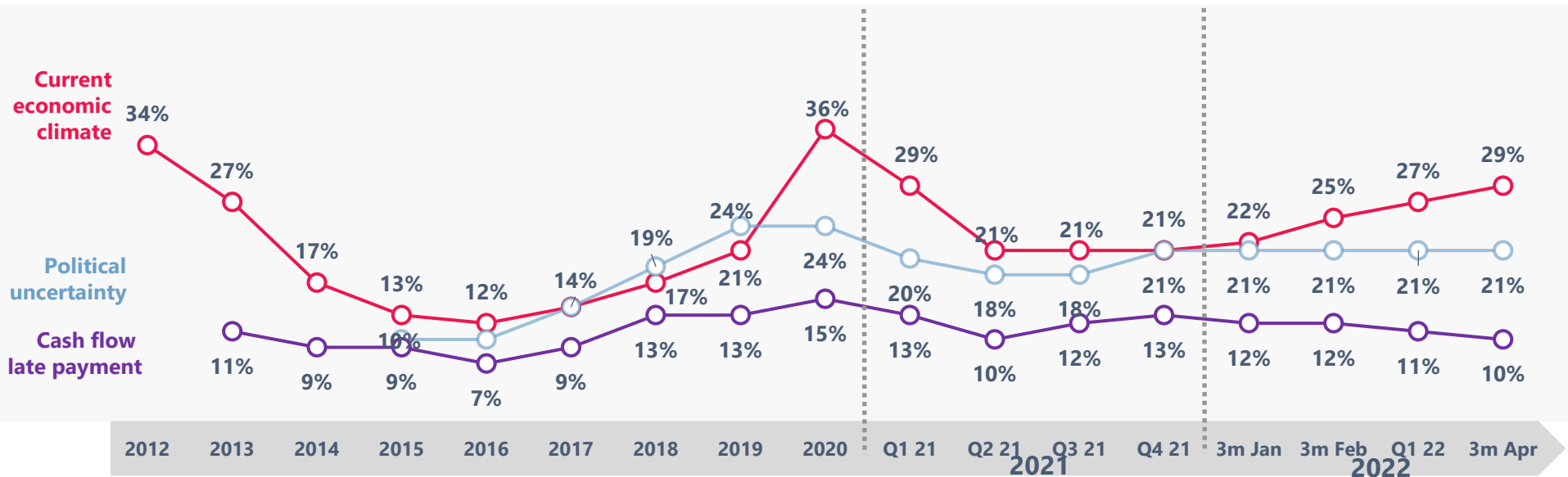
Time series: Agree that future is uncertain so being cautious



Future uncertain so being cautious

Concerns around political uncertainty and cash flow late payments remain broadly stable. 29% of SMEs now cite the current economic climate as a major obstacle, the highest level since Q1 2021 but well below the peak of 47% in Q2 2020

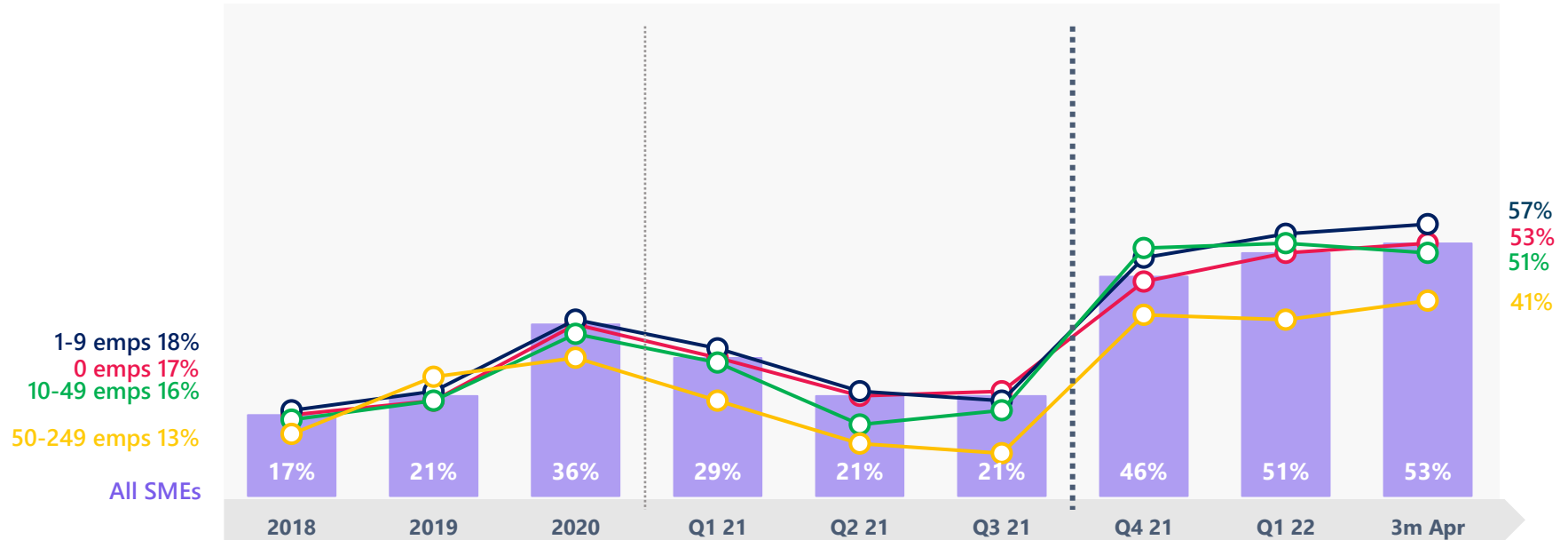
Time series: 8-10 Major obstacle to running business in next 12 months



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, but has increased since the start of 2022 to 29% in the current 3 month period. Concern about political uncertainty and cash flow/late payment have remained stable in 2022 to date

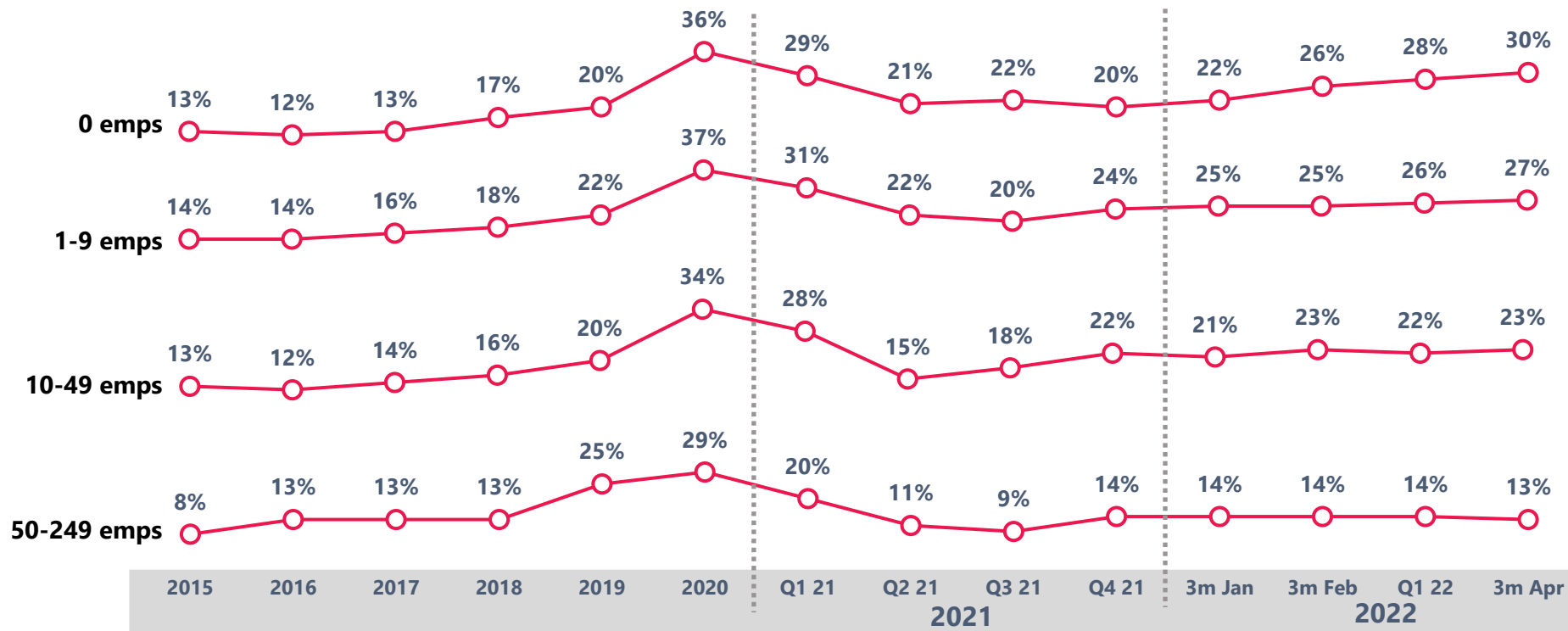
Since the new metric was created for Q4 2021, around half of SMEs have reported broader economic concerns, with limited difference by size of SME with the exception of the largest SMEs who are somewhat less concerned

NEW Broader economic concerns (from Q4 2021 – previously only “Current economic climate”)



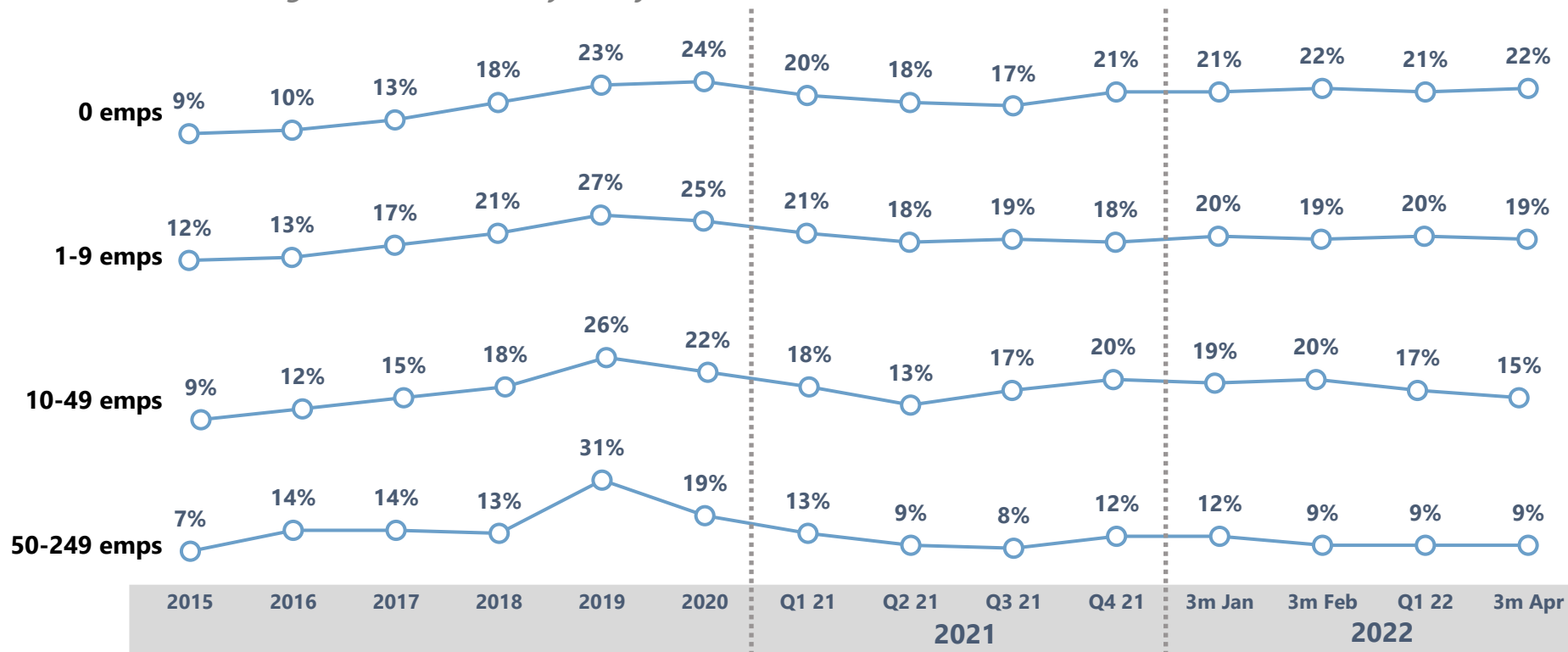
The overall increase concern about the economic climate seen since Q4 2021 has been seen predominantly amongst 0 employee SMEs

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



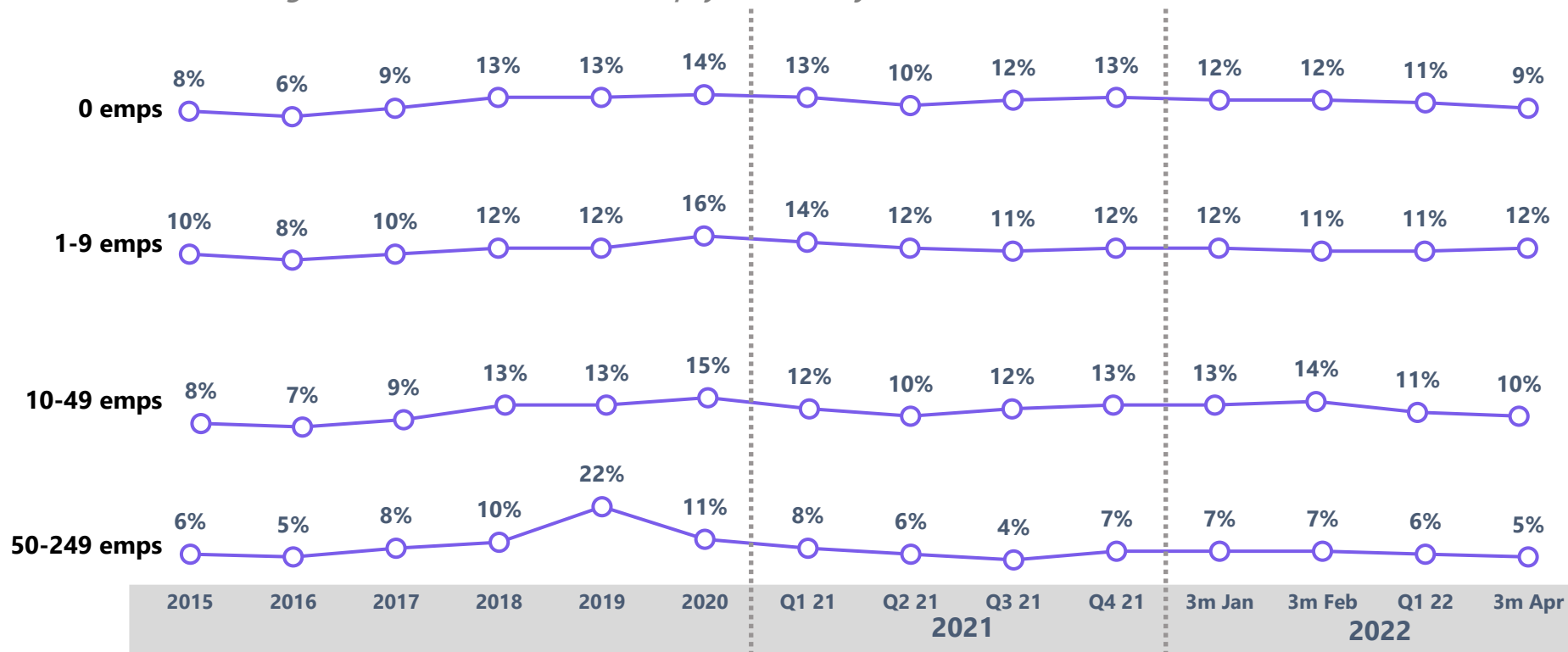
And the smallest SMEs are also more concerned about political uncertainty, albeit levels of concern are currently stable

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



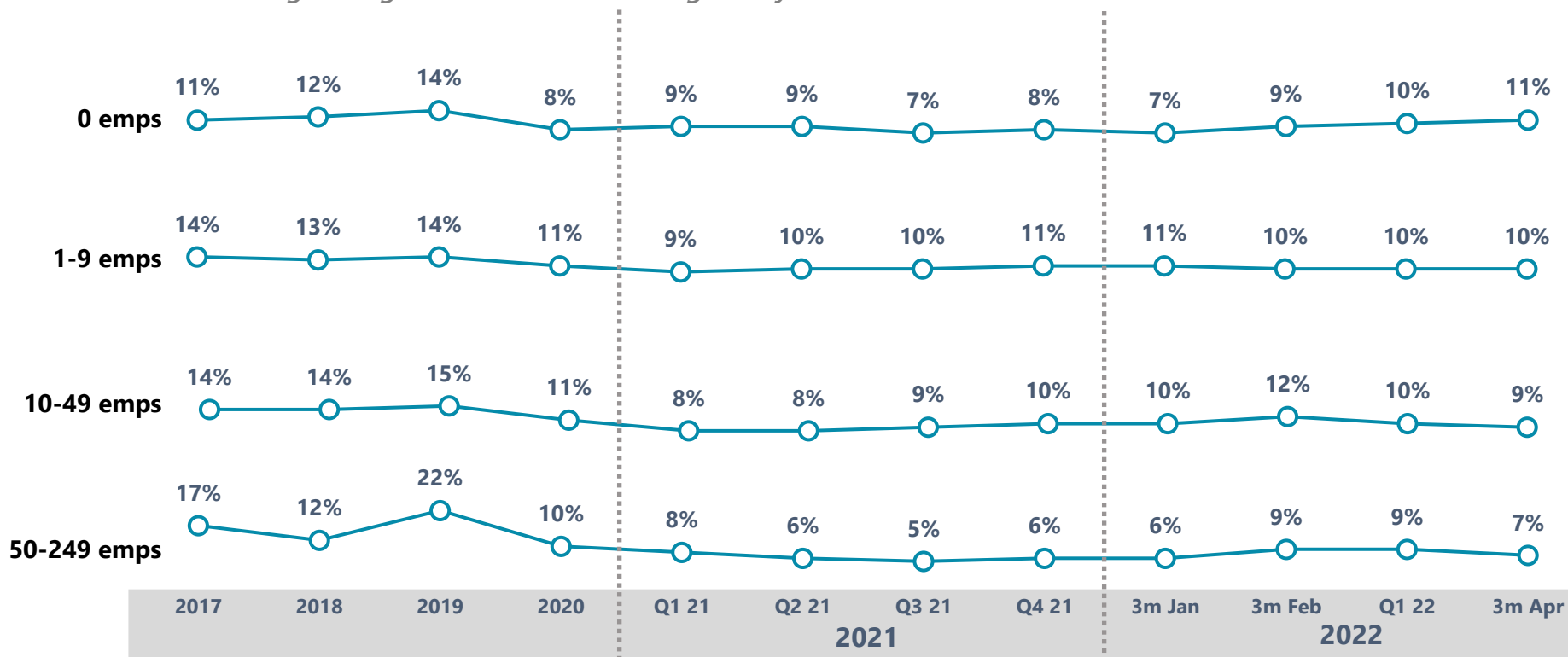
Levels of concern about cash flow and late payment have remained broadly stable and below 2020 levels

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



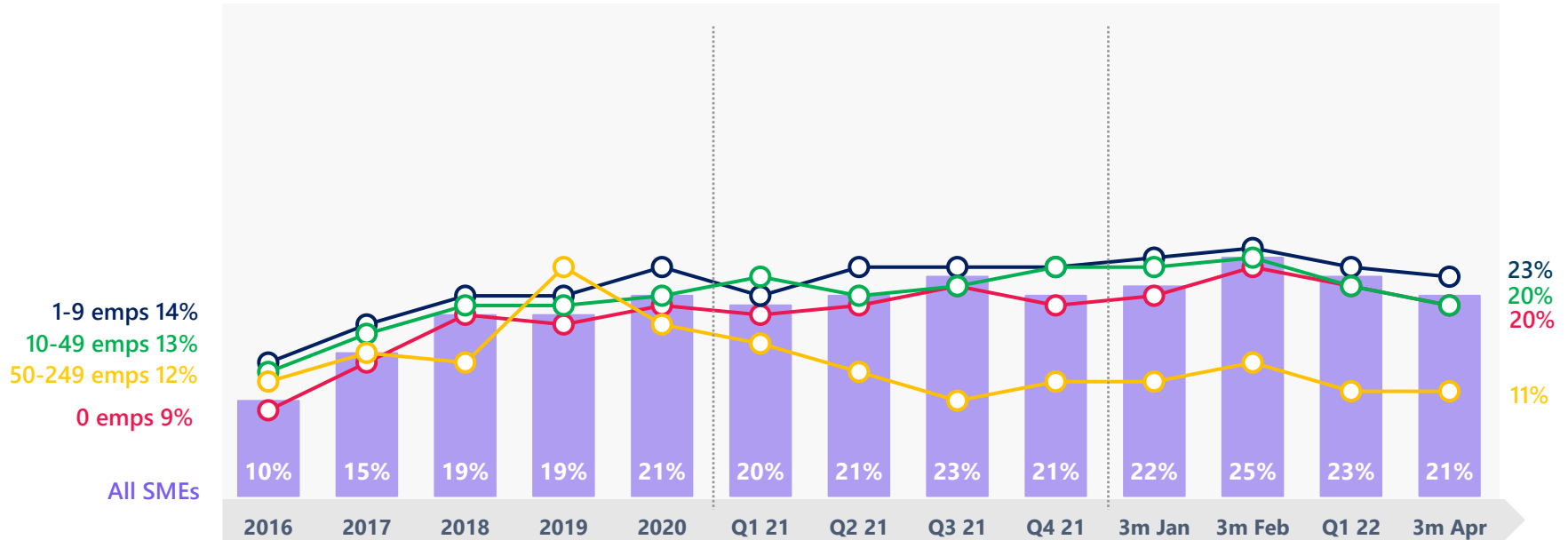
Levels of concern about the value of sterling have been broadly stable since 2020.

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



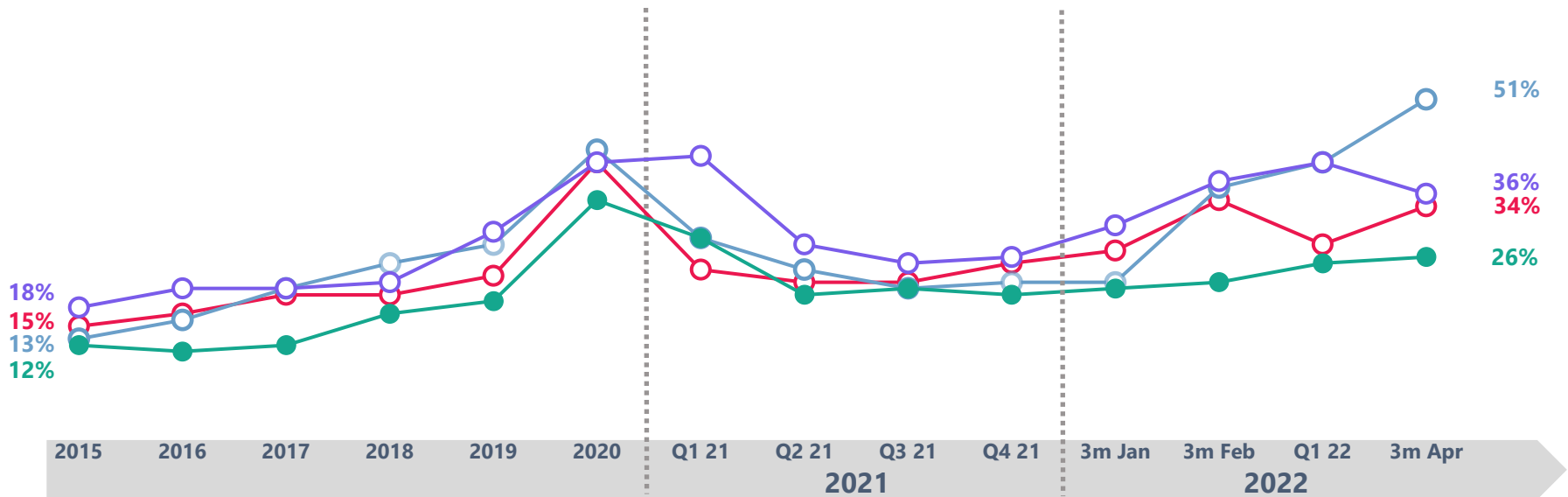
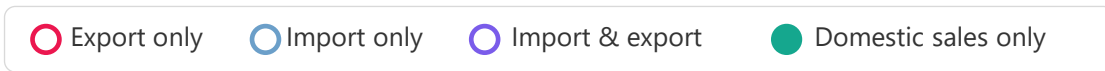
1 in 5 SMEs consider the legislative / regulatory landscape a barrier in line with 2021, albeit the largest SMEs remained less likely to see it as a barrier

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



Levels of concern about the economic climate have increased again for import only SMEs who are increasingly concerned about the future

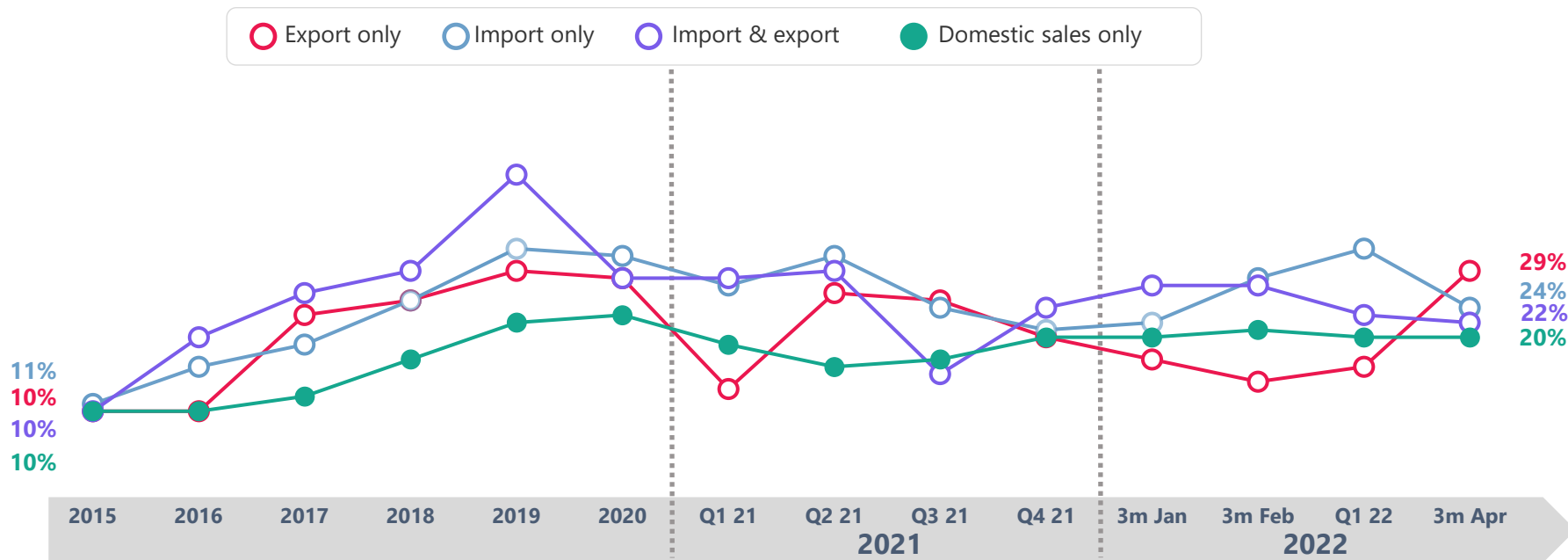
Time series: 8-10 economic climate by extent of international trade alongside domestic sales



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

There is currently little to choose between levels of concern re political uncertainty between domestic and international SMEs

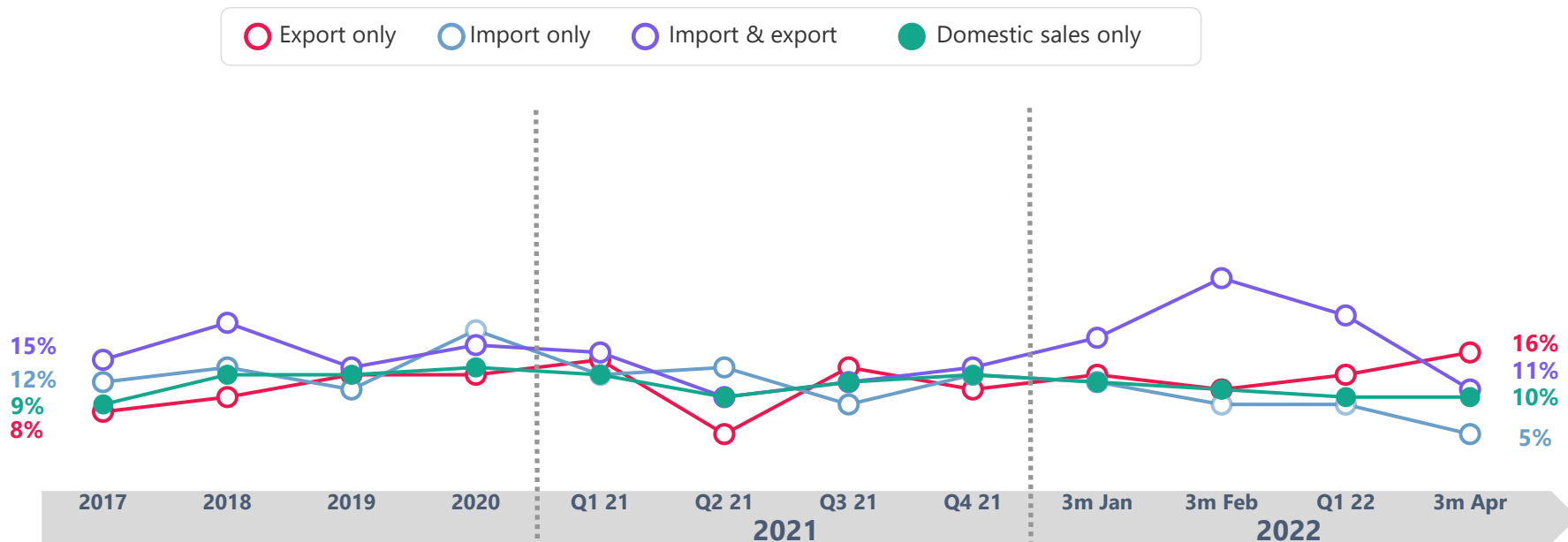
Time series: 8-10 political uncertainty by extent of international trade alongside domestic sales



Rating political uncertainty a major obstacle (8-10)

Cash flow concerns amongst fully international SMEs have eased somewhat recently

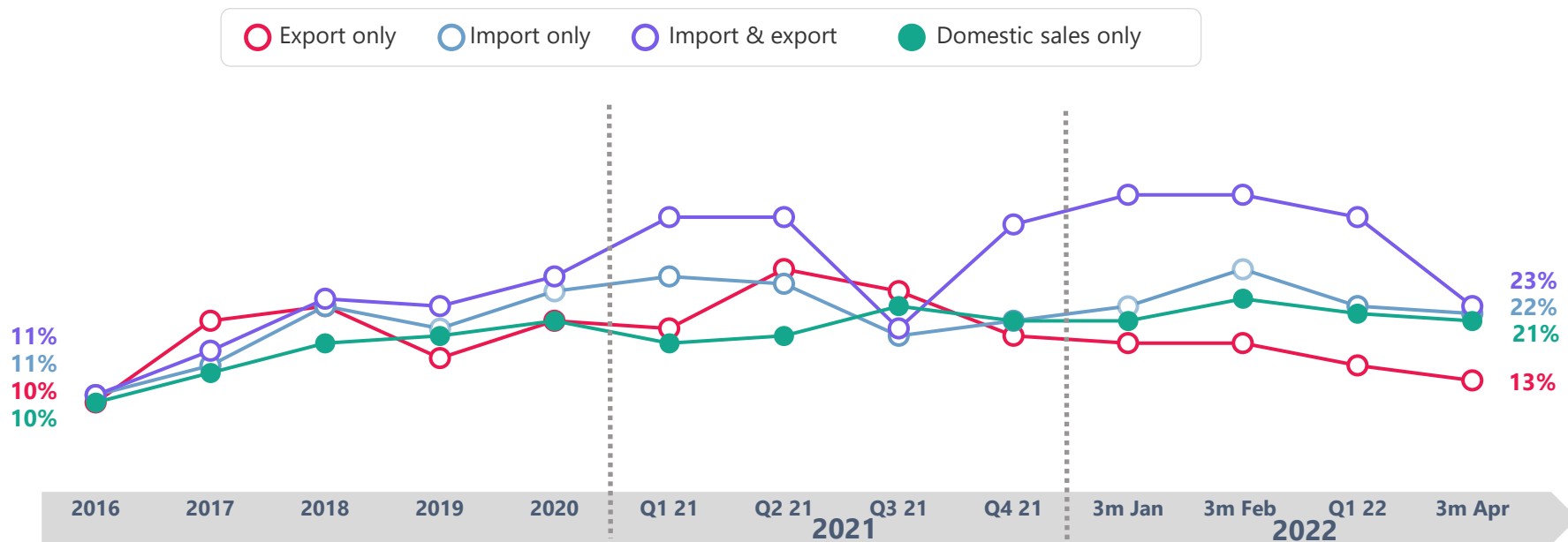
Time series: 8-10 cash flow / late payment by extent of international trade alongside domestic sales



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

Fully international SMEs are also somewhat less concerned about legislation, regulation and red tape

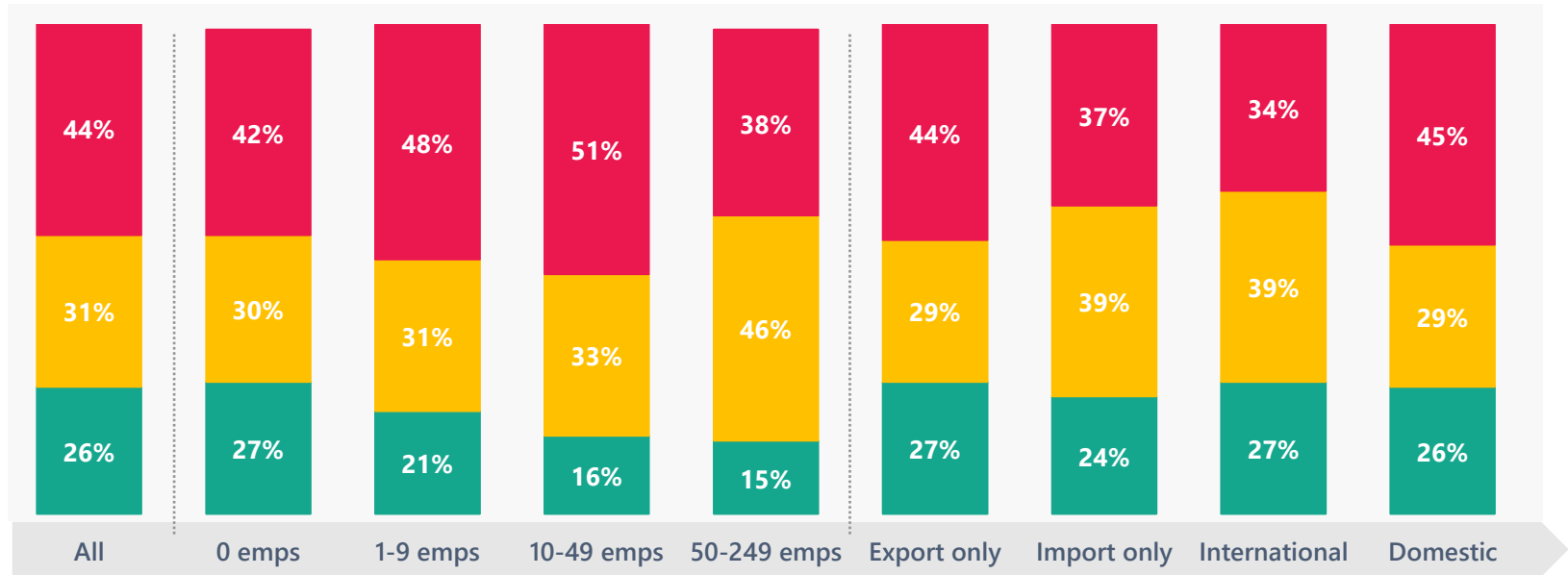
Time series: 8-10 changes in "legislation/regulation/red tape" by extent of international trade alongside domestic sales



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

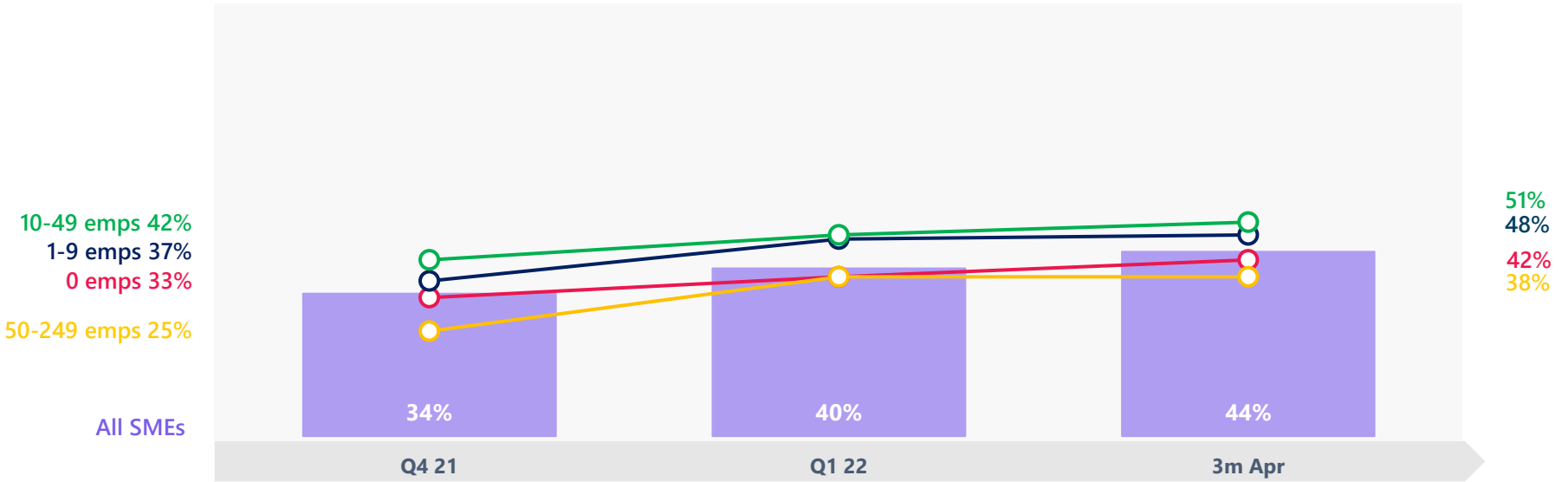
Over 4 in 10 SMEs have been 'significantly impacted' by increasing costs. Those with 1-9 or 10-49 employees remained the most likely to have been impacted

NEW: Any impact of increasing costs: 3 mths to April 2022



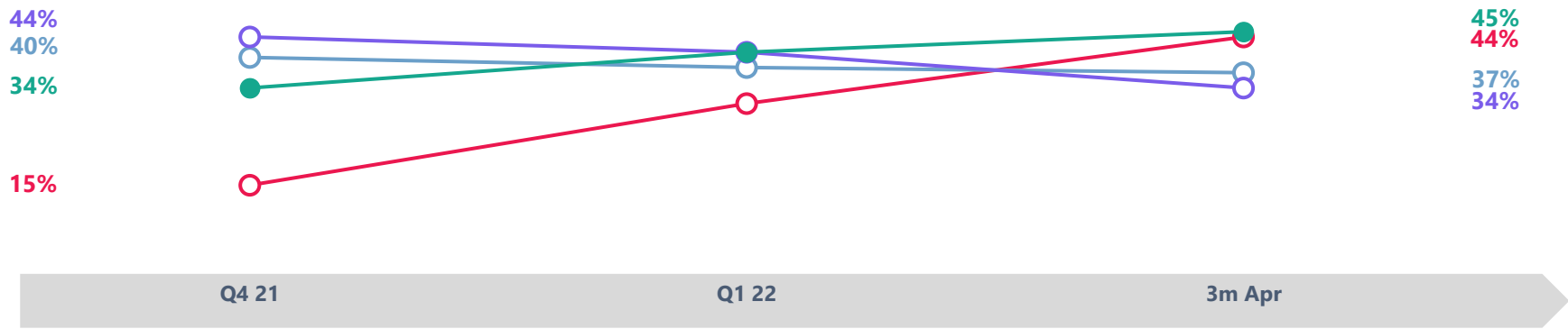
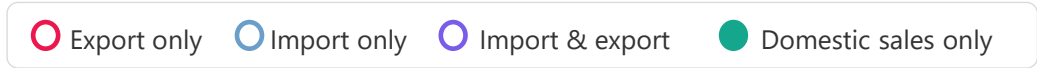
There has been a further increase in the proportion significantly affected by increased costs, seen across all sizes of SME

NEW Time series: Significantly affected by increasing costs



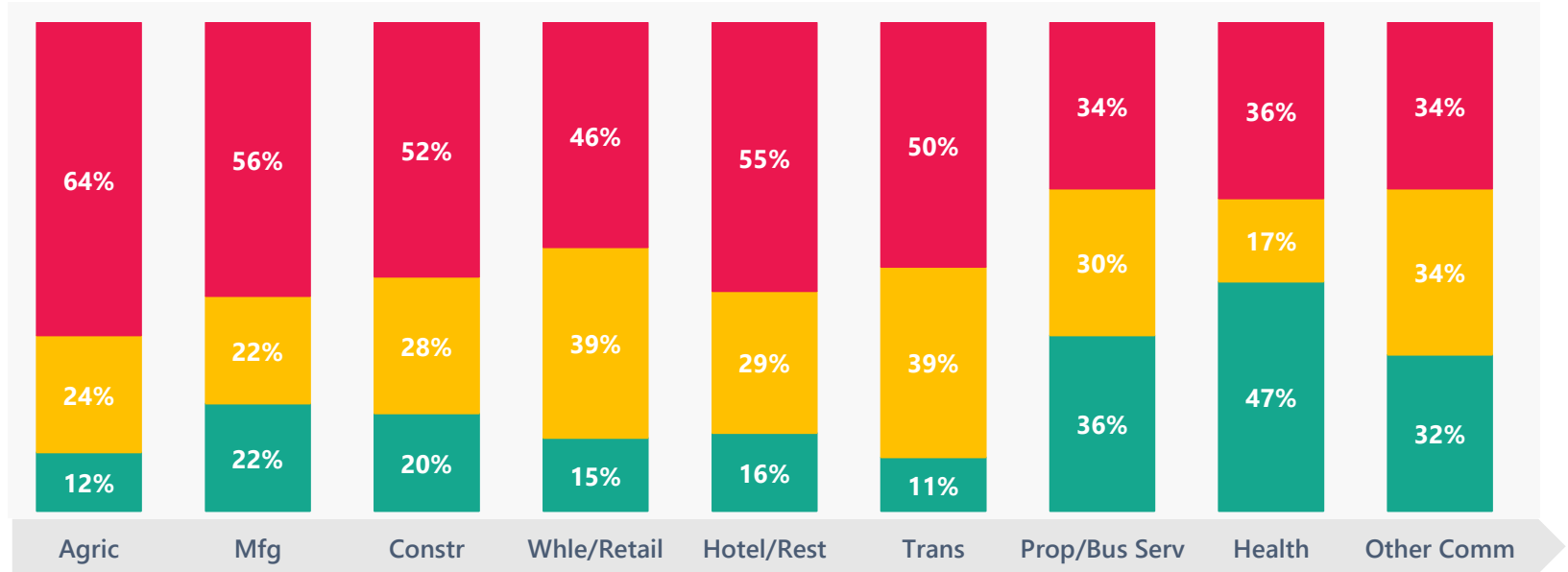
SMEs with an element of importing to their business are currently slightly less likely than their peers to be significantly impacted by cost increases

NEW Time series: Significantly affected by increasing costs by extent of international trade



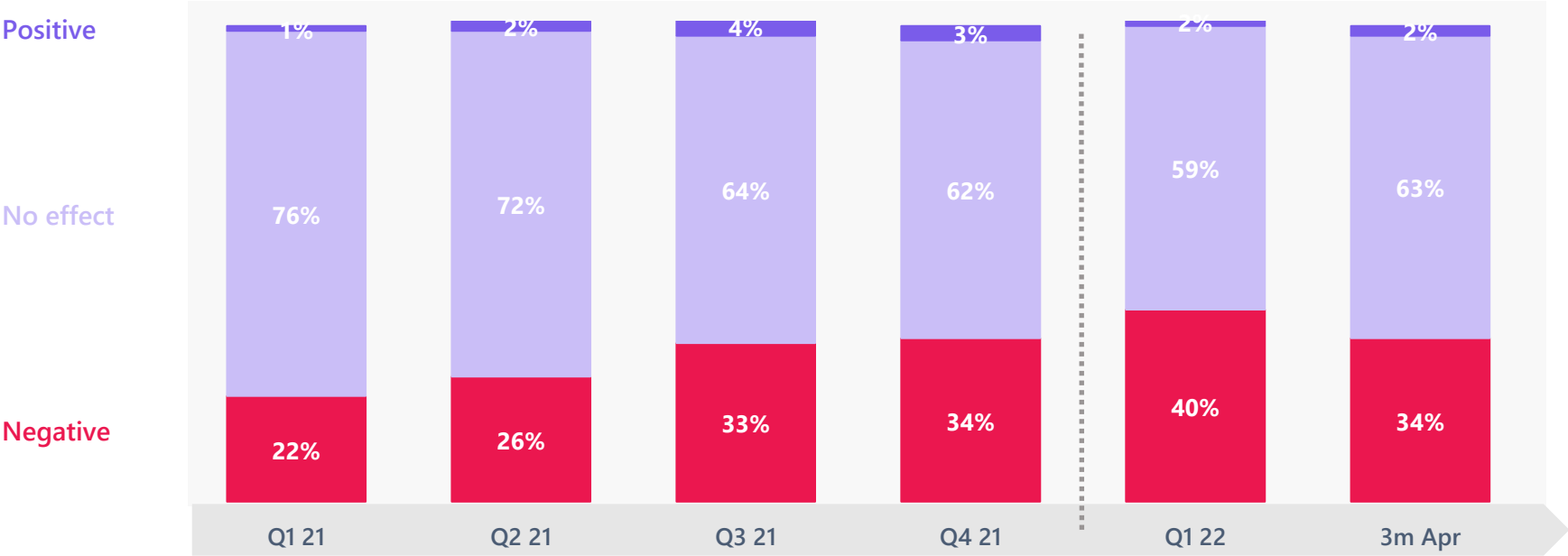
Those in Agriculture remained most likely to have been 'significantly impacted' by increasing costs, compared to around 1 in 3 of those in Property/Business Services and Health

NEW Impact of increasing costs: by sector 3 mths to April 2022



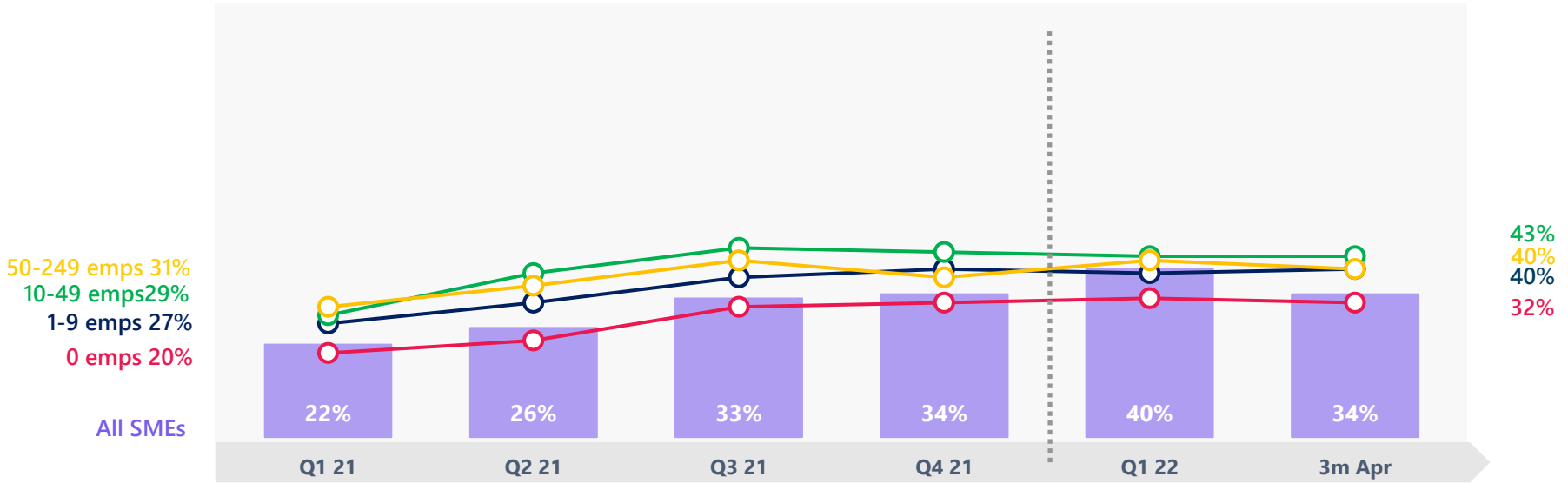
A third of SMEs reported a negative impact on their business caused by the new trading arrangements with the EU, in line with the second half of 2021

NEW Time series: Impact of the new trading arrangements with the EU



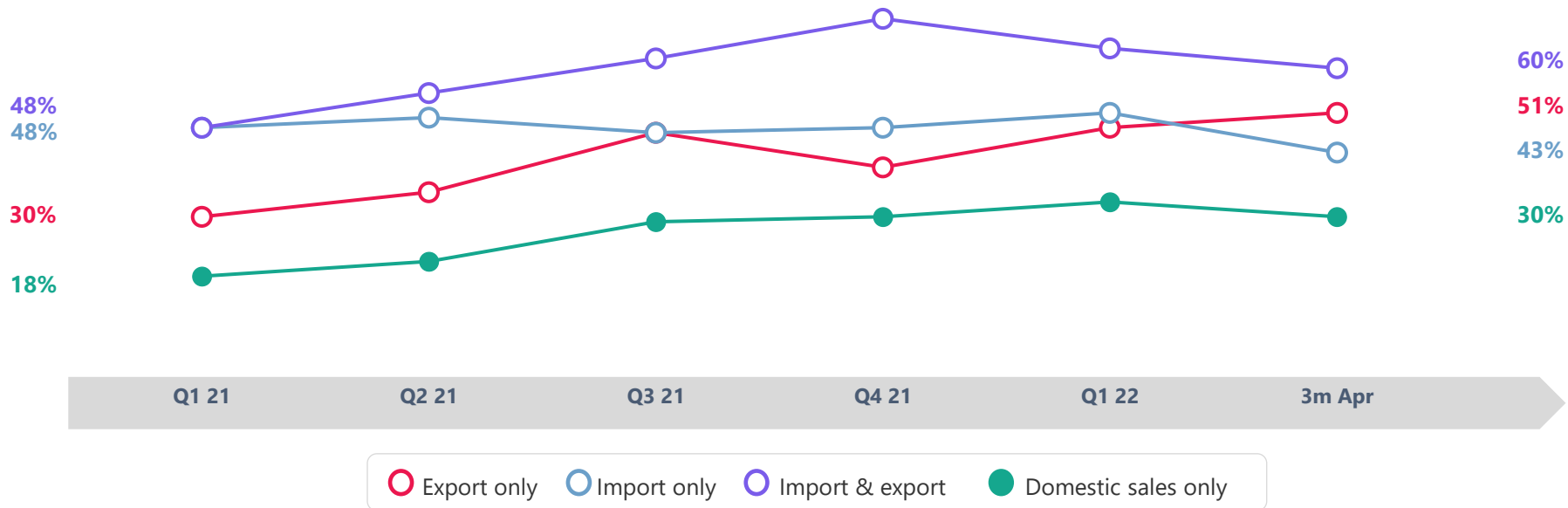
The increase in negative impact was seen across all size bands to Q3 2021, with the smallest SMEs somewhat less likely to be negatively impacted

NEW Time series: Negatively impacted by new EU trading arrangements



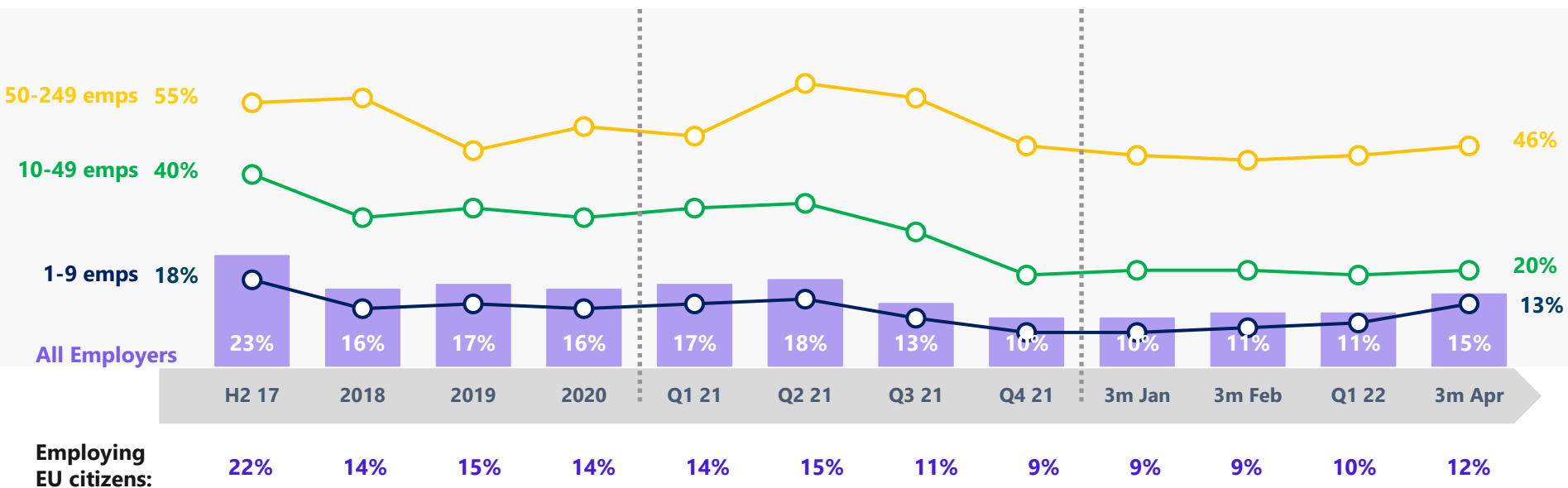
Fully international SMEs remain more likely to have been negatively impacted by the new arrangements, but at slightly lower levels than in Q4 2021

NEW Time series: Negatively impacted by new EU trading arrangements by extent of international trade



15% of SMEs employed non-UK staff in the three months up to April, back to levels seen in Q3 2021

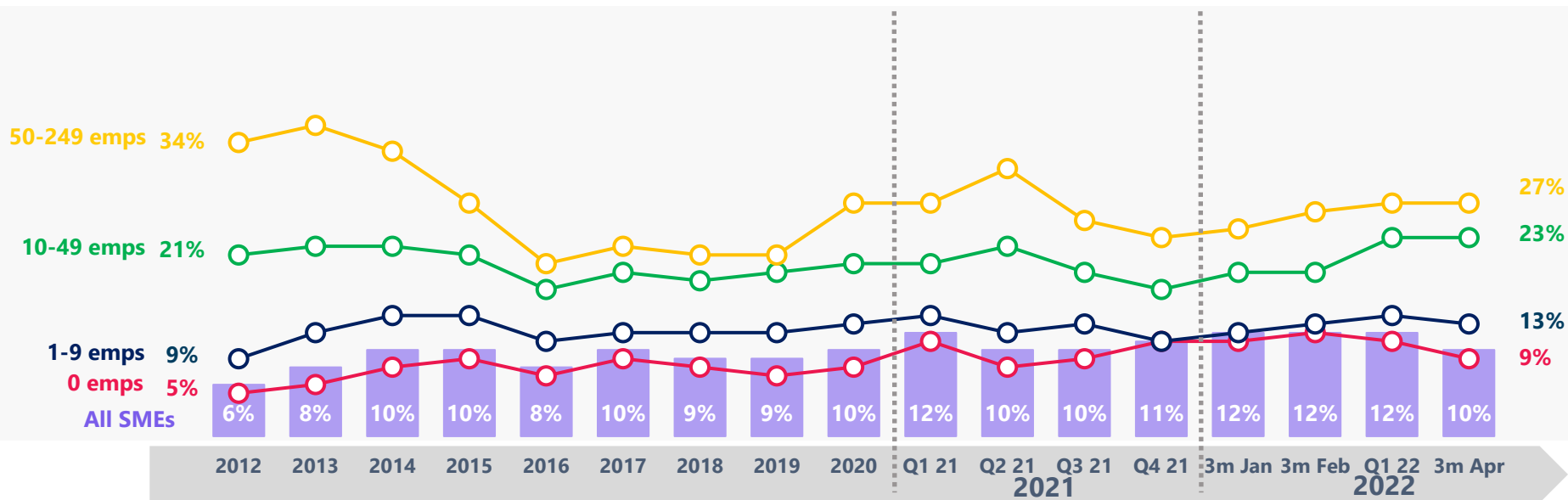
Time series: Employ non-UK staff (from the EU or elsewhere overseas)



When this question was first asked in H2 2017, a quarter (23%) of employers had staff from overseas. From 2018 to Q2 2021 the proportion was lower but stable, then fell to 13% in Q3 2021 and 10-11% until the current period when 15% were employing overseas staff: 12% of employers had staff from the EU and 6% had staff from elsewhere.

10% of all SMEs export with little change since 2020

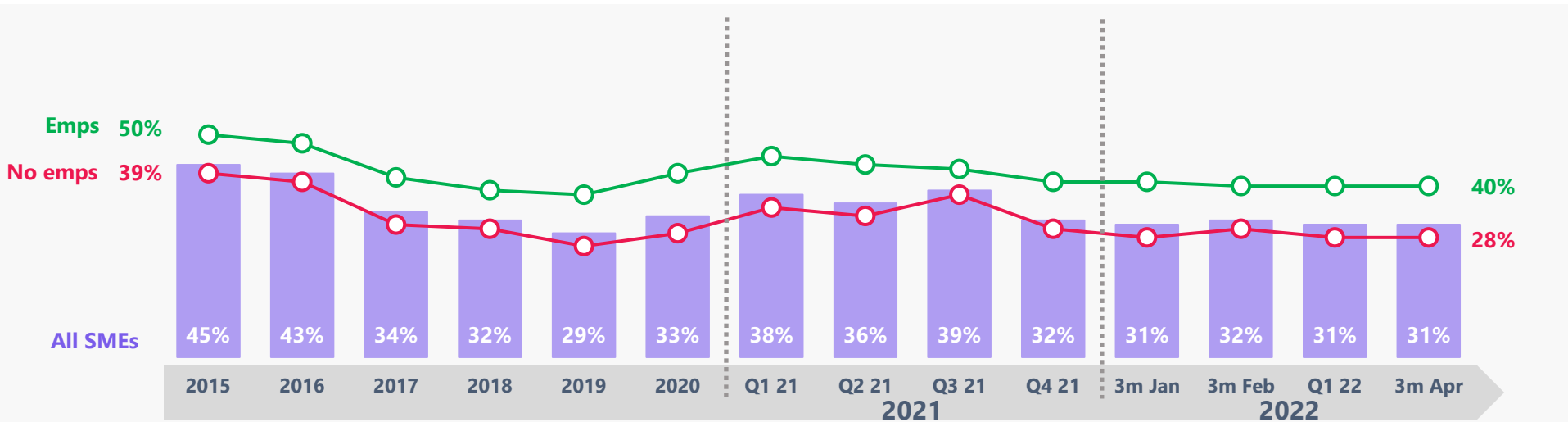
Time series: Exporters



The proportion of exporters increased from 6% in 2012 to 10% in 2014 and 2015. In Q1 21, 12% of SMEs were exporters and there has been little change since, with larger SMEs more likely to be selling overseas

The proportion of SMEs that are happy to use finance to grow has been stable since Q4 2021, currently sitting at 31%

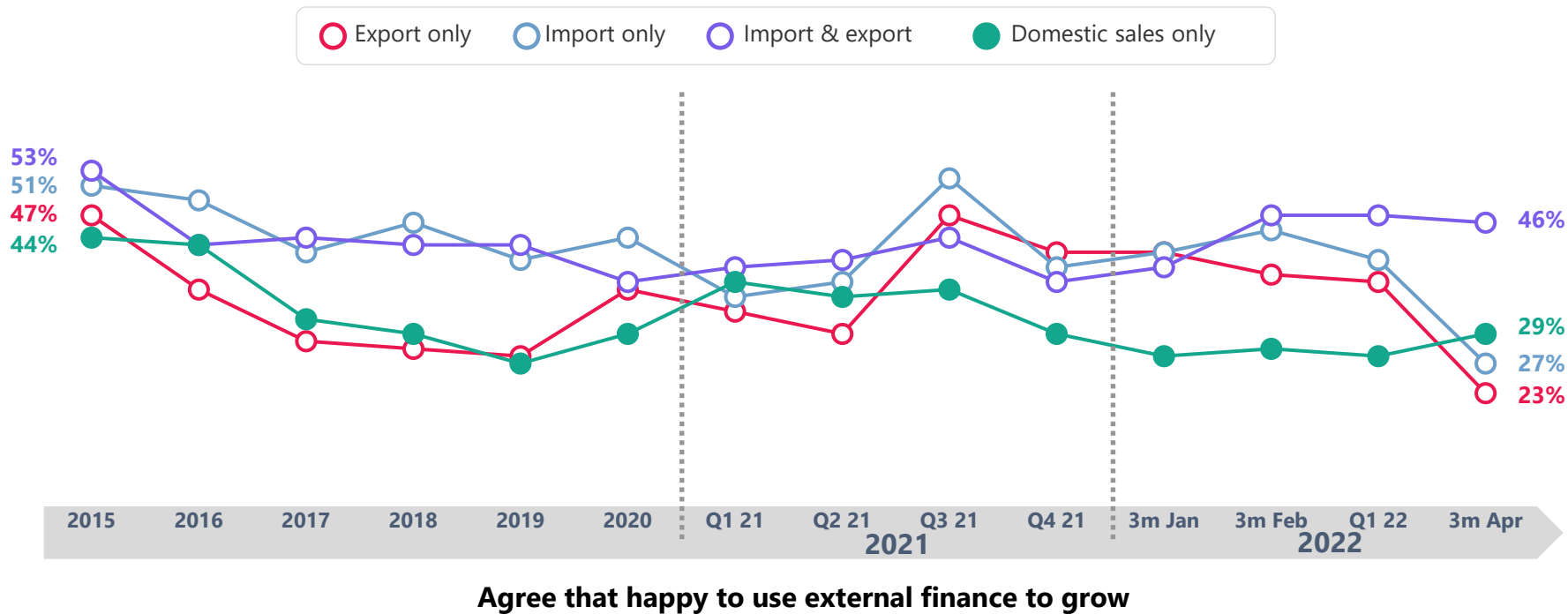
Time series: Agree that happy to use external finance to help business grow



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 38% for Q1 2021 and remained broadly stable to Q3 2021, before settling at 32% in Q4 2021 and 31% currently.

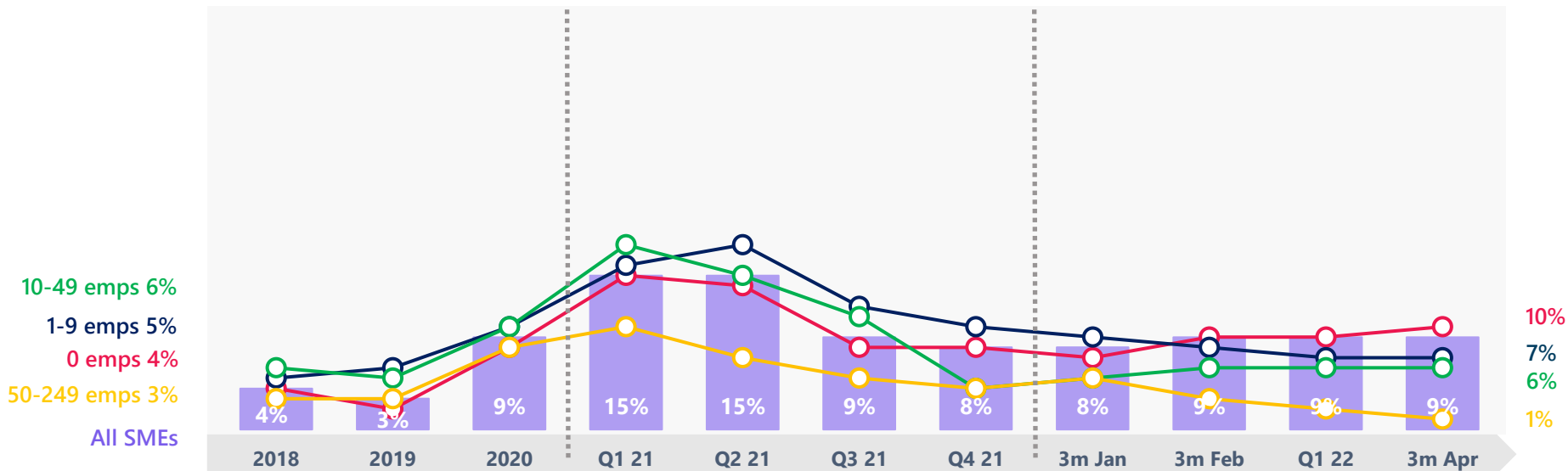
Fully international SMEs remained the most willing to use external finance with more volatility amongst other SMEs that trade overseas

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



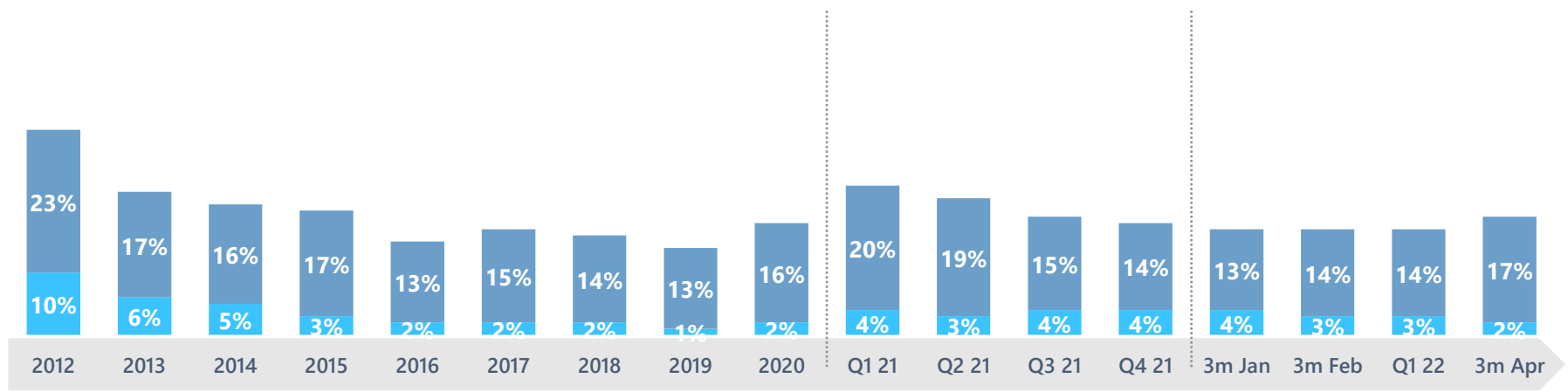
A stable 9% of SMEs reported having a need for external funding in the last 12 months, still higher than pre-pandemic levels but down from a peak of 15% in the first half of 2021

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



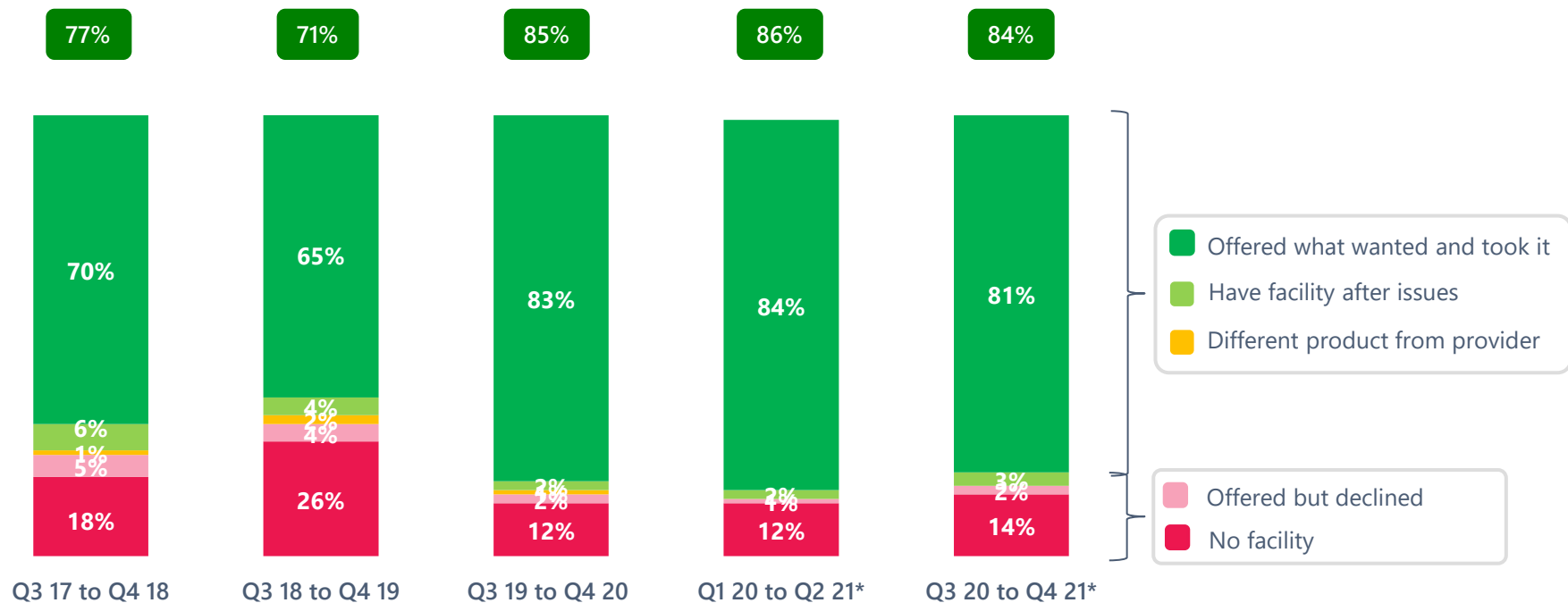
A stable 19% of SMEs reported any appetite for finance in the previous 12 months (an event or those who had wanted to seek finance), lower than the last peak in Q1 2021 (24%) but slightly higher than the years immediately pre-pandemic

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



Analysis by application period shows improvements in success rates for applications when new Government backed schemes were available, especially those made in 2020

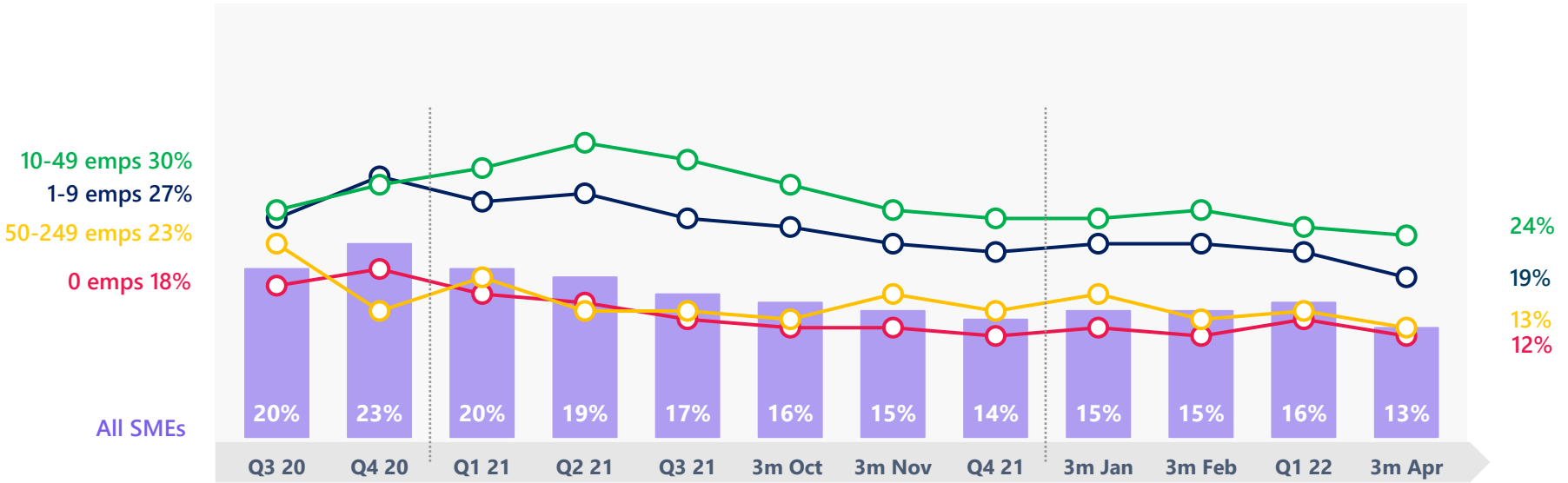
Global success rate: all applications reported from Q1 2018 to Q1 2022, occurring in the periods shown



This chart will be updated every quarter end
Last updated Q1 2022

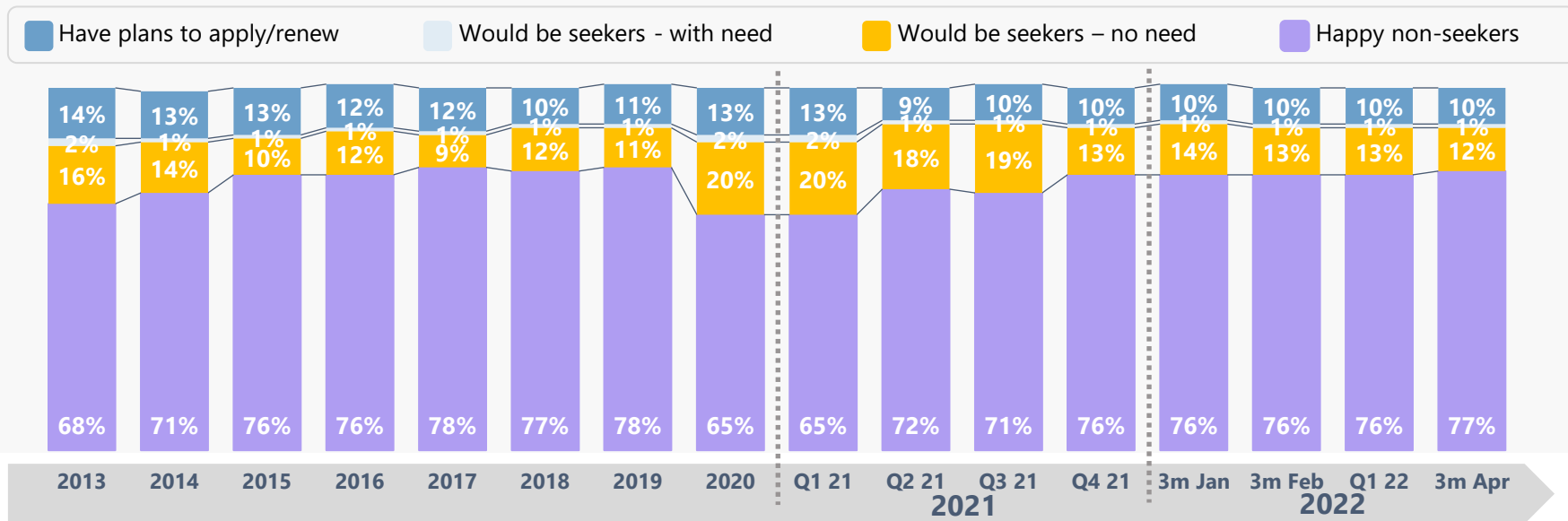
1 in 7 SMEs had approached a bank for Covid related finance. Those with 1-9 or 10-49 employees remained more likely to report such an approach, but the figures remain slightly lower than in Q4 2020

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



The marked increase seen in *any* future appetite for finance in 2020 was maintained to Q1 2021. Since Q4 2021, total future demand has stable at a slightly lower level and in line with pre-pandemic levels

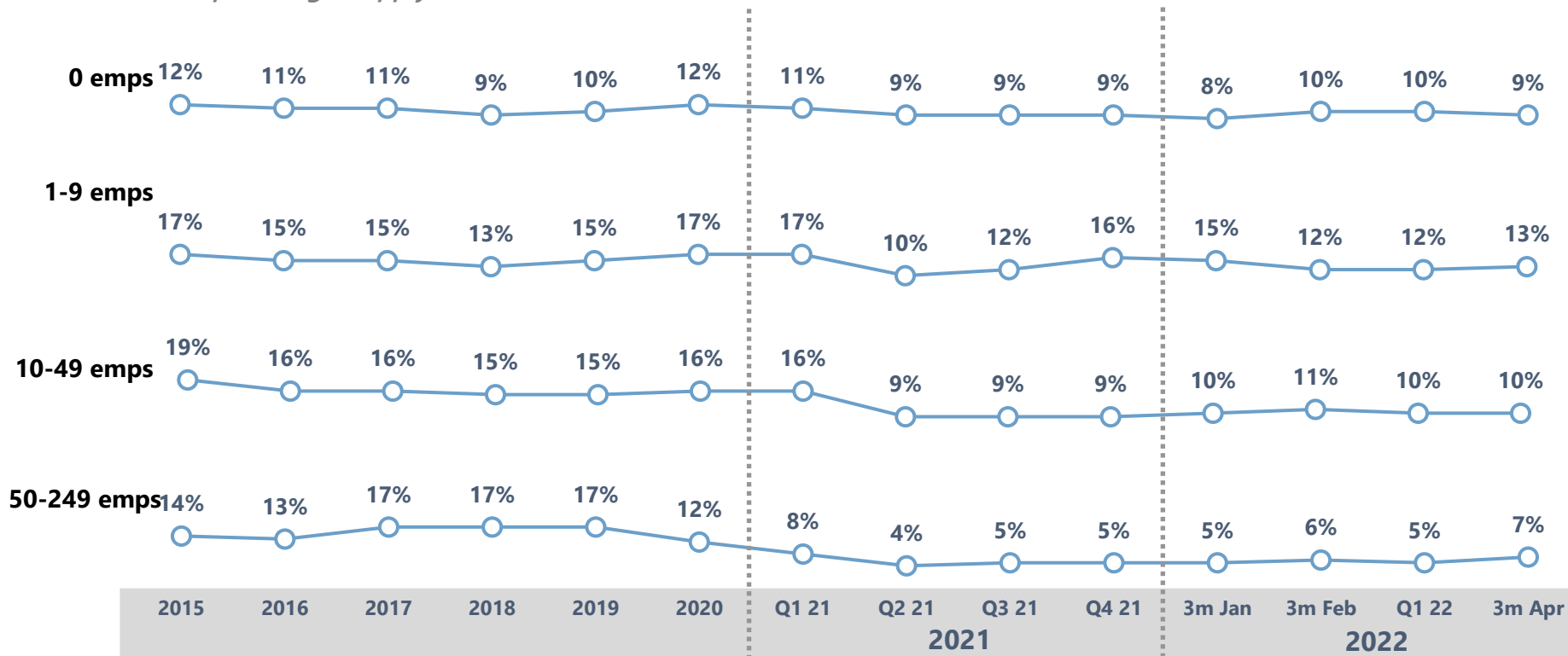
Time series: Anticipated borrowing profile for next 3 months after ...



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 65% for 2020 but as future demand for finance dropped slightly, the proportion of Future happy non-seekers has increased and is currently 77%. The proportion with *any* future demand for finance reached 35% in 2020, but had reduced to 24% by Q4 2021 and is 23% for the current period

The proportion planning to apply for finance is stable and, for those with employees, somewhat lower than pre-pandemic in 2019

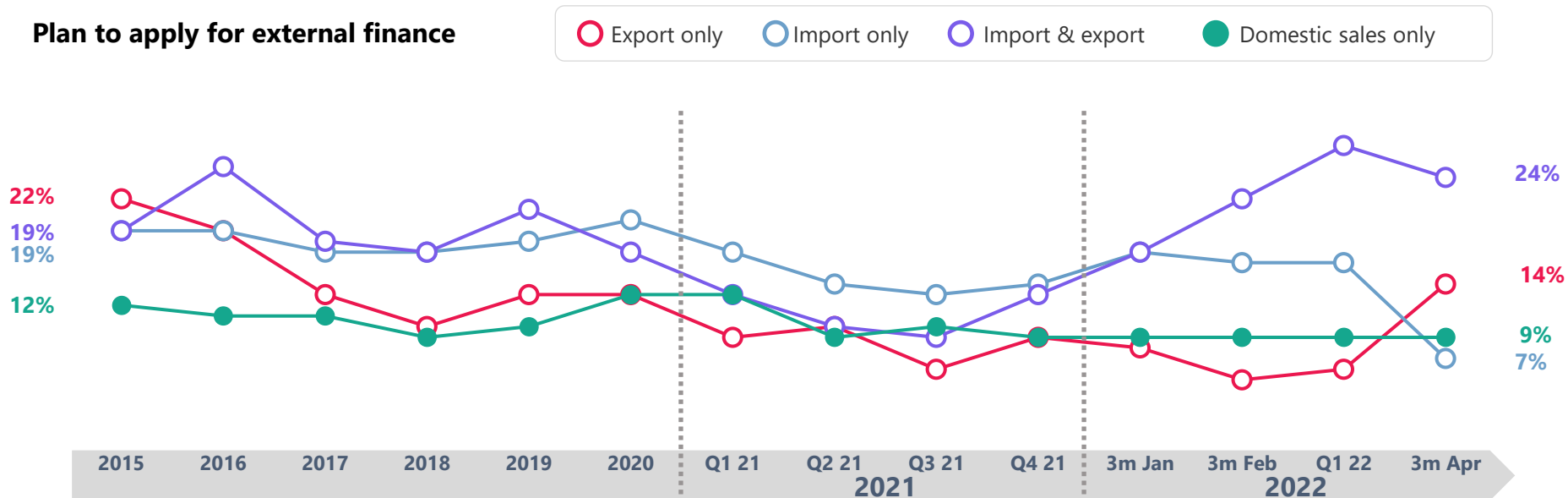
Time series: % planning to apply



Since Q3 2021, future appetite for finance has increased amongst fully international SMEs, to one of the highest levels seen to date for this group

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

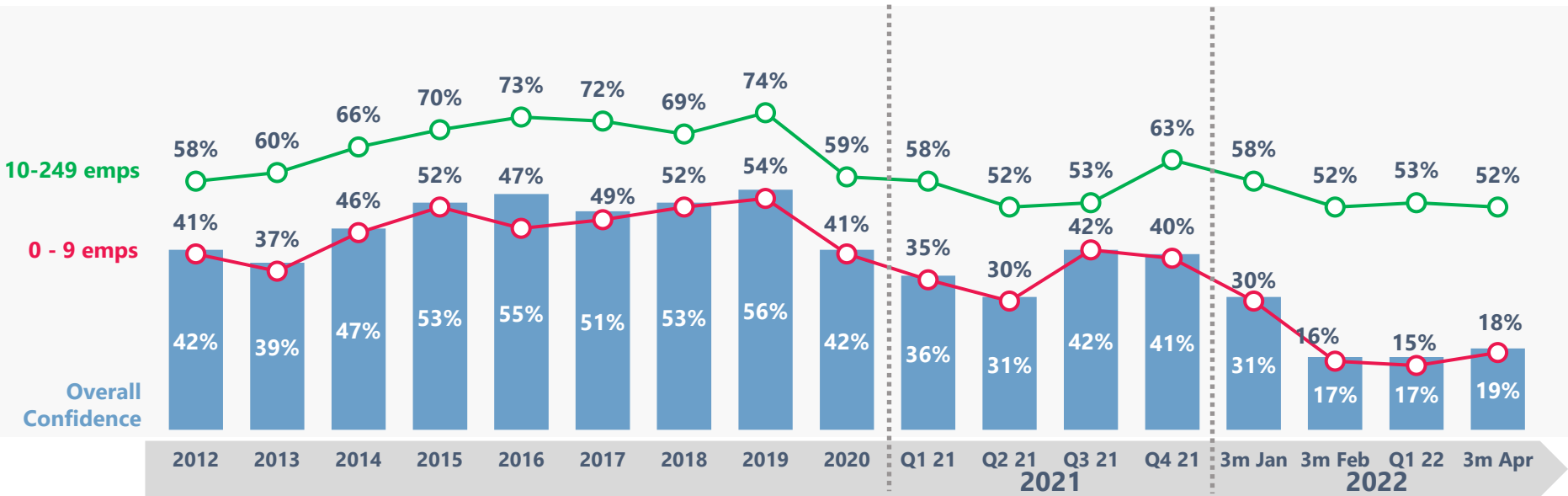
Plan to apply for external finance



Appetite for finance amongst those with an element of international to their business has varied over time, but up to the end of 2021, they had typically become less likely to be planning to apply for external finance. In 2022, International SMEs have reported an increased appetite for finance and moved ahead of their peers.

Overall levels of confidence in a successful application started to build back in H2 2021 but currently 19% were confident, due to 56% of 0-9 employees saying they were “not sure” of the response they would get

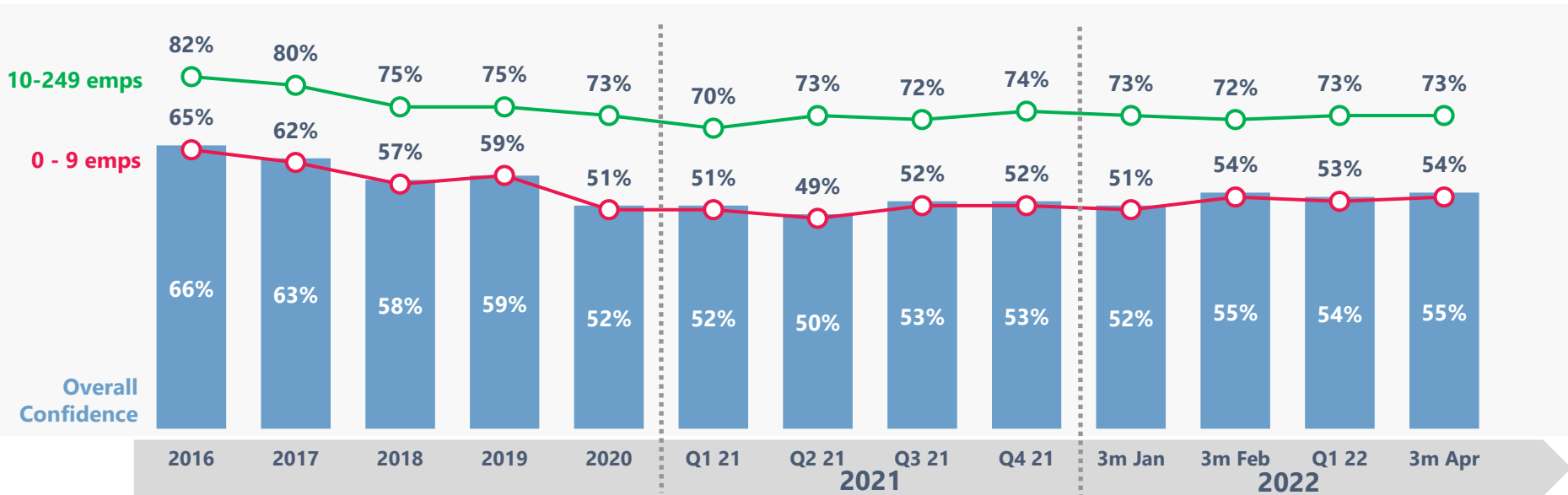
Time series: Confidence (very/fairly) bank will agree to facility next 3 months – by size



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). After improvements in the second half of 2021, confidence has declined in 2022 to date, due to more smaller potential applicants saying they were “not sure” whether their bank would lend to them.

Confidence amongst hypothetical applicants has been stable since mid-2021 at a higher level than those planning to apply, notably those with 0-9 employees.

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



Half (55%) 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 52%). Smaller hypothetical applicants are less confident of success, compared to larger hypothetical applicants but they are now considerably more confident than those of a similar size planning to apply (54% v 18%, see previous slide for those *with* plans)

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

