SME Access to Finance 2010

Office of the Chief Economic Adviser
March 2011
http://www.scotland.gov.uk/Topics/Economy/

SME Access to Finance Survey Report 2010

This report presents the findings of a follow-up Scottish Government survey on access to finance in the Scottish SME sector. In particular, the report focuses on how credit conditions (demand and supply) have changed for Scottish businesses over the period since the first report was published in 2009, when firms reported weak credit conditions during the financial crisis and subsequent recession.

The Scottish Government

Introduction

1. There are approximately 295,000 small and medium sized enterprises (SMEs) in Scotland, comprising around 99% of all businesses[1]. These businesses are central to the Scottish economy accounting for 53% of employment and 37% of output. Access to appropriate finance for viable businesses is critical in ensuring a strong and sustainable economic climate.

2. The onset of the financial crisis at the end of 2008 resulted in increased debate around levels of lending to both households and the corporate sector and the need for a return to reasonable levels of responsible lending to help the economy recover and grow. Consequently, there have been a number of improvements in the monitoring and publication of bank lending data at the UK level, but there remains fairly limited data on credit conditions for businesses in Scotland.

3. The Scottish Government, therefore, commissioned its own SME Access to Finance survey in 2009[2] to provide an assessment of the demand and supply of debt finance to the SME sector in Scotland, comparing the findings to Scottish data extracted from a previous UK-wide access to finance survey carried out by Continental Research in 2007[3]. The results showed that the demand for finance (working capital) had increased but that approval rates for applications had fallen. Many firms also perceived the costs of credit to have risen although it was unclear to what extent this was posing a barrier to accessing finance.

4. A short follow-up report was also published in February 2010[4] which provided an update on credit conditions six months on from the 2009 report. This latest survey undertaken in 2010, has been designed to be able to provide direct comparisons between the 2007, 2009 and 2010 data series. Its intended purpose is to identify whether any improvements have been made against the weak credit conditions reported by firms in 2009.

[1] Scottish Corporate Sector Statistics 2010, http://www.scotland.gov.uk/Topics/Statistics/Browse/Business/Corporate
[2] SME Access to Finance Survey 2009, www.scotland.gov.uk/Topics/Economy/access-finance
[3] Financing UK Small and Medium-sized Enterprises,The 2007 Survey. The results for this paper are based on the Scottish-only sample extracted from this survey.
[4] SME Access to Finance Survey 2010, www.scotland.gov.uk/Topics/Economy/access-finance/report

5. The sections of the report are set out as follows:

SME ACCESS TO FINANCE

Summary Conclusions

1. Overall lending to Scottish SMEs in 2010 is lower than in 2009, reflecting a combination of weak demand and constraints in supply of lending.

2. The demand for finance has fallen since 2009. This reflects a number of factors including an easing of working capital pressures and an increase in the proportion of firms revising growth objectives downwards. There is no evidence of latent (suppressed) demand for finance being an issue underlying low levels of demand.

3. There is a mixed picture on the supply of finance. Outright rejection rates have increased and supply for new lending appears constrained, yet there is some evidence of an overall improvement in total amount of finance secured by firms.

4. The perceptions of all firms on the costs of new credit have worsened, with many firms reporting that the costs of new finance to have risen compared to a year ago. A greater proportion of firms (nearly 50%) which have applied for finance report an increase in costs of new credit.

5. Different types of firms and different sectors are affected to various degrees by the constraint in supply. Exporting firms appear to have a rejection rate much higher than the overall SME population. Firms in the Construction and Manufacturing sectors saw an improvement in supply (based on outright application rejection rates) but all other sectors experienced an increase in rejection rates.

6. Two banks continue to dominate the SME finance market, accounting for 77% of the total market share in Scotland.

Summary and Outlook

7. In general, there is evidence of some improvement in credit conditions for firms which are renewing existing credit facilities with fewer businesses experiencing problems than in 2009. However, the reduction in the supply of new lending remains a critical issue particularly in terms of firms being able to access new finance for investment and growth which will be key to economic recovery.

Key Findings

This summary highlights the key findings of the 2010 SME Access to Finance Survey. Comparisons are made against the results of earlier surveys of Scottish SMEs undertaken in 2009 and, where applicable, in 2007.

Demand for Finance

8. Demand for finance has fallen since 2009. 43% of firms sought finance (either renewing existing facilities or new, additional borrowing) over the three year period to November 2010, compared to 53% in the three years to March 2009.

9. Overdrafts were the most common facility applied for with 31% of all firms seeking this form of finance, followed by credit cards (17%), and loans (15%). The mean number of applications per firm in 2010 was 1.89.

10. There has been an increase in the proportion of firms reporting a downward revision in growth objectives. However, 47% of all businesses are still planning to grow.

11. Firms are seeking lower value finance. This is reflected in the fall in the mean value of finance sought by micro firms, but there has been an increase in the mean value of finance sought by both small and medium sized enterprises.

Supply of Finance

12. The percentage of firms who applied for finance and have been rejected outright has increased since 2009, from 19% of all firms to 24% of all firms.

13. Similarly, the overall percentage of total applications rejected outright has increased from 17% to 21%.

14. However, for firms which <u>are not rejected outright</u>, there has been an improvement in the proportions that apply and successfully secure some of the amount they applied for. The mean proportion of finance secured has risen to 66% (of the total amount sought) from 57% in 2009. Nevertheless, small and medium firms are securing a smaller proportion of the total amount sought than in 2009.

15. Nearly half (49%) of firms which were rejected outright, or offered less than they applied for, reported that they encountered the problem at the very initial stages of applying and before a formal application had been made.

Experience of Renewing Credit and New Borrowing over past 12 months

16. Over the past 12 month period to November 2010, 11% of all firms were seeking new lending and a further 27% of all firms were looking to renew existing facilities.

17. The experience of firms renewing credit facilities in the last 12 months appears to have improved compared to the experience of firms over the previous 12 months in 2009. The most significant improvement came from fewer firms reporting an increase in fees and interest rates when reapplying for credit facilities.

18. However, for firms seeking new lending over the past 12 months, 56% of applicant firms reported that they did not get any of the funding sought, and a further 3% stated that they got some but not all of the funding they sought.

Perceptions on Costs of New Credit and Ease of Access

19. The perceptions of all firms on the costs of new credit have worsened since 2009, with 38% of all firms reporting that they believe costs to have increased compared to 26% previously. Of those firms which actually applied for finance, 50% stated that costs of new credit have increased compared to 38% in 2009.

20. The majority of firms feel that ease of access to finance has remained unchanged compared to a year ago. However, a net balance of firms (the difference between those stating harder and easier) reported that it has become harder to access most forms of finance, particularly for overdrafts.

Sector Analysis

21. In terms of sectors, demand for finance has fallen across nearly all sectors with the exception of Wholesale/Retail and Other Community, Social and Personal Services. The level of demand is greatest from the Wholesale/Retail Sector with 63% of firms within this sector seeking finance against a national average of 43%.

22. The mean amount of finance sought varies considerably between the sectors, with Health and Social Work sector seeking around £1.8 million, and Other Community, Social and Personal Services sector seeking a mean amount of £30,000.

23. The sectors with the highest application rejection rate in 2010 are Hotels/Restaurants, Transport, Storage and Communication and Wholesale/Retail. Most sectors saw an increase in outright rejection rates compared to 2009, with the exception of Construction and Manufacturing for which rejection rates have fallen.

24. However, nearly all sectors experienced an improvement in the (mean) percentage amount of finance secured compared to 2009, with the exception of Wholesale/Retail and Hotels/Restaurants sectors.

Demand and Supply for Growth, Exporting and New Starts

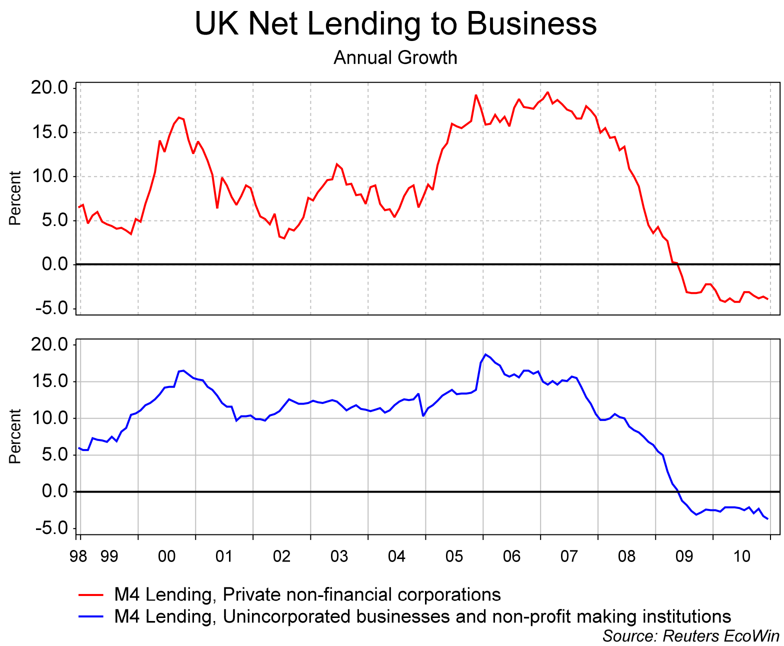
25. A greater proportion of new starts sought finance (50%) compared to the proportion of all SMEs (43%) that did. 41% of growth firms and 39% of exporters applied for some form of finance. There is some overlap between these firm types as some firms will fall into more than one of these categories.

26. Supply of finance appears to be most constrained for exporting firms, with around 41% of applications from these firms being rejected outright, compared to a national average rejection rate of 21%.

SME Banking

27. Two banks dominate the SME market, accounting for 77% of the total market share. The market shares have remained broadly constant since the 2009 survey.

28. There is some evidence of competition in finance products, with firms being more willing to use alternative providers for some facilities such as leasing/HP or factoring/invoice discounting. However, the survey does not capture information on which other lenders are providing those financial products to firms in addition to their main bank.



Section I: Macro-economic Context

1.1. The most recent survey was conducted during a time when most advanced economies are in the process of recovering from a global recession. Although economic conditions have improved since the last survey in 2009, GDP has yet to return to pre-recession levels in many countries and a great deal of uncertainty remains as to the pace and sustainability of the recovery

1.2. Scotland emerged from recession in the fourth quarter of 2009, and grew by 1.3% and 0.5% in the second and third quarters of 2010 respectively. Growth in Scotland in both quarters was largely due to a robust increase in output in the construction sector.

1.3. The recovery elsewhere in the economy has been more gradual. In Q3 2010, output from the services sector, which accounts for almost 75% of output in the Scottish economy, was largely unchanged over the quarter, with growth in most subsectors offset by falling output in the financial services sector. Manufacturing output continued to expand over the quarter with manufacturing outperforming the services sector over the last two quarters.

1.4. The outlook for growth in the fourth quarter is uncertain. UK GDP contracted by 0.6% in the fourth quarter of 2010, a fall that was partly attributed to the poor weather. Scottish GDP growth figures for the fourth quarter will be available on the 20th April 2011, although evidence from business surveys indicates a slowing in the pace of the recovery. Looking forward, the average independent forecast for GDP growth in Scotland in 2011 is close to 2%.

1.5. The Scottish labour market was severely impacted by the recession, with a doubling of unemployment in Scotland since the start of the recession. Conditions have started to improve, with the most recent data for the three-month period to January 2011 showing that employment levels in Scotland have increased by 45,000 since the trough in employment numbers in the three-month period to April 2010. The Scottish unemployment rate has fallen to 8.1% from its peak of 8.9%.

1.6. Despite the recovery in economic activity in Scotland and the UK, evidence from the Bank of England shows that credit conditions in the UK have continued to tighten. The annual growth rate of lending to businesses, which has been deteriorating since the start of 2008, turning negative in the middle of 2009. Recent data shows little sign of sustained improvement.

1.7. The decrease in net lending can partially be attributed to an increase in the amount of debt that firms are repaying. According to the Bank of England, major UK lenders have indicated that over the past two years, gross lending has been lower than repayments. Although repayments of debt are currently lower than in 2009, they remain higher than gross lending levels.

1.8. In addition, many UK companies have been able to finance investment from internally generated funds due to the strength of their cash balances[5]. This has improved since the height of the financial crisis – due to the pick-up in demand as the UK economy emerged from recession – and may partly explain why the major UK banks have reported a decline in the demand for credit during 2010[6].

1.9. The Monetary Policy Committee (MPC) of the Bank of England has maintained the same monetary policy stance since November 2009 with the base rate at 0.5% and £200 billion of asset purchases (otherwise known as 'quantitative easing'). However, upwards pressure on inflation, partly due to rising commodity prices, raises the potential for monetary policy to be tightened over the year in order to maintain price stability in the UK.

1.10. A more detailed narrative on the state of the Scottish economy can be found on the Scottish Government website at: http://scotland.gov.uk/Topics/Economy/state-economy/latestSofE

[5] Inflation Report, February 2011, Bank of England
[6] Credit Conditions Survey, Q4 2010, Bank of England

Section II: Survey Design and Methodology

2.1. The survey interviewed 1,004 small and medium sized businesses in the private sector in Scotland. Fieldwork was undertaken by telephone by BDRC Continental, an independent market research company, in November 2010 with the data analysis and report completed internally by the Office of the Chief Economic Adviser in the Scottish Government.

2.2. The survey questionnaire was based on an earlier UK-wide survey on SME Financing conducted in 2007. The design of the follow-up surveys, including the 2010 survey, has been kept consistent to enable direct comparisons to be made with previous waves. The questionnaire included the following sections:

- demographic questions (both business and respondent) allowing for assessments on financing behaviour to be made by size of firm, type of firm (growth, exporting, new start), industrial sector and owner characteristics;
- current use of finance and borrowing patterns;
- questions on the demand for finance, where firms are asked about all facilities they have applied for over the past three years (to November 2010) including amounts and types of credit facility;
- an assessment of levels of supply of finance based on firm and application rejections and final outcomes of applications over the past three years (to November 2010).
- questions specifically relating to accessing finance over the last 12 months to assess levels of demand for new or additional borrowing, and to explore further issues such as the costs of credit (perceived and actual) to firms.

2.3. A small number of changes have been made to the questionnaire and survey design for 2010. The key changes include some additional questions on whether firms had considered applying for finance but did not, and further questions around perceived changes in the cost of credit and firms' experience of the application process. For this reason, the 2010 survey also sought to achieve a target of 400 firms who had either sought new additional lending or refinanced over the last 12 months to enable a more robust analysis of the experience of those firms. In addition, risk ratings were appended to the data file in 2010 to allow the results to be analysed by the credit-worthiness of firms. Prior to the survey taking place, input and comments on the questions were provided by the Bank of England Agent in Scotland and Lloyds Banking Group.

2.4. The survey design is such that it asks firms about demand for finance over the past three years (to November 2010). The rolling 'three-year' question is historical and the wording has been kept consistent to allow for direct comparisons to be made against the earlier surveys in 2007 and 2009. However, there is an even overlap between each of the Scottish surveys and it is assumed that the comparisons between the 2009 and 2010 data effectively cover the 18-month period between each survey. In recognising the possibility of any overlap, a section of the survey also asks firms about their experiences in applying over the previous 12 month period which is also presented within the report.

2.5. The sample of SMEs for the 2010 survey has been drawn from Dun & Bradstreet and Experian. Quotas, designed to reflect the previous surveys, were set by size of firm (number of employees), by sector (from the sample), for new businesses and for those firms who applied for credit within the 12 months prior to the survey taking place. Larger businesses and smaller sectors were deliberately over-sampled relative to their shares in the market to ensure meaningful results for these groups could be obtained. The achieved sample is displayed in the table below.

SECTORS	Micro (<10)	Small (10-49)	Medium (50-250)	Total
AB Agriculture, Hunting, Forestry, Fishing	77	10	4	91
D Manufacturing	87	47	18	152
F Construction	82	51	12	145
G Wholesale/Retail	61	49	9	119
H Hotels/Restaurants	38	50	9	97
I Transport, Storage and Communication	19	26	7	52
K Real Estate, Renting and Business Activities	85	52	12	149
N Health/Social Work	35	22	1	58
O Other Community, Social and Personal Services	84	48	9	141
Total	**568**	**355**	**81**	**1,004**

2.6. Throughout the analysis, weighting has been applied to the data by size and sector to ensure that results are representative of the overall Scottish SME population. As in 2009, no sectors are excluded from the sampling in 2010, with the exception of the public sector and not for profit organisations.

2.7. The size of the samples in the 2009 and 2010 surveys mean that the findings can be reported with a relatively high degree of statistical reliability. For instance, a finding of 50% at the overall level (all firms included) in 2009 and 2010 has a statistical error of ±3.1%, while the corresponding error for 2007 is ±4.4%.

2.8. The definitions of firm sizes and firm types used throughout the report are as follows;

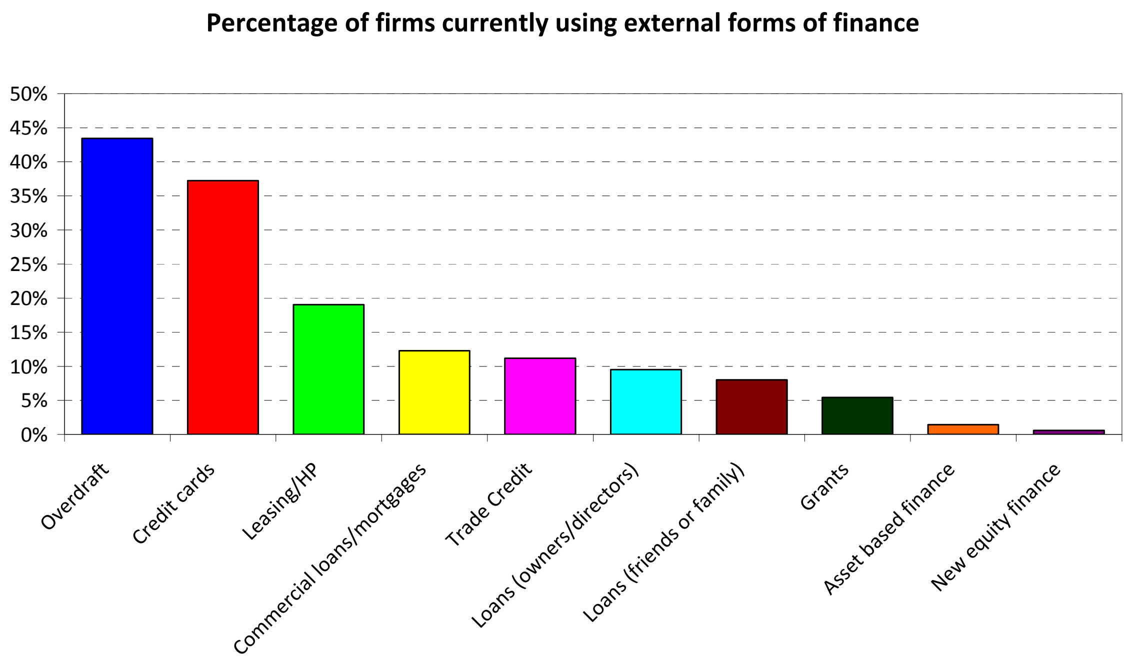
<u>Size of Firm</u>

- Micro: 0 – 9 employees (includes sole traders)
- Small: 10-49 employees
- Medium: 50-249 employees

<u>Type of Firm</u>

- Growth: firms that have stated turnover growth of 20% or more in each year for the last two years.
- Exporting: firms that sell goods or services outside Scotland or outside the UK.
- New Starts: firms that were established under 2 years ago (in 2009 or 2010).

2.9. For the sector analysis in Section VI, two broader categories of firm size are used: ‘Sole traders’ and ‘Employers’. As the analysis of sectors is based on smaller sample sizes, a breakdown of firm by detailed size category, as in the main report, has not been replicated.



Base (2010): All firms n= 1004

Note: Percentages do not add to 100% as some firms use more than one form of finance.

Section III: Demand for Finance

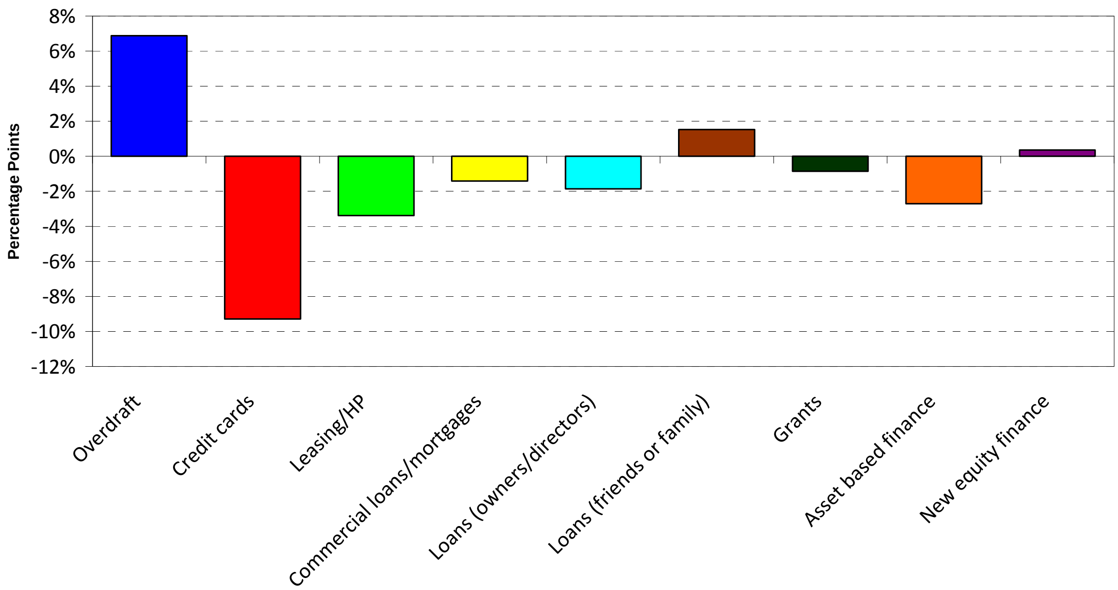
Current use of finance and credit facilities

3.1. Overdrafts are the most common form of finance used by firms, with 43% of firms reporting that their business currently uses this facility. This is followed by credit cards (37%) and leasing/HP which is used by 19% of all firms. Commercial loans and mortgages (including both secured and unsecured loans) are only used by 12% of firms as a method of financing their business, with a similar percentage using trade credit (11%).

3.2. Around 20% of firms reported that they utilised their current overdraft facilities between 6 to 11 months a year, with only 16% stating that they had never used it. 30% of firms reported that they used business credit cards compared to only 13% using personal credit cards for business purposes.

3.3. The most common reason for businesses using overdrafts are for working capital/cash flow purposes with nearly 90% of firms who use overdrafts citing this. Around 37% of firms are using loans for premises and for the first time, an equivalent proportion are also using loan financing to help with cash-flow and working capital purposes – an increase of 9 percentage points since 2009, with a shift away from using this facility for growth purposes or other non-specific reasons.

Change in forms of finance used between 2009 and 2010



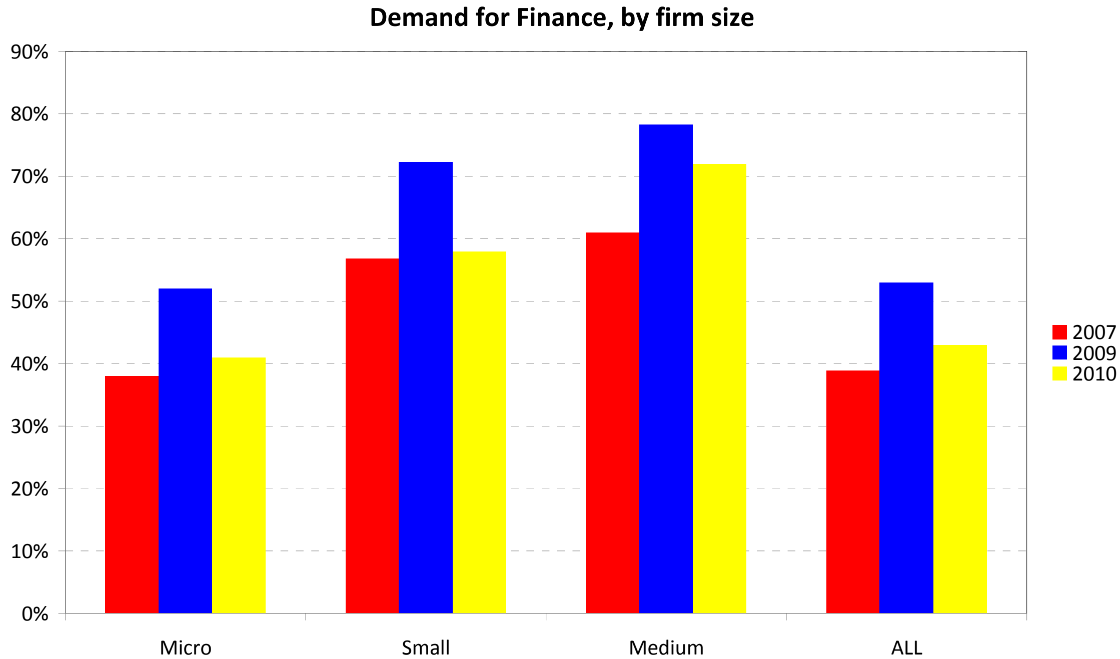
Base (2009): All Firms: n=1,001
Base (2010): All firms: n=1,004

Current use of external finance

3.4. The pattern of finance usage has remained broadly unchanged since 2009, with the exception of credit cards, which was the most common form of finance used previously, and has now been overtaken by overdraft usage. However, the percentage of firms reporting that they use any external finance has declined across all facility types since the 2009 survey, with the exception of overdrafts, which has increased by 7 percentage points.

3.5. There has been a sharp decline in the use of credit cards from 47% of firms reporting that they are currently using this facility to 37%. This decline follows a large number of rejections for credit cards in 2009.

3.6. There has been a slight rise in the percentage of firms reporting the use of non-bank finance such as loans from family and friends (an increase of 2 percentage points), and also equity finance compared to 2009. The current use of finance will reflect in part, the supply of finance in 2009, demand, current availability and ease of access for different type of finance facilities.



Base (2007): Micro: n=257; Small: n=151; Medium: n=93; All firms: n= 501;
Base (2009): Micro: n=545; Small: n=340; Medium: n=116; All firms n=1001;
Base (2010): Micro: n=568; Small: n=355; Medium: n=81; All firms n=1004

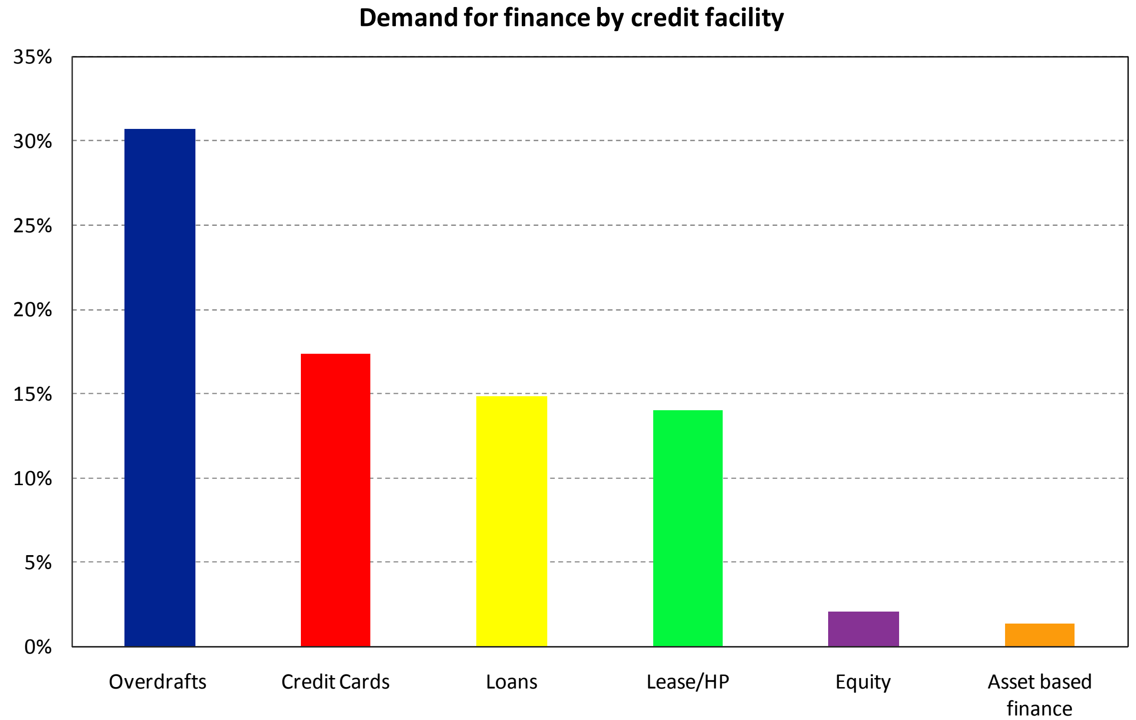
Demand for finance

3.7. This section looks at the demand for finance over the past three years as measured by the percentage of firms applying for *any* type of finance.

3.8. The demand for finance has fallen since 2009. There has been a fall in applications for any finance across all firm sizes. Overall, the proportion of firms who applied for some kind of finance over the previous 3 years irrespective of whether or not they were successful in obtaining it, decreased by 10 percentage points between March 2009 and November 2010, from 53% of all firms to 43%.

3.9. In terms of firm size, the greatest decline in the percentage of firms who applied for any finance is for small firms (10-49 employees), where demand fell by 14 percentage points. Micro firms (less than 10 employees including sole traders) saw an 11 percentage point reduction in applicants, while the percentage of medium size firms (50-250 employees) fell by 6 percentage points.

3.10. Demand for finance, however, is still greater than it was in 2007, a time when lending was at its peak.



Base (2010): All firms n =1004;

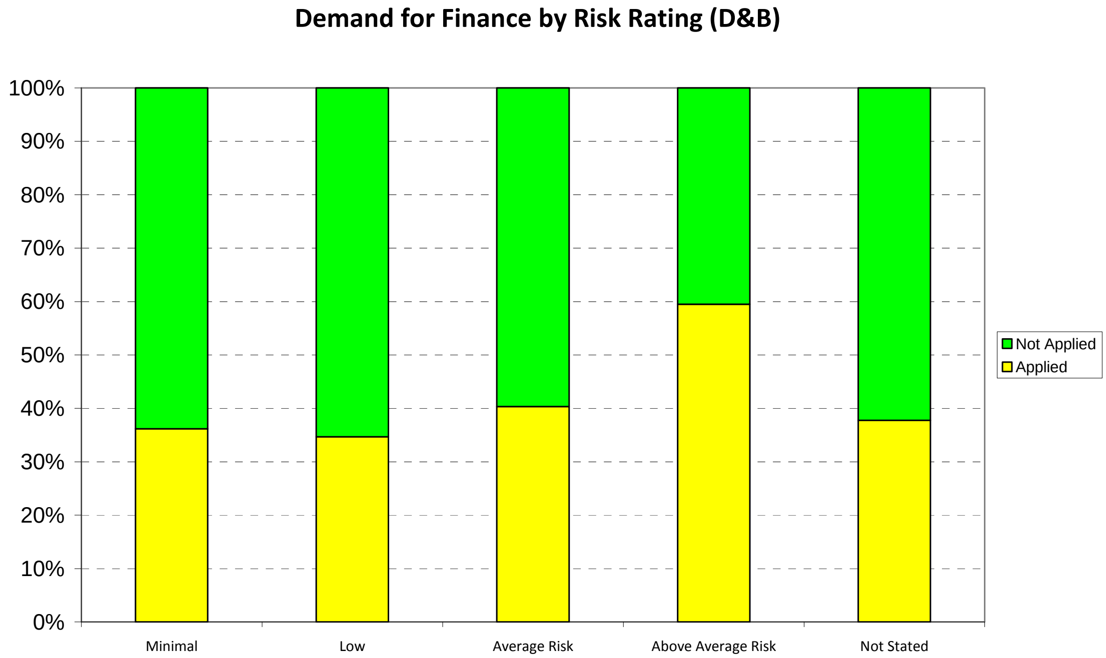
Note: Percentages do not add to 100% as some firms applied for more than one form of finance.

Forms of finance applied for

3.11. The chart above measures demand based on applications for different types of finance, and shows the percentage of all firms applying for any type of credit facility. Overdrafts remain the most common form of finance applied for, with 31% of all firms applying for this facility. This is followed by credit cards (17% of all firms) and loans (15% of all firms).

3.12. There is not much difference in the pattern of demand for the different types of credit facilities compared to 2009, except leasing/HP for which demand has fallen by 8 percentage points to 14% of firms, following a sharp rise in 2007 for this type of finance.

3.13. Nearly half of all firms who applied for finance (49% of applicants) made only one application, with a further 31% of firms seeking finance twice, and very few firms applying three times or more. The mean number of applications per firm in the three years to 2010 was 1.89.

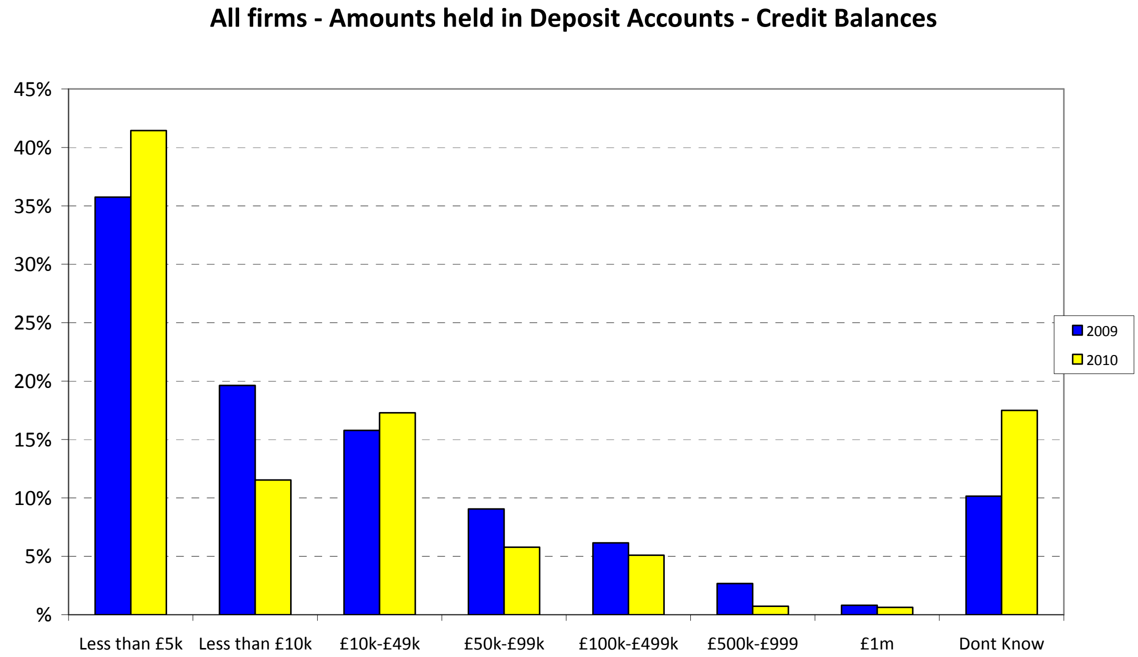


Base (2010): Minimal Risk n = 219; Low Risk n=289; Average Risk n = 264; Above Average n =174; Not stated n=58

Demand for finance – based on risk ratings

3.14. For the 2010 survey, risk ratings were obtained for the sample to enable a more informed picture of demand and supply of finance to be assessed based on relative credit-worthiness. Risk ratings are taken from the Dun & Bradstreet risk scores where firms are categorised as having minimal, low, average, and above average risk. 6% of firms in the sample did not have a risk rating ('not stated' category) due to missing or incomplete information. These scores are based on a number of different datasets and information and are intended to reflect a firm's financial strength and the likelihood of it failing or succeeding.

3.15. In general, the number of firms which apply for finance increases with risk, with a greater proportion of above average risk firms applying for finance than other firms. Around 36% of businesses categorised as having minimal risk applied for finance, compared to 35% of low risk firms, 40% of average risk firms and 60% of those considered to have an above average risk rating. These results are perhaps not surprising as the majority of firms who apply for finance are those who are likely to need finance to survive and grow.

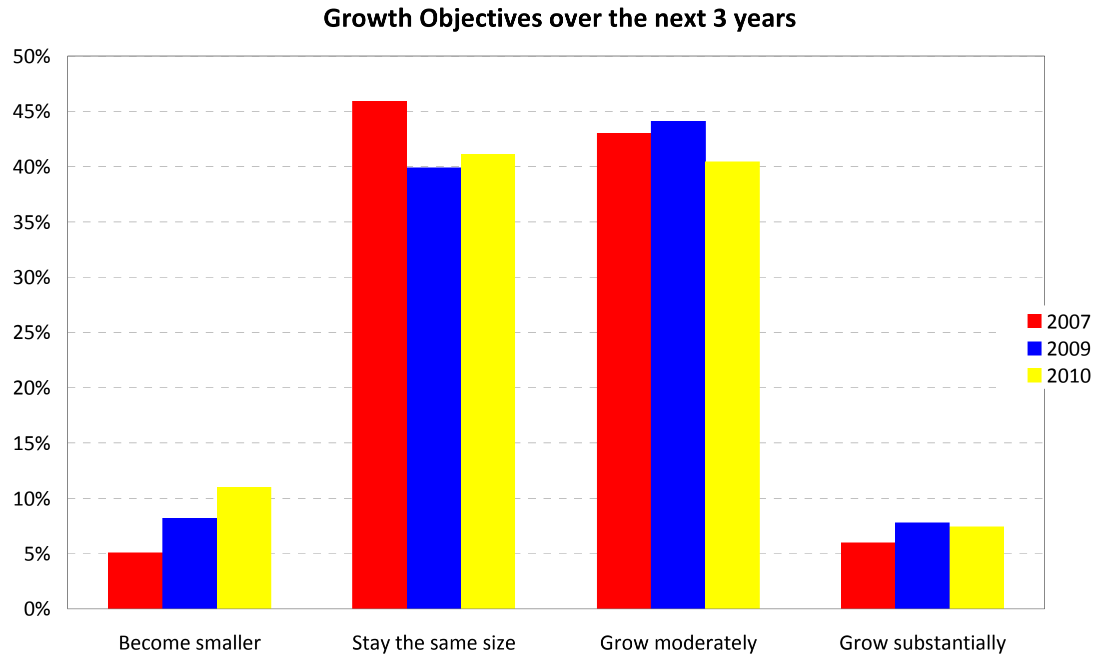


Base (2009): All firms n = 1001
Base (2010): All firms n = 1004

Credit Balances Held In Deposit Accounts

3.16. The graph above highlights the change in amounts of credit balances held in deposit accounts by firms between 2009 and 2010. There has been an increase in the number of firms that hold lower amounts of finance (less than £5,000) and a corresponding reduction in the number of firms holding higher values of cash in deposit accounts. However, this could be accounted for by a greater proportion of firms reporting that they 'do not know' (or do not wish to say) how much is held in deposit accounts in 2010.

3.17. At the UK level, the evidence suggests that the fall in demand for finance may be partly explained by businesses having stronger cash holdings than previously, and that firms may be choosing to use their cash reserves to fund investment rather than approaching banks. The result from the above chart is not so clear for Scottish firms, given the greater proportion of firms not reporting how much they hold – however, less in cash holdings may be a reflection of the fact that firms have been drawing down their internal reserves than seeking finance corresponding to the fall in demand seen above.



Base (2007): All firms, n=500; (2009): All firms, n = 1001; (2010): All firms, n = 1004

Growth Objectives over the next three years

3.18. Firms appear to have revised their growth objectives downwards, with the evidence showing a reduction in the proportion of firms stating that they will grow moderately or grow substantially, and a shift towards firms stating that they will either become smaller or stay the same size, compared to 2009.

3.19. It is not possible to establish any strong evidence of a link between the reduction in growth aspirations and a fall in demand for finance. Those firms which responded 'getting smaller' gave a number of reasons for doing so, including 'reluctant to borrow any more finance (25%), wanting to stay below the VAT threshold (25%) and a number of lifestyle choices.[7] It is unclear whether any decline in demand for finance is driven by the decision of firms not to grow (or whether the inability to access finance from 2009 has dampened growth aspirations).

3.20. In looking at the reasons for not borrowing, around 66 per cent of firms stated that they do not need to borrow – a slight increase from 2009 when 64 per cent of firms cited this. There is no evidence of an increase in 'reluctant' borrowers[8] since 2009, with only 29% of reasons for not borrowing based on reluctance, compared to 30% previously.

[7] Percentages will not add to 100% as firms gave multiple reasons.
[8] Firms who state 'not wanted to borrow in current climate', 'thought I would be turned down', 'thought it would be too expensive' or 'prefer not to borrow' as reasons for not borrowing.

Total Amount of Finance Sought				
Average Amount Sought by Firm Size				
	2009		2010	
	Mean	Median	Mean	Median
Micro (<10)	£209,008	£12,000	£69,793	£15,000
Small (10-49)	£3,176,280	£80,000	£3,536,010	£100,000
Medium (50-250)	£6,553,857	£300,000	£7,560,124	£400,000
ALL FIRMS	£621,139	£20,000	£475,384	£15,000

Base (2009): Firms which had applied for finance: Micro: n= 293; Small: n=247; Medium: n= 91; All: n=631
Base (2010): Firms which had applied for finance: Micro: n= 237; Small: n=197; Medium: n= 52; All: n=486

Demand – Amount of finance sought

3.21. The mean value of total finance sought by micro firms over a three-year period has fallen sharply since 2009. There has, however, been a slight increase in the mean value of finance sought by small firms rising from around £3.18 million 2009 to just over £3.53 million in 2010, and for medium sized firms increasing from £6.55 million to £7.56 million in the latest report.

3.22. The median value, which is less influenced by outliers (unusually high/low amounts sought by a very small number of firms), shows that the average amount demanded by all firms has fallen slightly from £20,000 in 2009 to £15,000 in 2010 (reflecting the dominance of micro firms within the population). The difference between the mean and median amounts sought highlights the effect of the extreme outliers, as the median amounts are considerably smaller than the equivalent means.

3.23. Note: The data presented in the table calculates the mean and median figures for the total amount sought by firms. Around 18 firms in the sample which sought less than £1,000 were excluded from the calculations due to coding issues (that is, being unable to verify amounts sought). This is unlikely to have a significant impact on the overall figures presented in the table above.

Summary of Section III

3.24. Demand for finance has fallen since 2009. 43% of firms sought finance (either renewing existing facilities or new, additional borrowing) over the three year period to 2010, compared to 53% in the three years to 2009.

3.25. Overdrafts were the most common facility applied for with 31% of all firms seeking this form of finance, followed by credit cards (17%), and loans (15%).

3.26. Firms have less in cash holdings, as measured by credit balances in deposit accounts, in 2010. This may be an indication of firms drawing down internal reserves than choosing to borrow.

3.27. There has been an increase in the proportion of firms reporting a downward revision in growth objectives. However, 47% of all businesses are still planning to grow.

3.28. Firms are seeking lower values of finance. This is reflected in the fall in the mean value of finance sought by micro firms, but there has been an increase in the mean value of finance sought by both small and medium sized enterprises.

Section IV: Supply of Finance

Measuring Supply

This section deals with measuring the supply of finance to firms, and comparing results from previous surveys carried out in 2007 and 2009.

There are several ways of measuring levels of lending by banks. These are listed and explained in more detail below:

(1) Measuring supply by calculating the **percentage of firms who applied for any type of finance but were rejected outright in at least one of their applications** (base: total number of firms who applied for any kind of finance). This measure provides an indication of the number of firms who experienced rejection. Note that some firms made several applications and were successful in some and rejected in others. This measure counts a firm as rejected if it was rejected in any of its applications.

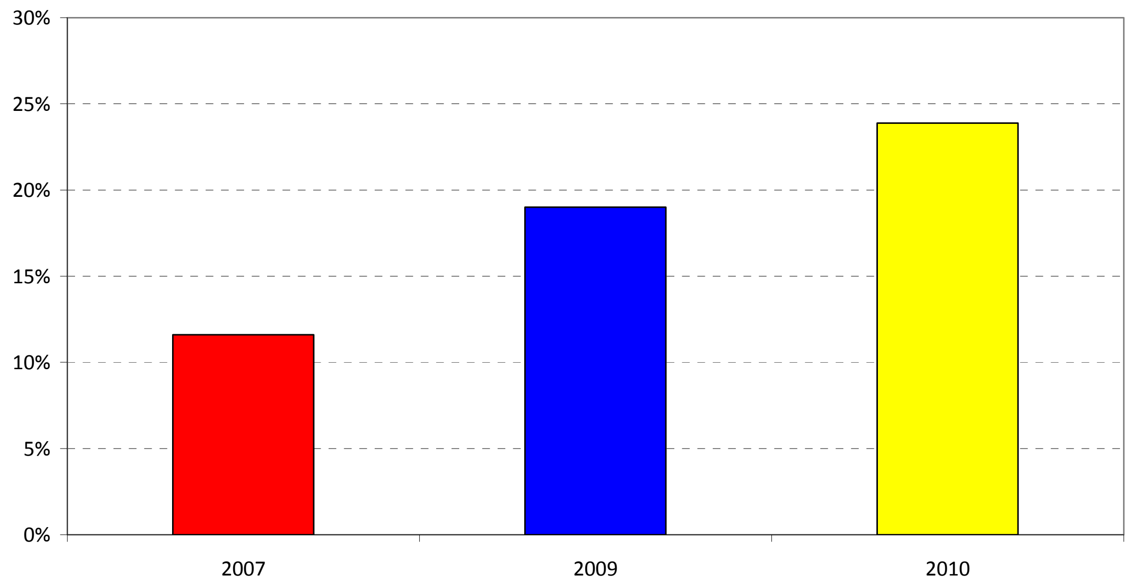
(2) Measuring supply by calculating the **percentage of individual applications that were rejected outright** (base: total number of applications for all facilities). This measure takes into account each application made by all firms and the overall percentage of these which were rejected.

(3) Measuring supply by looking at **the end outcomes of all firms that applied for finance by calculating the mean percentage amount of the total finance that was sought and obtained.** This measure is different from the two above in that it measures the overall success of firms which applied for finance, including those that were not rejected outright. It therefore, incorporates both the measures above.

(4) Measuring supply by calculating the **proportion of firms within the whole population who do not obtain any funding,** compared to the proportion of firms who did not apply, and those who applied and successfully secured funding. This measure is limited when it comes to making comparisons on levels of supply against previous years as the figures around rejections and successful applications are influenced by levels of demand (that is, the proportion of firms that applied for finance). This methodology is therefore, not explored further in this report.

This report looks at all measures with the exception of (4) on the proportion of firms within the whole population who do not secure any finance. Each measure provides different insights into supply issues, and can therefore provide a more informed picture overall.

Percentage of Firms Rejected Outright for Finance



Base (2007): Firms which applied for finance; n=251
Base (2009): Firms which applied for finance; n=631
Base (2010): Firms which applied for finance; n=486

(1) Supply: Percentage of Firms Rejected Outright

4.1. The percentage of firms which applied for finance over a three year period and were rejected outright has increased since 2009, with rejection rates rising by 5 percentage points to 24% of all firms being rejected outright in 2010. This compares to a rejection rate of 12% in 2007 and 19% in 2009.[9] On this basis, the supply of finance has fallen.

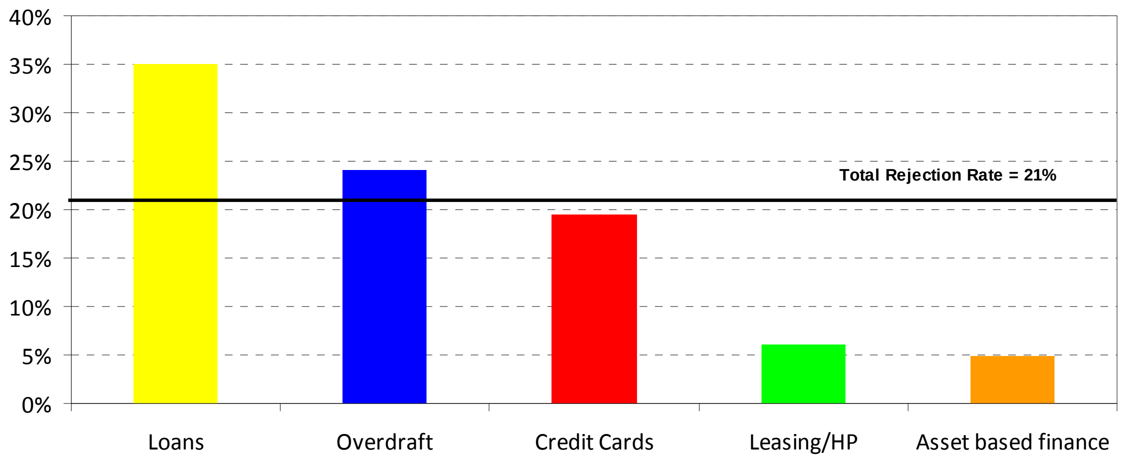
4.2. Rejection rates have increased across all firm sizes, with the largest percentage point increases being witnessed for micro firms and medium sized enterprises, rising by 5 percentage points for both firm sizes.

4.3. Firms were asked about when problems with applying for particular credit facilities had occurred. 49% of firms reported problems with securing overdrafts had occurred in 2010, and a further 28% of rejected firms stating 2009.

4.4. Businesses with a risk rating of 'above average' are more likely to be rejected outright. Of the total rejected firms, 41% had a risk rating of low, minimal or average, compared to 48% of firms with a risk rating of above average and 11% of firms which did not have an identified risk rating.

[9] The data series for 2007 and 2009 have been revised since the last publication to take into account an improvement in methodology. The 2009 report stated outright rejection rates to be 15%, this has been corrected to 19% in this report.

Application rejection rates by type of facility, 2010



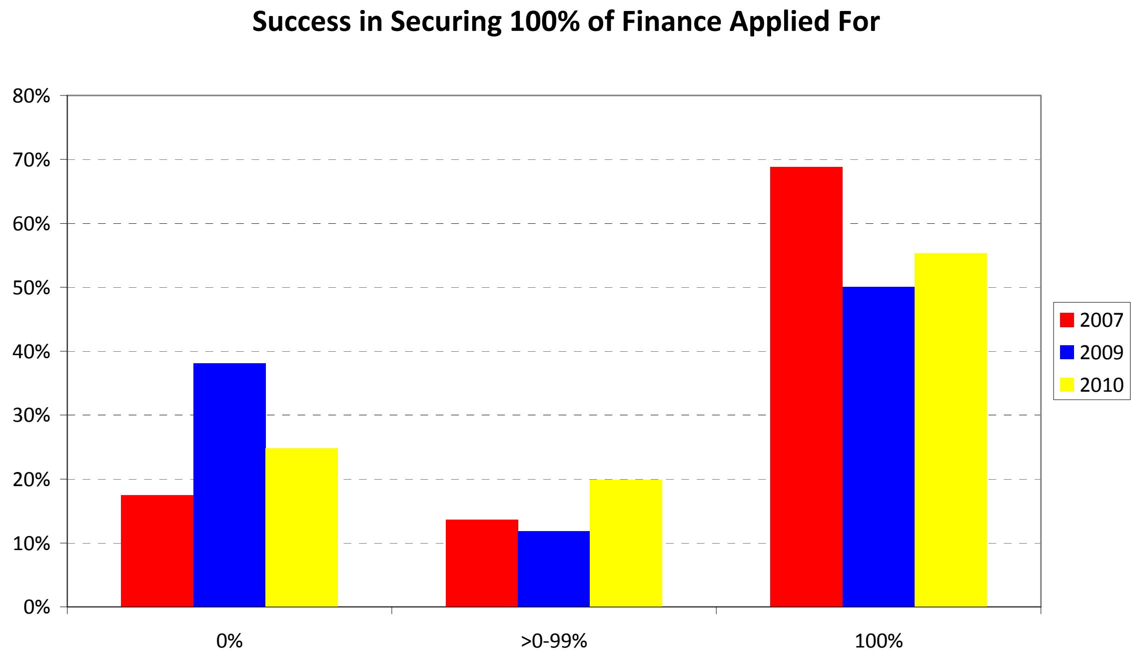
Base (2010): Total Applications: n=904; Loan: n=133; Overdraft: n=335; Credit Card: n=162; Leasing/HP: n=229; Asset Based Finance: n=35; New Equity Finance: n=10.

(2) Supply: Percentage of Total Applications

4.5. Based on this measure, the results also indicate that supply has been constrained further since 2009. The outright application rejection rate, expressed as a percentage of all applications, has increased to 21% in the 2010 survey, compared to 17% in 2009.

4.6. There appears to be a wide variation in rejection rates by type of credit facility, with loans exhibiting much higher rejection rates than any other facility. This is particularly the case for secured loans and mortgages, with the underlying data suggesting that around 45% of all secured loan applications were rejected in 2010.

4.7. Compared to 2009, there has been a shift in the type of facilities being rejected. There are considerably fewer rejections for asset based finance (a fall of 10 percentage points) and credit cards (7 percentage points) but a marked increase in rejection rates for loans (20 percentage points) and overdrafts (6 percentage points).



Base: Firms that applied for any kind of finance ; 2007 n=251; 2009 n=631; 2010 n=486

(3) Supply: Success in Securing 100% of Finance Sought

4.8. The outright rejection rates described in the pages above take into account only the experiences of those firms who were turned down completely for finance. However, there are a number of businesses who were not rejected outright but who were offered less than they wanted. This particular measure reflects the final outcomes of the application process of all firms who applied by identifying the overall level of success in securing the amount of finance they sought.

4.9. On this basis, the chart above shows that there has been an improvement in overall supply compared to 2009 in that a greater proportion of firms are securing all, or some of the finance sought and a smaller proportion are securing nothing. The biggest overall change has been the fall in the proportion of firms reporting that they got zero, with the greatest percentage point rise seen in those that got some of the finance sought. There was a relatively smaller increase in the proportion of firms securing 100%. Nevertheless, compared to 2007, considerably fewer firms are successfully obtaining all the finance that they seek and more are likely to secure zero finance.

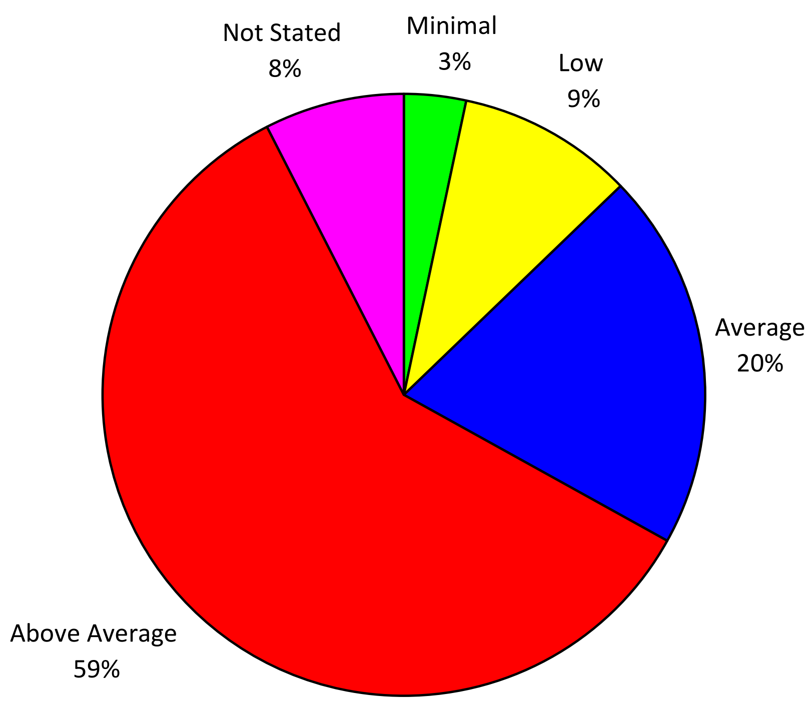
4.10. The data for 2009 showed significant discrepancy between the outright rejection rates of firms (19% - see chart on page 23) and the overall proportion of applicant firms reporting that they ultimately secured none of the finance sought (38% - see chart above on 2009 results for firms securing no finance at the end of the process). This suggested that a further 19% of firms did not succeed in getting any finance despite not being rejected outright, possibly due to a number of factors such as increasingly stringent terms and conditions being imposed on credit arrangements, firms being unable to afford repayments or businesses simply deciding not to proceed with the application.

4.11. The same issue is not apparent in the 2010 data, where 24% of firms were rejected outright (chart on page 23) and only a further 1% of firms stated that they ultimately got none of the finance sought (chart on page 25 above shows that in 2010, 25% of firms reported that they got nothing at the end of the application process). This suggest that firms who are successful in getting through the initial application process are more likely to obtain some amount of funding in 2010 than previously in 2009 – which is reflected in the fall in 0% and rise in some (<0-99%) amount secured.

4.12. The table below shows the mean proportion of finance secured across all firms, and by firm size. It shows that overall, firms are securing a greater proportion (66%) of the amount sought than in 2009 (57%). Despite these improvements, the table shows that the results are driven by an improvement in the success of micro firms and that, for small and medium sized enterprises, the average amount secured has decreased since 2009. The average proportion secured by small firms fell by 11 percentage points from 73% to 62% in 2010, while for medium sized businesses, the proportion of finance obtained fell by 4 percentage points to 82% in 2010.

Success in Securing Finance Sought				
Average (Mean) Percentage Amount Secured, by Firm Size				
	Micro (<10)	**Small (10-49)**	**Medium (50-250)**	**ALL FIRMS**
2007	78%	86%	97%	79%
2009	55%	73%	86%	57%
2010	66%	62%	82%	66%

Proportion of application rejections by risk rating of firm

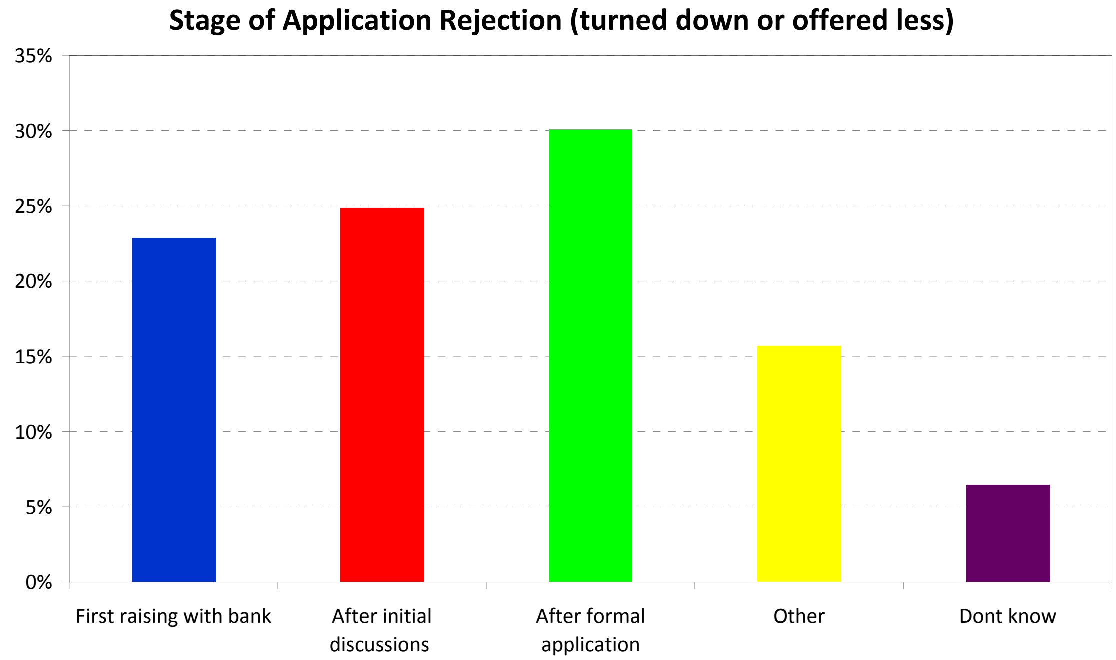


Base: Total Application Rejections: 105

Application Rejections by Risk Rating

4.13. The pie-chart above shows the proportion of total applications rejected by risk profile. Unsurprisingly, firms with an above average risk rating accounted for the greatest proportion of all rejections at 59%. However, a substantial proportion of rejections (32%) were also experienced by businesses with risk ratings considered to be average, low or minimal risk. Typically, these businesses could be considered to be viable firms.

4.14. In terms of the proportion of firms within the different risk categories that experienced rejection in any of their applications, 41% had a risk rating of low, minimal or average, compared to 48% of firms with a risk rating of above average and 11% of firms which did not have an identified risk rating.



Base (2010): n=744

Stage of Rejection in the Application Process

4.15. A new question was introduced in the 2010 survey to help provide more insight on the application process, and to understand why the statistics on application rejections and outcomes in this report may differ from statistics produced by lenders. All firms who applied and had been turned down outright or offered less than they wanted were asked about the stage of application at which the rejection had taken place.

4.16. Nearly half (49%) of these firms reported that they had been turned down at the initial stages of application – either when first raising the possibility of financing with the bank, or after some initial discussions. A further 30% were rejected or offered less than the finance sought after a formal application had been made.

Summary of Section IV

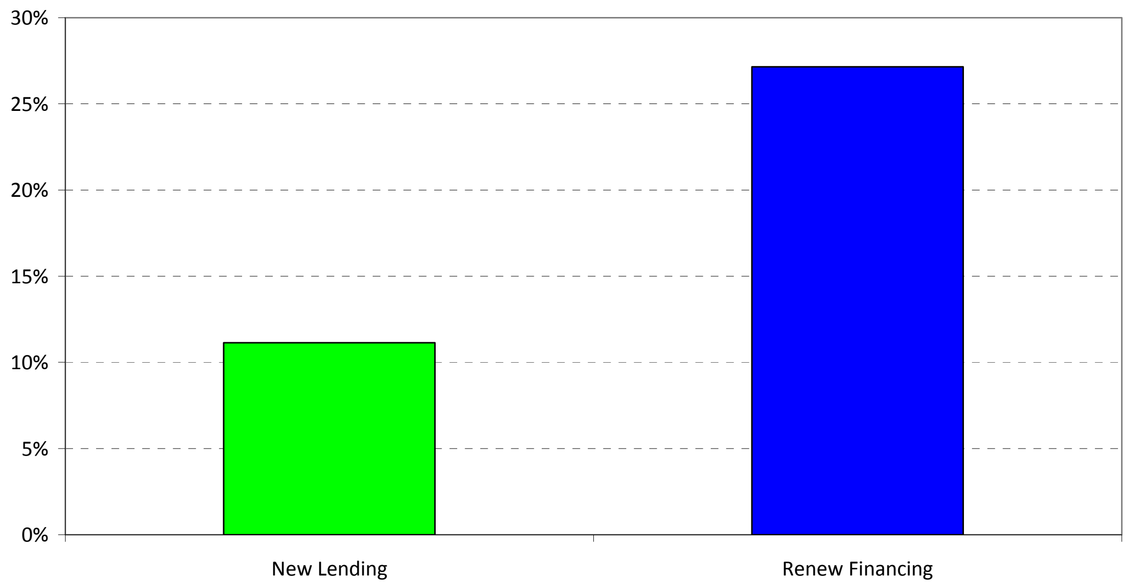
4.17. The percentage of firms who applied for finance and have been rejected outright has increased since 2009, from 19% of all firms to 24% of all firms.

4.18. Similarly, the overall percentage of total applications rejected outright has increased from 17% to 21%.

4.19. However, for firms which are not rejected outright, there has been an improvement in the proportion who apply and successfully secure some of the amount they applied for. The mean proportion of finance secured has risen to 66% (of the total amount sought) from 57% in 2009. Yet, small and medium firms are securing a smaller proportion of the total amount sought than in 2009.

4.20. Nearly half (49%) of firms which were rejected outright, or offered less than they applied for, reported that they encountered the problem at the very initial stages and before a formal application had been made.

Demand for Finance over 12 months to November 2010



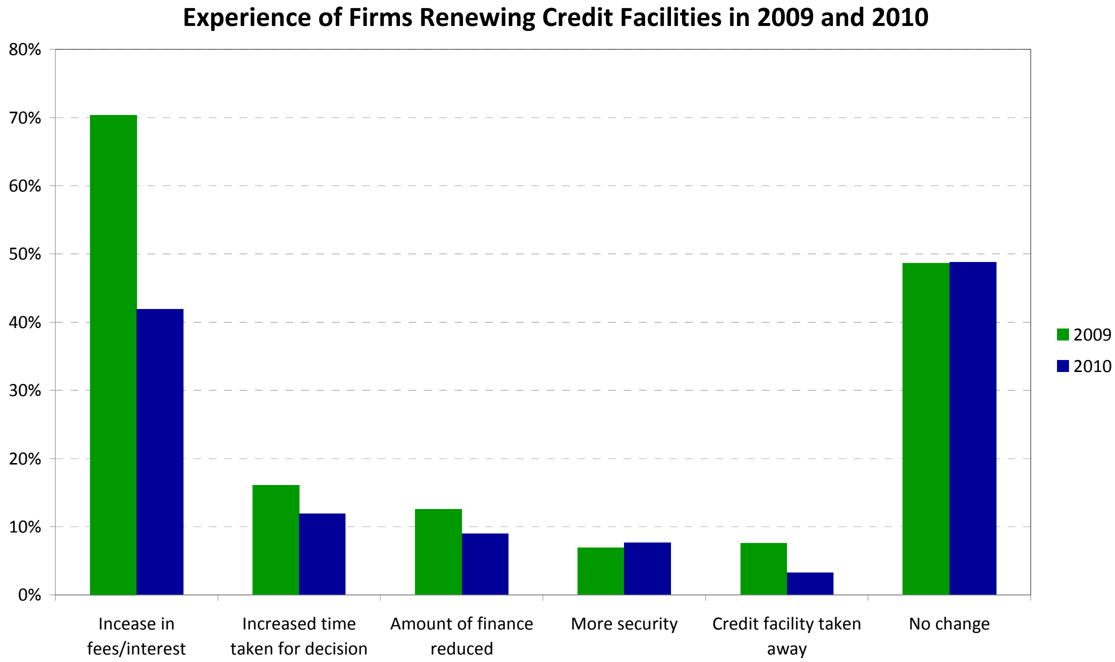
Base (2010): All firms n = 1004

Section V: Experience of borrowing over the past 12 months

5.1. This section shows the levels of demand for either new lending or renewing existing facilities specifically over the previous 12 month period. The analysis here provides a more recent snapshot of firms seeking finance than the previous analyses described in Section III which asked firms about any applications over a three year period. This was a new section added to the questionnaire in 2009 to pick up the impact of the financial crisis on demand and supply and has been retained in the 2010 survey as it provides a useful insight into the more recent experiences of firms, and can further explain some of the findings presented on supply presented in Section III.

5.2. The survey design imposed a target to include 400 firms within the sample, who had sought either new lending, or renewed/re-confirmed existing financing arrangements. This quota has been weighted so that the results reflect the true level of demand for the general SME population.

5.3. The data shows that 38% of firms either sought to renew existing agreements or to take out new additional borrowing in the twelve months to November 2010. Of this, 11% of firms were seeking new, additional lending. The remaining 27% of all firms were looking to renew existing credit facilities.



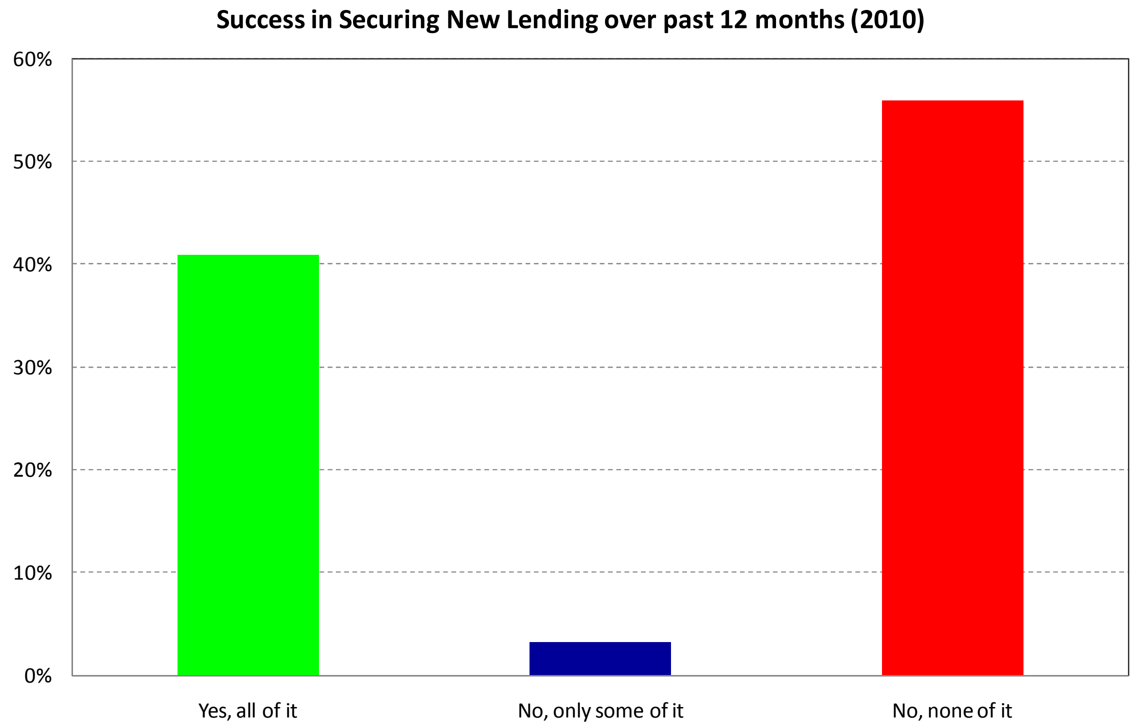
Base (2009): Firms which Renewed Existing Facilities: n= 186
Base (2010): Firms which Renewed Existing Facilities: n= 322

Note: Percentages do not add to 100% as some firms described more than one change in their experience of renewing credit faclilities

Renewing Credit Agreements over past 12 months

5.4. The evidence suggests that the refinancing/renewing experience of firms has improved slightly compared to 2009. For those firms which experienced a change in the renewal process, there was a significant reduction in the percentage of firms reporting negative outcomes across nearly all categories. The only exception to this was a slight increase in the percentage of firms reporting that 'more security' was asked for, and a similar percentage stating that there was no change.

5.5. Around 42% of firms which felt that there was some change to their finance agreements when renewing a credit facility reported an increase in costs, either in fees or interest rates (with similar proportions, 21% in each case). This compares to 70% of firms who experienced a change in the cost of their agreement in 2009. There were also slight decreases in the percentage of firms that saw their credit facility being taken away (4 percentage points) or the amount of finance reduced (4 percentage points).



Base (2010): Firms which sought new lending n= 103

Supply of New Lending over the past 12 months

5.6. The experience of firms who have sought new, additional lending over the past 12 months suggests a fairly negative picture. The majority of firms (56%) who applied for new lending did not manage to secure any of it. Only 41% of those firms successfully obtained all the financing required, with a very small proportion (3%) securing some amount.

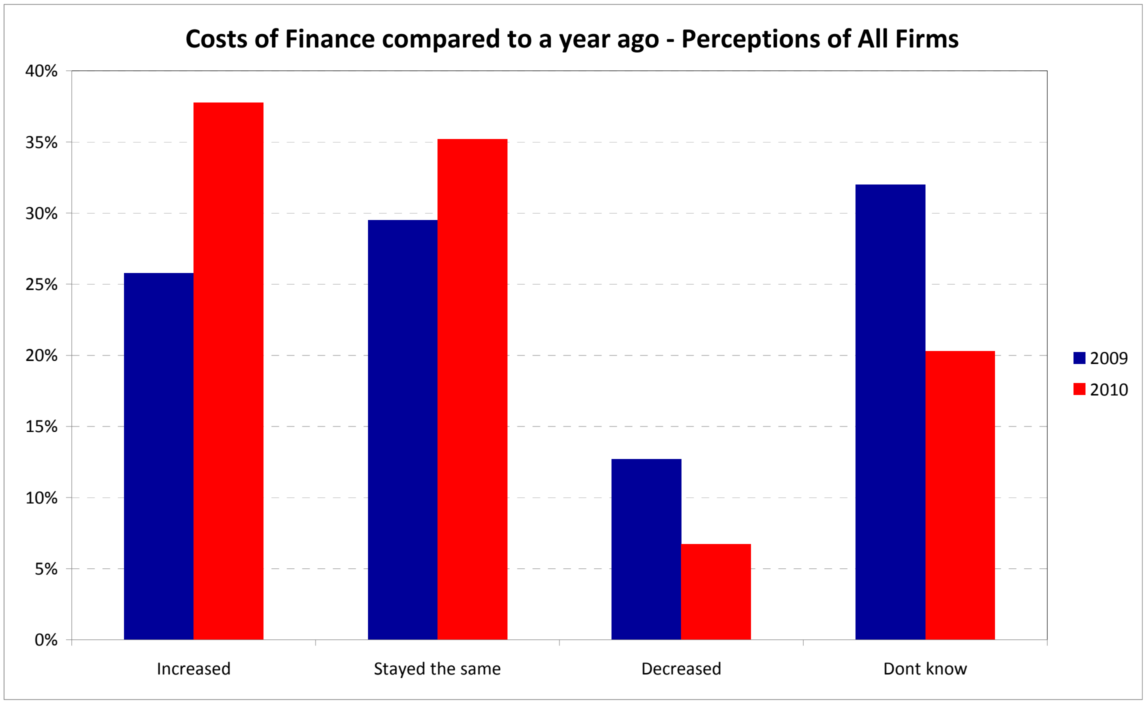
5.7. The sample sizes are too small to disaggregate the results further, but the results perhaps suggest that the problem with constrained supply in 2010 lies with new lending, rather than renewing credit facilities, where the situation seems somewhat improved compared to 2009. This may also help explain why outright rejection rates have increased over the period, but that in terms of success in securing any finance sought, the proportion of firms who are already in the application process (e.g. have an existing agreement) are more likely to succeed in getting any amount of finance than previously.

Summary of Section V

5.8. Over the past 12 month period to November 2010, 11% of all firms sought new, additional lending and 27% of all firms were looking to renew existing facilities.

5.9. The experience of firms renewing credit facilities in the last 12 months appears to have improved compared to the experience of firms over the previous 12 months in 2009. The most significant improvement came from fewer firms reporting an increase in fees and interest rates when reapplying for credit facilities.

5.10. However, for firms seeking new lending over the past 12 months, 56% of applicant firms reported that they did not get any of the funding sought, and a further 3% stated that they got some funding, but not all.

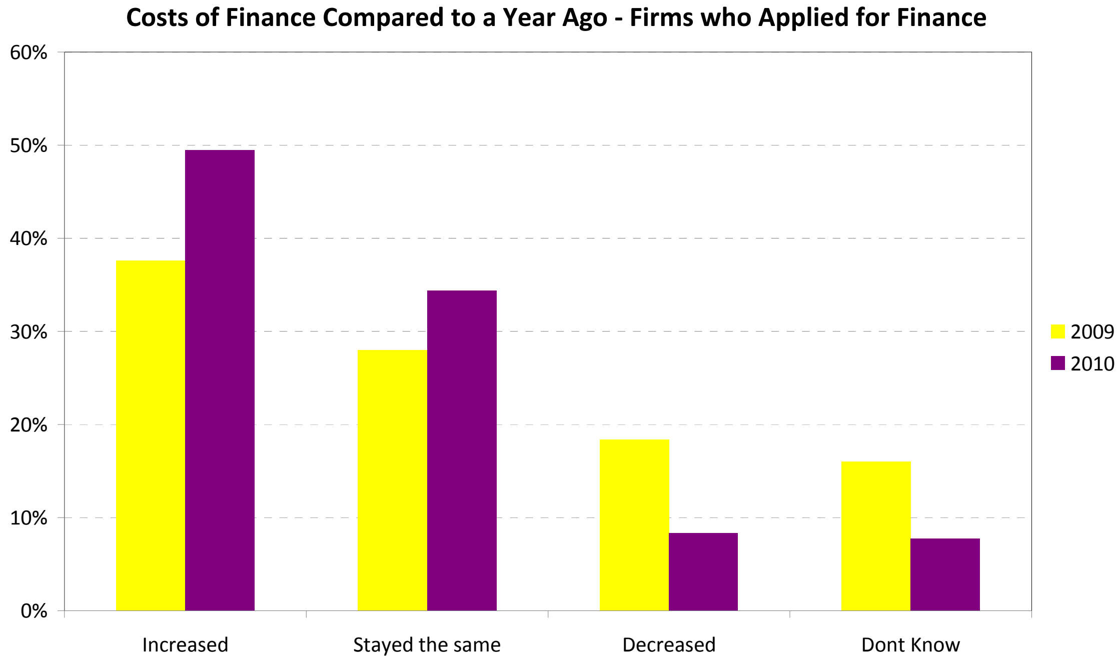


Base (2009): All firms n =1001
Base (2010): All firms n =1004

Section VI: Costs of New Credit – Perceptions of All Firms

6.1. The perceptions of businesses on the costs of finance appear to have worsened. A greater proportion of firms in 2010 believe that the costs of finance have increased (38% of all firms) or stayed that same (35%) compared to one year ago, than firms who were asked the same question in 2009, when only 26% of all firms stated that costs had increased and 30% said costs had stayed the same.

6.2. Fewer firms believe that the costs of finance have decreased, with only 7% of firms stating this compared to 13% in 2009. A fifth (20%) of firms reported that they ‘did not know’, possibly due to the fact that not all firms will have applied for finance and therefore, do not have an opinion on this.



Base (2009): All firms n =631
Base (2010): All firms n =486

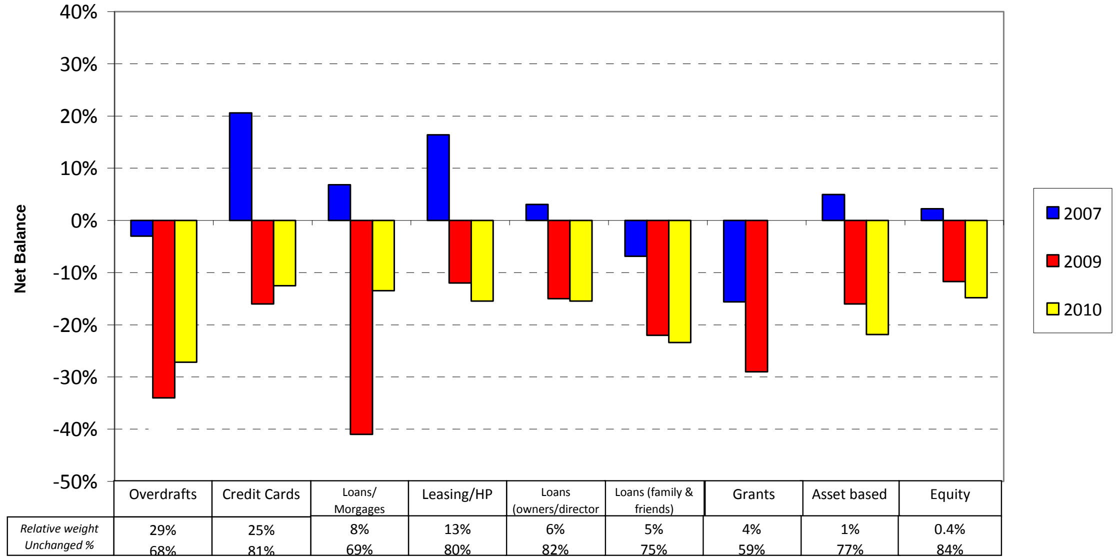
Costs of Finance – Experience of Firms who Applied for Finance

6.3. The perceptions (or experience) of firms who actually applied for finance are relatively worse than the perceptions reported by applicant firms in 2009, and also relatively worse than the perceptions of all firms in 2010, regardless of whether or not they had applied (page 33).

6.4. Nearly 50% of applicant firms felt that the costs of new credit had increased compared to one year ago, with 38% of applicant firms responding this way in 2009. 34% of applicants in 2010 thought that the costs of finance were the same as a year ago, but far fewer thought costs had decreased. Only 8% of firms who had applied for finance in 2010 stated that they 'did not know' whether costs had stayed the same, increased or decreased.

6.5. In terms of the type of facilities that firms perceive to have become more expensive, the majority of firms reported that the cost of overdrafts are more expensive (74%), followed by credit cards (39%), loans (28%) and mortgages (25%). Equity finance was felt to have become more expensive for 16% of firms, with asset based finance being the least quoted by only 11% of firms. There were only very slight differences in the perceptions of applicant firms and all firms (including those who did not apply for finance) in terms of which facilities had become more expensive.

Ease of Obtaining Finance - Net Balance (on those reporting 'harder' to obtain)



Base (2007); All firms n=500; Base (2007); All firms n=1,001; Base (2007); All firms n=1,004

Ease of Access to Finance

6.6. The majority of all firms believe that ease of access to finance has remained unchanged since 2009. However, of those who said that ease of access had become easier or harder, a net balance of firms reported 'harder' than 'easier' across all types credit facility. The chart above shows the net balance of responses over 2007, 2009 and 2010. A negative bar indicates the extent to which firms are reporting 'harder' than 'easier'.

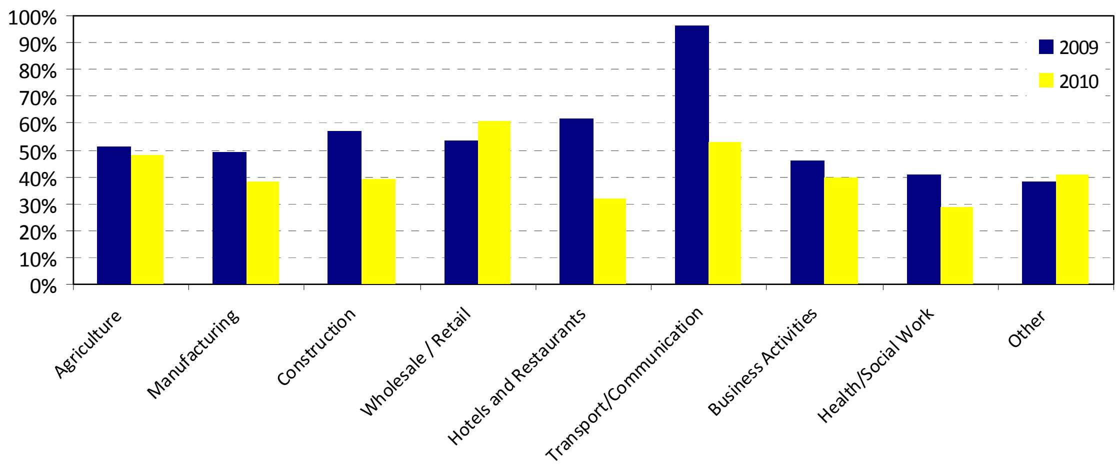
6.7. Overall, ease of access is reported to be most difficult for overdrafts, and asset-based finance (indicated by the size of the negative bars) although for overdrafts there has been a marginal improvement in the net balance of firms reporting harder since 2009. In addition, the net balance of responses for access becoming harder has increased for non-bank lending such as loans from family and friends and owners/directors.

Summary of Section VI

6.8. The perceptions of all firms on the costs of new credit have worsened since 2009, with 38% of all firms reporting that they believe costs to have increased compared to 26% previously. Of those firms which actually applied for finance, 50% stated that costs of new credit have increased compared to 38% in 2009.

6.9. The majority of firms feel that ease of access to finance has remained unchanged However, a net balance of firms (the difference between those stating harder and easier) reported that it has become harder to access most forms of finance, particularly for overdrafts.

Levels of demand for finance by sector (all firms)



Base (2009):Agriculture: n=90; Manufacturing: n=147; Construction: n=145; Wholesale/Retail: n=116; Hotels/Restaurants: n=94; Transport/Communication: n=51; Business Activities: n=146; Health/Social Work: n=68; Other Services: n=144

Base (2010):Agriculture: n=91; Manufacturing: n=152; Construction: n=145; Wholesale/Retail: n=119; Hotels/Restaurants: n=97; Transport/Communication: n=52; Business Activities: n=149; Health/Social Work: n=58; Other Services: n=141

Section VII: Sector Analysis – Demand for Finance by Sector

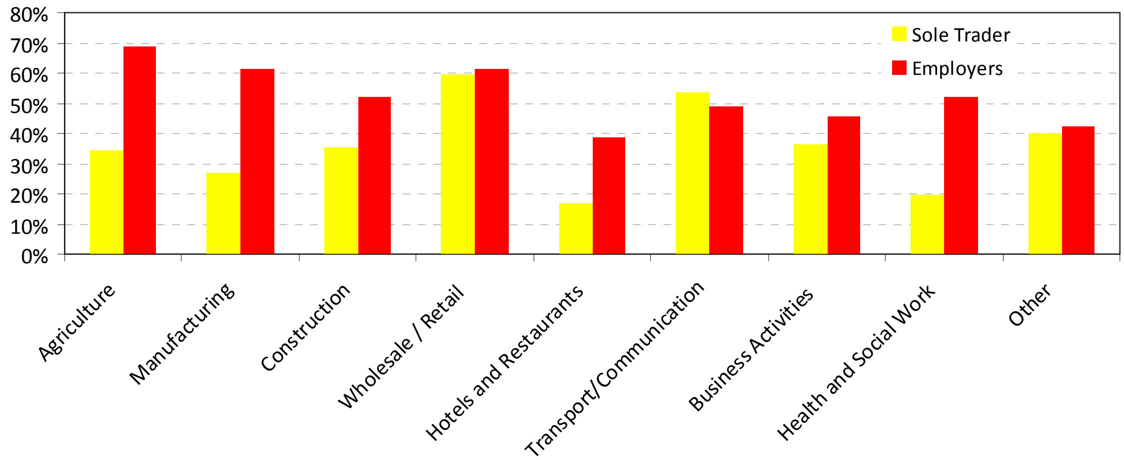
7.1. This section presents an overview of demand and supply for nine sectors in the Scottish economy. The analysis by firm size in this section is based on two categories of firm; 'Sole traders' and 'Employers'. Sample sizes within sectors are too small to disaggregate the findings into any other firm size. Demand is based on the number of firms who applied for any kind of finance.

7.2. The Wholesale/Retail sector is most likely to apply, with 63% of these firms seeking finance in 2010. The least likely to apply for finance were Hotels and Restaurants (32%) and Health/Social work sector (29%).

7.3. As indicated previously, the overall level of demand for all SMEs has fallen from 53% in 2009 to 43% in 2010. In terms of sectors, demand has fallen across most sectors with the exception of Wholesale/Retail which saw an 8 percentage point increase and Other Community, Social and Personal Service Activities which increased by 2 percentage points.

7.4. The biggest contraction in demand is from Transport, Storage and Communication (a fall of 43 percentage points) and Hotels and Restaurants (30 percentage points). Demand for finance from the Construction and Manufacturing sector have also seen a decline of 18 and 11 percentage points respectively.

Levels of Demand for Finance by Sector and Size of Firm, 2010



Base (2010) Sole Traders: Agriculture: n=35; Manufacturing: n=28; Construction: n=35; Wholesale/Retail: n=24; Hotels/Restaurants: n=6; Transport/Communication: n=6; Business Activities: n=38; Health/Social Work: n=7; Other Services: n=24

Base (2010) Employers: Agriculture: n=56 ; Manufacturing: n=124; Construction: n=110; Wholesale/Retail: ST: n=95; Hotels/Restaurants: n=91; Transport/Communication: n=46; Business Activities: n=111; Health/Social Work: n=51; Other Services: n=117.

Demand for Finance by Firm Size

7.5. In general terms, demand for finance increases with size of firm for all sectors, with a greater percentage of employer firms applying for finance than sole traders (except in Transport, Storage and Communication).

7.6. Employer firms in Agriculture (69%), Manufacturing (62%) and Wholesale/Retail (62%) were most likely to seek finance, followed by Construction and Health and Social work, with over half (52%) of firms applying for finance in each sector.

7.7. Of sole traders, a greater proportion of these firms in the Wholesale/Retail sector sought finance with 60% of these firms applying for finance. Demand was lowest for sole traders in Hotels and Restaurants (17%), Health and Social Work (20%) and Manufacturing (27%).

7.8. Caution should be exercised when interpreting results on individual sectors as some results are based on low sample sizes particularly Health and Social Work and the Transport, Storage and Communication sector.

Total Amount of Finance Sought				
Average (mean) and Median Amounts Sought by Sector				
	2009		2010	
	Mean	Median	Mean	Median
Agriculture, Hunting and Forestry, Fishing	£64,052	£20,000	£174,190	£50,000
Manufacturing	£1,809,997	£5,000	£830,977	£12,000
Construction	£130,382	£13,000	£59,065	£15,000
Wholesale / Retail	£140,778	£10,000	£72,524	£21,000
Hotels and Restaurants	£102,613	£35,000	£207,037	£5,000
Transport, Storage and Communication	£100,394	£60,000	£47,991	£1,300
Real Estate, Renting and Business Activities	£2,413,787	£40,000	£1,534,711	£50,000
Health and Social Work	£93,755	£1,000	£1,838,889	£2,000
Other Community, Social and Personal Service Activities	£167,686	£8,000	£30,309	£5,000
ALL	**£659,715**	**£20,000**	**£500,181**	**£15,000**

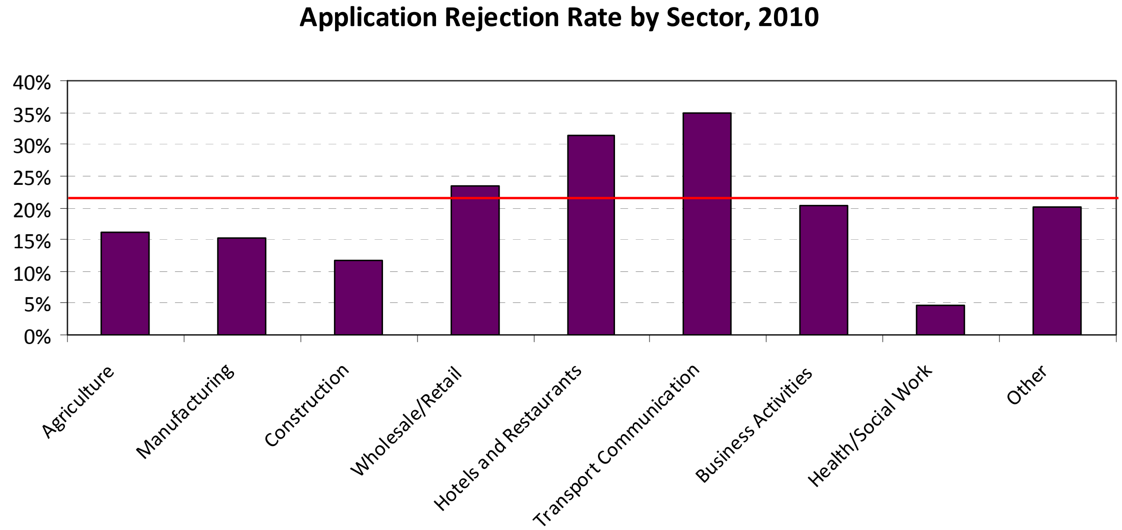
Base (2009):Agriculture: n=90; Manufacturing: n=147; Construction: n=145; Wholesale/Retail: n=116; Hotels/Restaurants: n=94; Transport/Communication: n=51; Business Activities: n=146; Health/Social Work: n=68; Other Services: n=144

Base (2010):Agriculture: n=91; Manufacturing: n=152; Construction: n=145; Wholesale/Retail: n=119; Hotels/Restaurants: n=97; Transport/Communication: n=52; Business Activities: n=149; Health/Social Work: n=58; Other Services: n=141

Amounts of Finance Sought

7.9. The mean total amounts of finance sought over a three-year period varies considerably across sectors. Some sectors sought a mean value of over £1 million (Health and Social Work) and Real Estate/Business Activities. The lowest mean amounts sought were from Other Community, Social and Personal Service Activities (£30,000) and Transport, Storage and Communication (£48,000). However, caution should be exercised when interpreting the mean amounts sought – these figures can be influenced by outliers (unusually high or low amounts of finance sought by a small number of firms).

7.10. The median, which is less influenced by outliers, shows that Real Estate, Renting & Business Activities and Agriculture, Forestry & Fishing sought the greatest amount of finance (around £50,000) and in both cases the amount sought had increased since 2009. The difference between the mean and median amounts sought highlights the effect of the extreme outliers, as the median amounts are considerably smaller than the equivalent means.



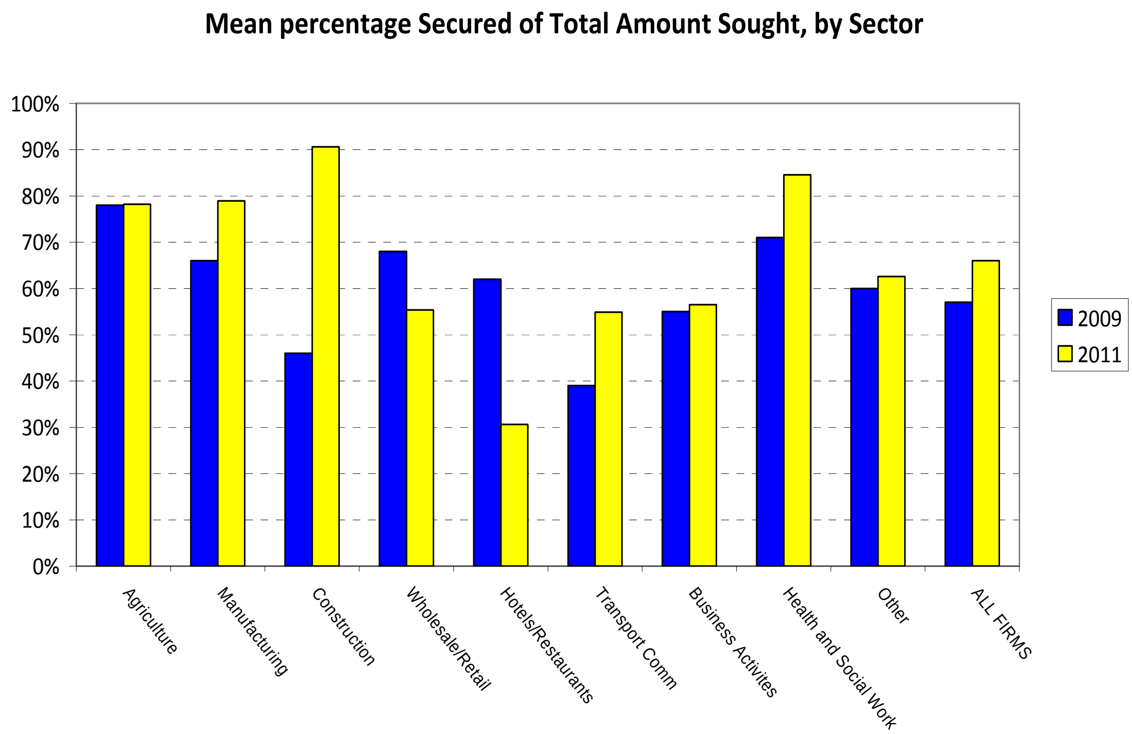
Base (2010):Agriculture: n=92; Manufacturing: n=171; Construction: n=120; Wholesale/Retail: n=127; Hotels/Restaurants: n=55; Transport/Communication: n=59; Business Activities: n=133; Health/Social Work: n=43; Other Services: n=104

Supply of Finance by Applications Rejected

7.11. For the sector analysis, supply is measured using two methods – the application rejection rate, and the average amount of finance secured, based on the success of securing any amount of finance sought. The supply measure using the rejected firm count (percentage of all firms which applied being rejected) has not been used given small sample sizes within the sector breakdowns.

7.12. The application rejection rate for the overall SME population is 21% of finance applications rejected. There appears to be considerable variation between sectors in securing finance – Hotels/Restaurants and Transport, Storage and Communication sectors faced high rejection rates, compared to the national average, of 31% and 35% respectively. Wholesale/Retail sector was also above the national average with an application rejection rate of 23%. The lowest rejection rates were for Manufacturing (15%) and Construction (12%).

7.13. Five sectors saw an increase in rejection rates compared to 2009 – these were Hotels and Restaurants (16 percentage points), Transport, Storage and Communication (13 percentage points), Business Activities (12 percentage points), Agriculture (11 percentage points) and Wholesale/Retail (4 percentage points). Meanwhile, the Construction sector experienced an improvement in supply against 2009 with an 8 percentage point fall in rejection rates. And Manufacturing experienced a 3 percentage point improvement in outright application rejection rates compared to 2009.



Base (2009):Agriculture: n=90; Manufacturing: n=147; Construction: n=145; Wholesale/Retail: n=116; Hotels/Restaurants: n=94; Transport/Communication: n=51; Business Activities: n=146; Health/Social Work: n=68; Other Services: n=144

Base (2010):Agriculture: n=91; Manufacturing: n=152; Construction: n=145; Wholesale/Retail: n=119; Hotels/Restaurants: n=97; Transport/Communication: n=52; Business Activities: n=149; Health/Social Work: n=58; Other Services: n=141

Supply of Finance, by Mean Amount Secured

7.14. In absolute terms, the Construction sector is most likely to secure a high percentage of the total finance sought, with firms managing to obtain 90% of the total funding sought by banks. The Hotels/Restaurants sector is the least successful, obtaining only 30% of the total amount of finance sought.

7.15. The biggest changes since 2009 has been the significant improvement in the amount secured in the Construction sector. Despite an overall improvement in the mean percentage secured of all firms in the population, a few sectors experienced falls in the percentage of finance they were able to secure – these were Wholesale/Retail and Hotels and Restaurants. The success rate for Agriculture, Real Estate/Business Activities and Other Community, Personal and Social Services had stayed broadly the same since 2009.

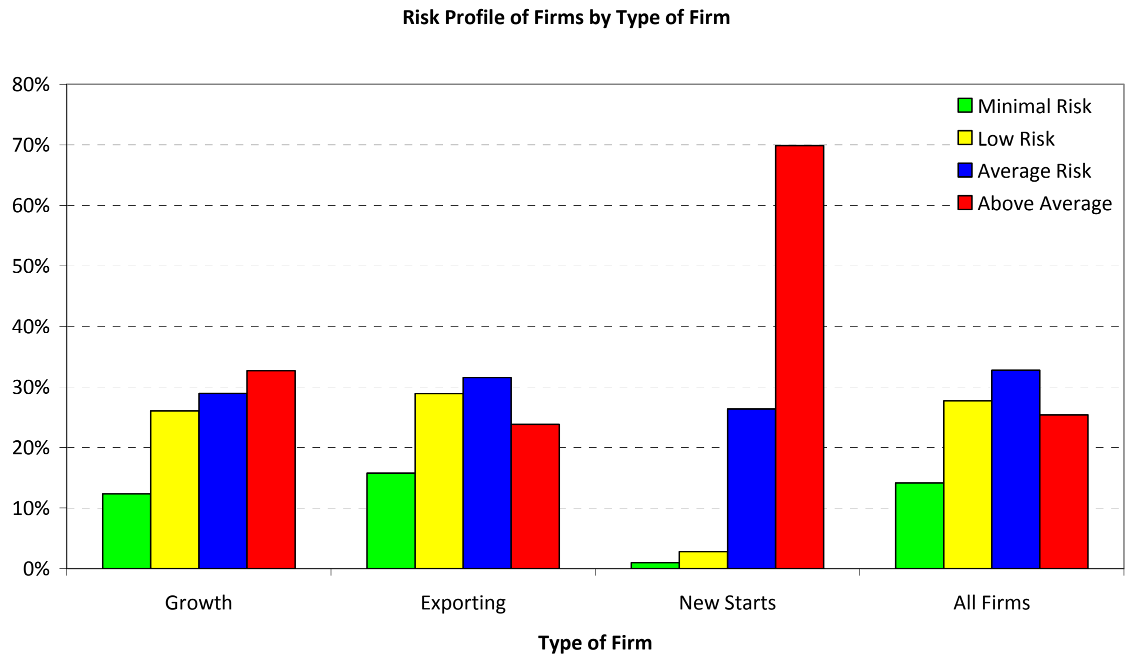
Summary of Section VII

7.16. Demand for finance has fallen across nearly all sectors with the exception of Wholesale/Retail and Other Community, Social and Personal Services. The level of demand is greatest from the Wholesale/Retail Sector with 63% of firms within this sector seeking finance against a national average of 43%.

7.17. The mean amount of finance sought varies considerably between the sectors, with Health and Social Work sector seeking around £1.8 million, and Other Community, Social and Personal Services sector seeking a mean amount of £30,000.

7.18. The sectors with the highest application rejection rate in 2010 are Hotels/Restaurants, Transport, Storage and Communication and Wholesale/Retail. Most sectors saw an increase in outright rejection rates compared to 2009, with the exception of Construction and Manufacturing for which rejection rates have fallen.

7.19. However, nearly all sectors experienced an improvement in the (mean) percentage amount of finance secured compared to 2009, with the exception of Wholesale/Retail and Hotels/Restaurants sectors.



Base (2010): Growth: n=103; Exporting: n=203; New Starts: n=102; All Firms: n=1004

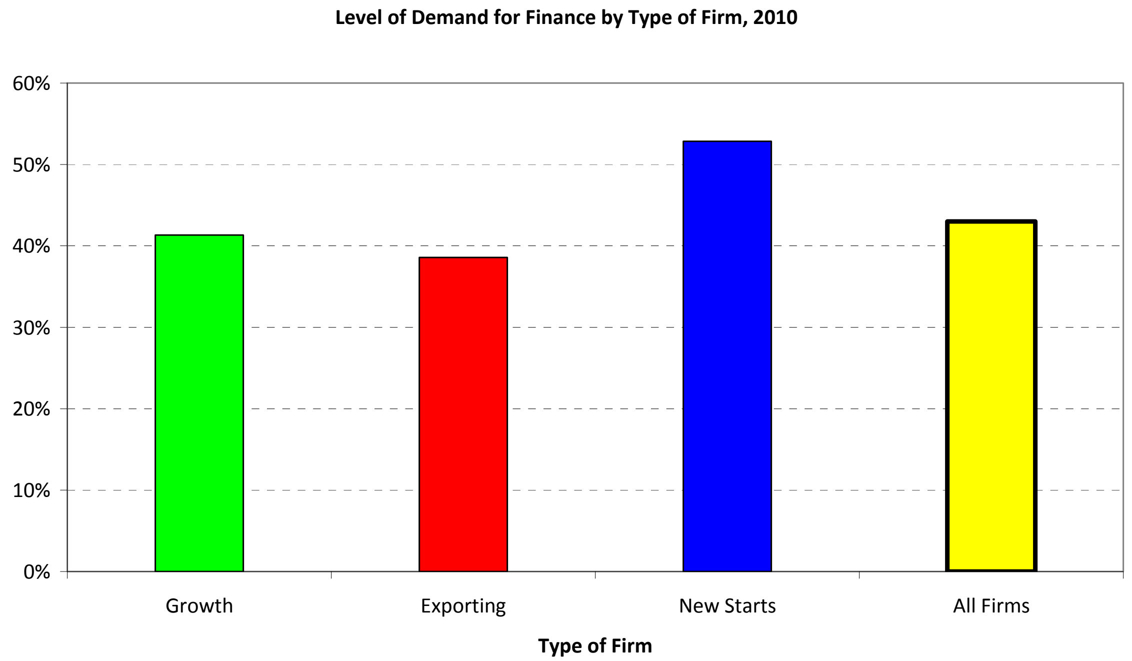
Note: Firms which did not have a risk rating have been excluded from the chart. Caution should be exercised when interpreting results within individual firm types as some results are based on low sample sizes

Section VIII - Analysis by Type of Firm

8.1. This section presents an overview of the demand and supply patterns of different types of firm and compares them to the patterns for all SMEs. The analysis looks at three types of firm: (i) growth; (ii) exporting; and (iii) new starts. 'Growth' firms are those firms whose turnover grew by 20% or more per annum over the last two years. 'Exporting' firms are those which sell goods or services to customers either outside Scotland or outside the UK. Of these, the majority (88%) reported that they sell goods or services outside the UK. 'New Start' firms are all businesses which were established under 2 years ago (in 2009 or 2010). 'All firms' represents all SMEs in the population.

8.2. Throughout this section, for ease of comparison, each firm type is shown on the same chart therefore the bars will contain an element of double counting as one firm may fall into more than one type.

8.3. The chart above shows the risk profiles for each firm type. The majority of new starts (70%) have an above average rating which is almost three times the percentage of above average risk firms in the SME population as a whole (25%). A high percentage of growth firms also have an above average risk rating (33%), although the percentage of low (26%) and average (29%) risk firms are considerably greater than for new starts.



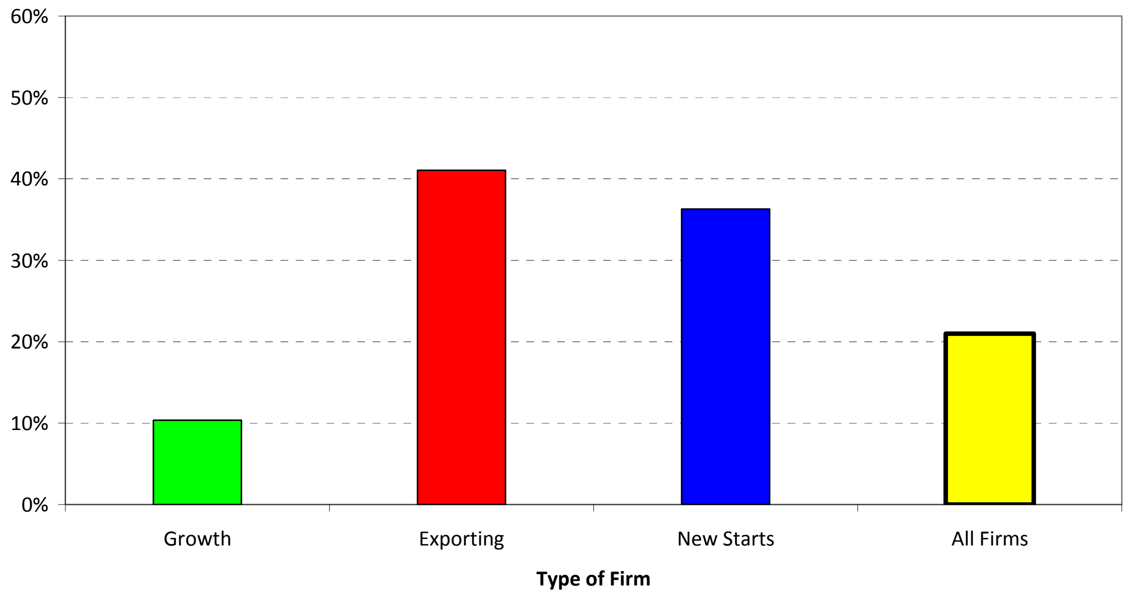
Base (2010): Growth: n=103; Exporting: n=203; New Starts: n=102; All Firms: n=1004

Demand for Finance by Type of Firm

8.4. Demand is measured as the percentage of firms of each type who applied for any kind of finance. Comparisons cannot be made against 2009 in this section as the definition of growth and exporting firms have been slightly changed.

8.5. New start businesses are most likely to apply for finance (53%), exceeding the demand of all firms by 10 percentage points. Demand among growth and exporting firms does not differ greatly from the overall SME population.

Application rejection rates by type of firm, 2010



Base (2010): Growth: n=96; Exporting: n=218; New Starts: n=73; All Firms: n=904

Supply of Finance by Applications Rejected

8.6. For the analysis of different firm types, supply is measured using two methods – the application rejection rate and the average amount of finance secured. The supply measure based on the rejected firm count (percentage of all firms which applied and were rejected in any application) has not been used due to small sample sizes within the firm type breakdowns.

8.7. The application rejection rate for the overall SME population is 21% of applications rejected. There is considerable variation in outright application rejection rates between the different firm types. Exporting firms (which had the lowest application rate) experienced the highest rejection rates, with 41% of applications being rejected, despite the fact that they have a very similar risk profile to the general SME population. The rejection rate for new starts was slightly lower at 36%. Growth firms were the least likely to be rejected for finance, with only 10% of their applications turned down outright.

Success in Securing Finance Sought				
Average (Mean) Percentage Amount Secured, by Firm Type				
	Growth	**Exporting**	**New Starts**	**ALL FIRMS**
2010	80%	70%	72%	66%

Base (2010): Growth: n=103; Exporting: n=203; New Starts: n=102; All Firms: n=1004

Success in Securing 100% of Finance Sought

8.8. Despite high outright rejection rates for exporting and new start firms, these firms are more successful at securing a greater proportion of the amount they sought than the SME population as a whole.

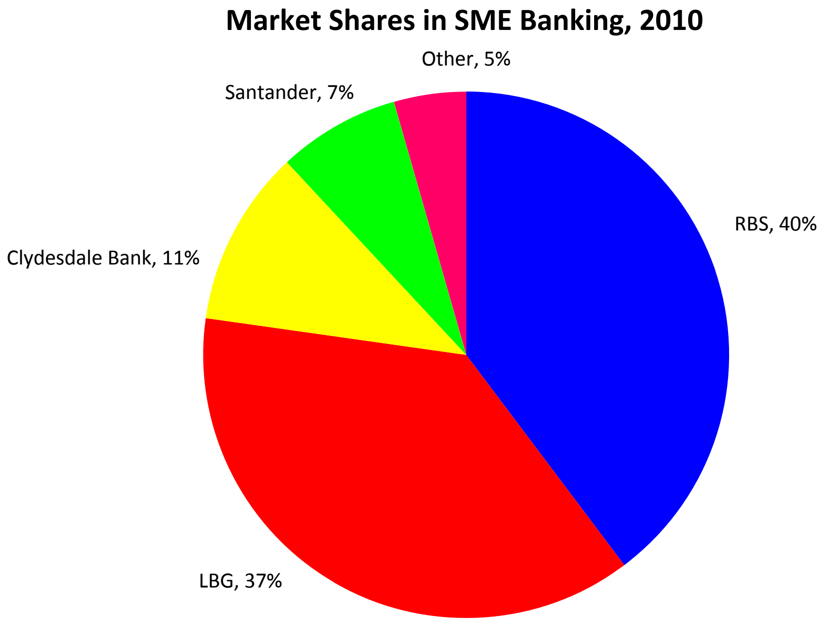
8.9. The discrepancy between the outright rejection rate and the greater success in securing a higher percentage of the finance sought, can be explained by the findings from the main section of the report, which indicate that outright rejections figures tend to relate to applications for new lending, while firms which are renewing facilities are less likely to experience problems in the application process. This suggests, therefore, that applications for new lending by these firm types are more likely to be rejected than the average SME population.

8.10. Growth firms, which had very low outright rejection rates, secured on average 80% of the amount they sought.

Summary of Section VIII

8.11. A greater proportion of new starts sought finance (50%) compared to the overall SME population (43%). 41% of growth firms and 39% of exporters sought finance.

8.12. Supply of finance appears to be most constrained for exporting firms, with around 41% of applications from these firms being rejected outright, compared to a national average rejection rate of 21%.



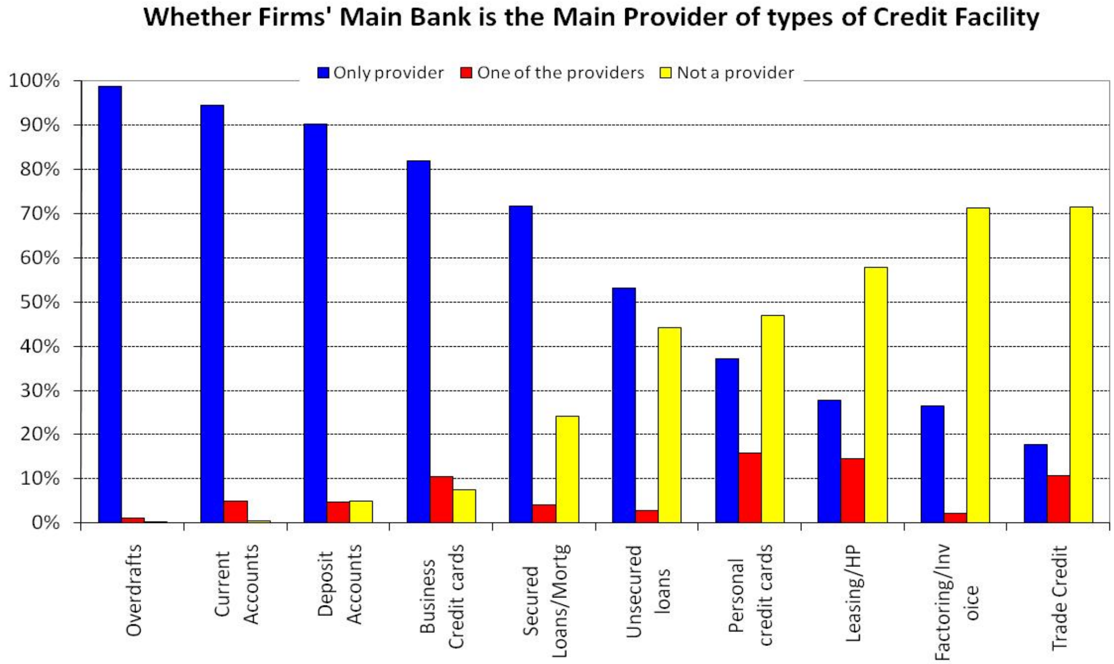
Base (2010): All firms n = 1004

Section IX: The Banking Sector

SME Market Shares

9.1. The chart above shows the market shares of the main lenders to SMEs in Scotland. This is based on what firms report to be their main provider of finance.

9.2. The Scottish SME finance market remains very concentrated in 2010 and there has not been much adjustment in market shares since the 2009 analysis. 40% of firms reported the Royal Bank of Scotland (RBS) to be their main provider, followed by 37% of firms banking with Lloyds Banking Group, 11% with Clydesdale Bank, 7% Santander and 5% of firms reporting 'Other banks' including HSBC (1.5%), and The Cooperative Bank (1.2%).



Base (2010): All firms n = 1004

Main Provider by Facility

9.3. The extent to which firms use an alternative provider of finance for different types of credit facility is shown above. The majority of all businesses use their main bank for overdrafts, business credit cards and secured loans. These are the most commonly used forms of finance in the firm population, accounting for around 61% of all current borrowing from financial providers.

9.4. Businesses are almost equally likely use another lender for products such as personal credit cards and unsecured loans which are currently used by around 13% of all firms for each facility respectively and account for 14% as a proportion of all current financing by banks.

9.5. However, for other products such trade credit, factoring/invoice discounting, leasing/HP, there is a greater tendency for enterprises to use an alternative provider, with very small proportions of firms using their main provider as a source of funding. There do not appear to be many businesses that use more than one provider for any given product.

9.6. The chart perhaps indicates the potential for competition in financial products and the extent to which businesses are willing to 'shop around' for specific facilities despite showing greater inertia in switching from their main bank provider. Only 4% of all firms switched their main provider in the last year, with similar percentages of firms which moved some existing business to another provider, or used another provider alongside their main bank.

Summary of Section IX

9.7. Two banks dominate the SME market, accounting for 77% of the total market share. The market shares have remained broadly unchanged since 2009.

9.8. Despite the fact the SME finance market is very concentrated, there is some evidence that firms will use other providers for certain finance products such as leasing/HP and factoring/invoice discounting. However, the main credit facilities used by businesses tend to be linked to their main provider.

SME Access to Finance 2010

Office of the Chief Economic Adviser
March 2011
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