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ACCESS TO FINANCE IN 2021

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BOX 1: ACCESS TO FINANCE IN 2021[1]

Access to finance is essential for the development of enterprises. However, small and medium-sized enterprises (SMEs) face challenges that differ from those of large-scale corporations when it comes to their financing, especially with regard to access to capital markets. This box analyses information provided by the Survey on Access to Finance of Enterprises (SAFE) on the financial situation of SMEs in Malta and across the European Union, with specific emphasis on the availability of external financing and the challenges that SMEs faced in 2021.[2]

Results reported in this study are derived from the SAFE which the European Commission conducted in co-operation with the ECB between 6 September and 15 October 2021. This round was spread across 13,079 enterprises in the European Union and covered the period April to September 2021. The information provided by the SAFE is relevant for Malta considering that according to the Structural Business Statistics published by the NSO, 99.7% of firms in the non-financial business economy, namely those covering activities in industry, construction, wholesale and retail trade as well as services, were SMEs in 2019. These accounted for 77.3% of all persons employed in Malta and generated 63.1% of turnover.[3]

The financial situation of small and medium-sized enterprises

Survey results show that between April and September 2021 – the reference period for the latest survey – slightly more than a third of SMEs in Malta reported unchanged turnover in the six months preceding the survey. The remaining respondents were almost equally divided between those reporting higher or lower turnover. As a result, on balance turnover was assessed to have remained unchanged over the six months preceding the survey. This is a significant improvement over 2020 when a net 64% of respondents had reported a decrease in turnover.

Meanwhile, on balance, 18% of domestic SMEs in Malta reported lower profit. By contrast a net 70% of domestic SMEs had reported a decrease in profits in 2020 – the strongest decline recorded since 2011.[4]

In the European Union, a net 14% of SMEs reported higher turnover as opposed to a net 45% that reported a decline a year earlier, while profits fell for 6% of firms compared to 70% in 2020. The higher incidence of companies reporting unchanged or lower turnover and lower profits in Malta may reflect the larger share of respondents in trade and services, which include the sectors hit hardest by the pandemic.[5]

In 2021, 60% of firms reported an unchanged level of fixed investment, with the rest almost evenly split between those reporting a decrease and those reporting an increase. In fact, on balance, only 2% of SMEs in Malta reported an increase in investment in plant, machinery or equipment. This compares with 11% of SMEs in the European Union. At the same time, investment by SMEs in Malta likely recovered from its trough of 2020, when a net 20% of Maltese SMEs had reported a decrease in investment.

Meanwhile, a net 18% of firms in Malta reported an increase in inventories and working capital compared with 6% in the European Union.

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2 Companies that employ less than 250 persons and make less than 50 million in turnover are classified as SMEs.
3 NSO *News Release* 120/021 – https://nso.gov.mt/en/News_Releases/Documents/2021/07/News2021_120.pdf
4 Figures from SAFE are rounded, in line with the approach followed by the ECB when commenting on SAFE results.
5 In Malta, 83% of participating firms were classified in these sectors, compared to 73% in the European Union in 2021.

On balance, the number of employees was assessed to have remained stable, while 6% of SMEs in the European Union have reported an increase in employees. These developments are still below those recorded in 2019 when 35% and 22% of SMEs in Malta had reported a net increase in investment and in the number of employees. Hence, the survey confirms that the labour market has been relatively resilient given the fact that firms in Malta on balance reported unchanged employment levels despite lower turnover. Nevertheless, these developments contrast with those in the European Union where the net share of firms reporting a higher staff complement turned positive in 2021 in line with net positive developments in turnover.

Regarding labour and other costs, on balance, 44% and 58% of SMEs in Malta claimed that these have increased in 2021. While the net share of respondents reporting higher labour costs is similar to that in the European Union (46%), Maltese SMEs were significantly less likely to report higher costs for materials, energy and others than those in the European Union (72%). The significant increase in the incidence of cost increases relative to 2020 – when only around a tenth of Maltese firms, on balance, had reported such cost increases – dents the improvement in turnover and likely explains why profitability on balance decreased again in 2021. Nevertheless, the share of firms reporting higher labour and other costs remained below that recorded in 2019.

The SAFE also reveals that the share of local SMEs reporting an increase in interest rate expenses rose to 13%, from 4% a year earlier. Similar developments were observed in the European Union, where this share rose to 10%, from 5% in 2020.

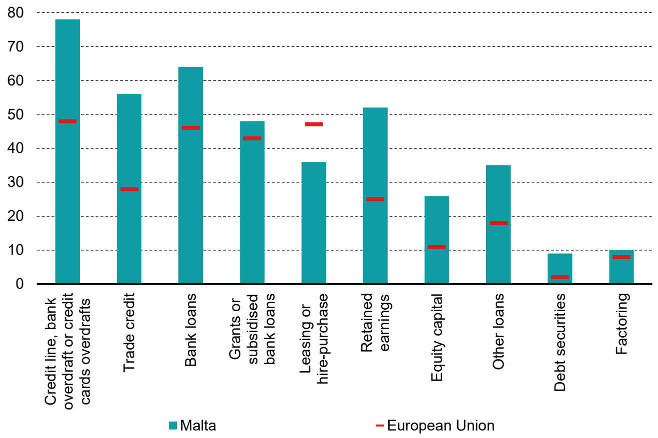
Sources of finance used by small and medium-sized enterprises

In 2021, domestic SMEs continued to prefer bank-related products such as overdrafts and credit lines, and to a lesser extent, bank loans over market-based products and other sources of finance (see Chart 1). The share of SMEs in Malta that used credit lines, bank overdrafts or credit cards, or that expected to use them in the future, rose to 78% in the year under review. This marks the first increase since 2016, as the relevance of this type of financing has been consistently decreasing – falling gradually from 83% in 2016 to 74% in 2018 and 71% in 2019 and 2020. Similarly, the share of firms that used bank loans in the past or considered using them in the future rose – standing at 64% up from 58% in 2020.

By comparison, in the European Union, just below half of the respondent SMEs used bank loans and credit lines, bank overdrafts or credit cards, or expected to use them in the future.

The share of SMEs in Malta that considered grants or subsidised bank loans as being relevant to their enterprise dropped to 48% in 2021, from 54% a year earlier. Meanwhile, the share of SMEs in the European Union that mentioned this type of financing as being relevant fell marginally to 43% from 44% in 2020.

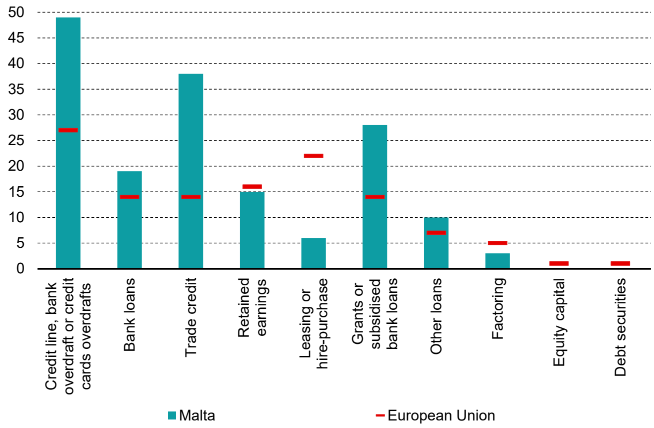
Chart 1
SOURCES OF FINANCE DEEMED RELEVANT BY SMEs
(used in the past or consider using in the future; percentage of respondents)



Source: SAFE (2021).

Furthermore, the share of domestic SMEs that considered trade credit as relevant to their business fell to 56% when compared with 63% a year earlier. This was however, the third most considered source of finance by SMEs possibly because certain businesses might have considered this type of financing to fill liquidity gaps triggered by the pandemic. Meanwhile, retained earnings were also considered as being a relevant share of finance. These were mentioned by 52% of domestic SMEs, up from 39% in 2020 and more than double the share of SMEs in the European Union that considered this type of financing as relevant for their business.

Chart 2
SOURCES OF FINANCE USED BY SMEs IN 2021
(over the preceding six months; percentage of respondents)

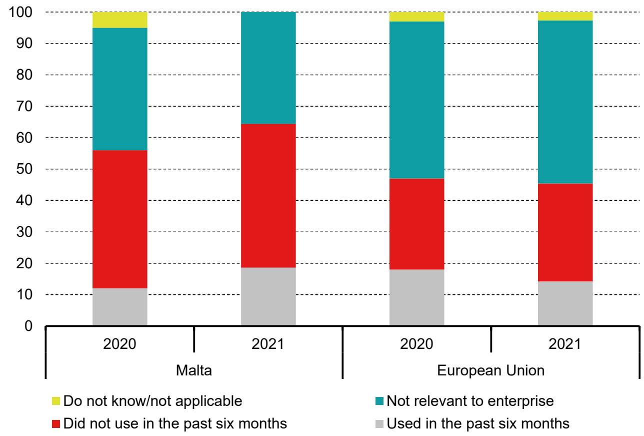


Source: SAFE (2021).

Chart 2 reports on the use of different types of funding sources during 2021 both in Malta and in the European Union. Credit lines or overdraft were used most often. The share of domestic SMEs using this type of financing has increased from around 41% in 2020 to 49% in 2021 and stood well above the share of EU firms reporting that they used this source of funding in recent months (29%). Similarly, the share of firms that used bank loans in the last 6 months preceding the survey rose to 19% in Malta from 12% a year earlier, but fell from 18% to 14% in the European Union.

Less than half (46%) of domestic SMEs did not use bank loans in 2021, as opposed to 44% in 2020, while 36% replied that they considered them irrelevant for their enterprise, down from 39% a year earlier. These contrasted with replies from their EU counterparts. In the European Union, 31% of SMEs claimed that they did not use bank loans in the six months preceding the survey, while 52% of SAFE respondents stated that bank loans were irrelevant for their enterprise. The figures for 2021 were thus broadly similar to those reported a year earlier, with EU firms still more likely to say that bank loans are irrelevant than Maltese firms do (see Chart 3).

Chart 3
NEW LOANS OR LOAN RENEWALS
(percentage of respondents who took new loans or renewed the loans in the past six months)



Sources: SAFE (2020); SAFE (2021).

When asked to elaborate on why bank loans are not deemed relevant, 83% of such domestic SMEs stated that they did not need this type of financing. Meanwhile, 10% reported that interest rates or prices were too high as opposed to 7% of their EU counterparts. A further 4% of domestic SMEs claimed that no bank loans were available while 3% cited other reasons – in particular, that too much paperwork is involved.[6]

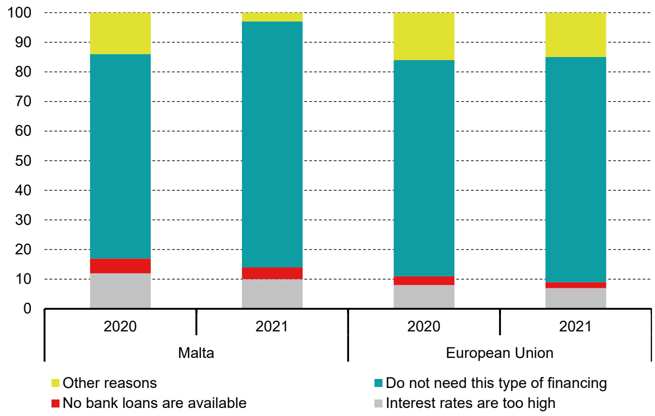
In the European Union, 76% of firms that considered bank loans irrelevant replied that they do not need such financing. A further 7% mentioned too high interest rates, while only 2% reported that bank loans were unavailable, with 14% of SMEs mentioning other reasons.

The reasons behind the irrelevance of bank loans cited by EU firms were largely unchanged from those reported in 2020. In Malta, the composition of responses changed more significantly when compared with 2020. While the share of SMEs that cited bank loan unavailability or high interest rates fell marginally, those that claimed that they do not need this type of finance rose significantly. There was also a small increase in the share of respondents in Malta mentioning an increase in paperwork although the percentage of domestic SMEs that gave other unspecified reasons fell since 2020 (see Chart 4).

During the period under review domestic SMEs noted that the relevance and need for trade credit increased when compared to 2020. Similarly, the proportion of those that used this type of financing stood at 38% in 2021, up from 32% a year earlier and in the same level as that recorded in 2019. Hence, the share of SMEs in Malta that used this type of finance remained significantly above that in the European Union which was stable at 14%. The SAFE notes substantial differences between countries. At 45%, SMEs in Ireland were the highest users of this source of financing – and the only country with a usage higher than that in Malta, while in other EU countries less than 10% of SMEs in 10 countries obtained this type of financing. According to the SAFE, SMEs in trade and industry were most likely to have obtained trade credit, whereas those in services were least likely to have used this type of financing.

The share of SMEs that used retained earnings or proceeds from the sale of assets during 2021 rose to 28% from 17% in 2020, slightly higher than the share of 25% in 2019 (see Chart 2). Hence, this share stood above that in the European Union, which remained stable at 14%. Indeed, whereas in Malta, 52% of SMEs stated that this method of financing is relevant to their enterprise, this share stood at 25% in the European Union (see Chart 1). The much higher recourse to retained earnings in Malta could explain why Maltese firms were more likely than their EU counterparts to report that they did not need bank financing.

Chart 4
REASONS WHY BANK LOANS ARE DEEMED IRRELEVANT FOR BUSINESS
(percentage of respondents who replied that bank loans were irrelevant for their enterprise)



Sources: SAFE (2020); SAFE (2021).

[6] 'Other reasons' include insufficient collateral or guarantees, reduced control over the enterprise, too much paperwork and unspecified reasons.

Meanwhile the share of firms that reported actually using subsidised loans or grants decreased to 15% in 2021, from 20% in 2020. This share was marginally below that reported for the European Union (16%). This lower use of such funding may reflect the fact that the number of beneficiaries of moratoria on loan repayments in Malta has been falling gradually as the moratoria period is gradually expiring for many borrowers and economic activity continued to normalise in most sectors.

The share of SMEs that used leasing or hire-purchase remained unchanged at 6% in 2021. Hence, the share of domestic SMEs making use of this method of financing remained below that in the European Union, at 22%. Meanwhile, the use of other loans such as those from family and friends, a related enterprise or shareholders, fell marginally to 10% from 13% a year earlier. During the same period, domestic SMEs made no use of equity and debt securities. In fact, debt securities, factoring and equity capital remained the three sources of finance that were least used in Malta and across the European Union.

Uses of external finance

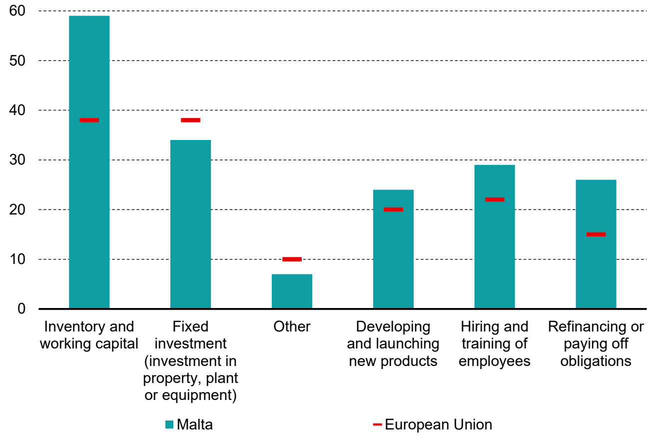
Chart 5 shows the purpose for which SMEs in Malta and in the European Union used external financing obtained during 2021. The share of SMEs that obtained external finance for inventory or working capital rose to 59% in 2021 from 52% a year earlier and stood above that of 38% in the European Union. In the latter case, this share fell from 41% a year earlier.

A larger proportion of domestic SMEs (34%) used external financing for fixed investment in property, plant or equipment, compared with 22% in 2020. This share nonetheless remained below that of 38% in the European Union. Meanwhile, the proportion of SMEs in Malta that used external financing for the development and launching of new products rose to 24% from 19% in the preceding year and stood above that of 20% in the European Union. Similarly, at 29%, the share of domestic SMEs that used external financing for the hiring and training of employees was almost double that in 2020 and in line with the share reported for 2019. This share was also above that of 22% recorded among respondent firms in the European Union. Almost a quarter of domestic SMEs used external finance to refinance or pay off obligations, compared to 15% in the European Union.

Most pressing problems facing SMEs

Chart 6 provides a breakdown of the most pressing problems that SMEs faced between 2017 and 2021. The share of respondent SMEs that cited the availability of skilled staff or experienced managers as the most pressing problem stood at 30% in 2021, up from 14% a year earlier and only marginally below the shares recorded in the three years preceding the pandemic. This was also the most pressing problem

Chart 5
USES OF EXTERNAL FINANCE
(over the preceding six months; percentage of respondents)

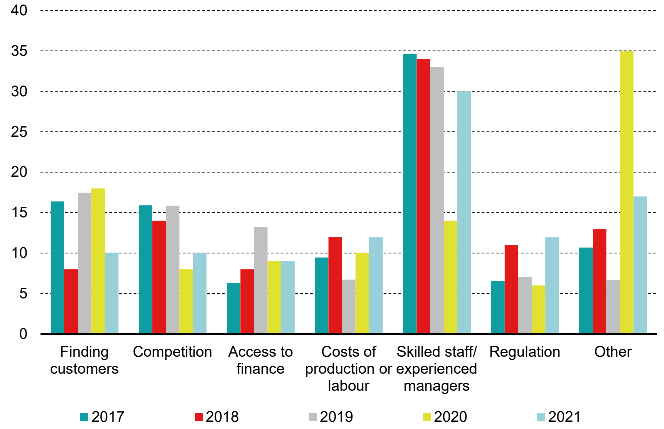


Source: SAFE (2021).

for SMEs in the European Union (27%).

Skills availability was particularly problematic in the Netherlands (40%) and Austria (37%) and least of an issue in Spain (15%) and Portugal (17%). The availability of skilled staff, along with uncertainty about the future were also the most frequently cited long-term barriers to investment in Malta and across the European Union according to the European Investment Bank (EIB) Survey on Investment and Investment Finance 2021.

Chart 6
MOST PRESSING PROBLEM FACING FIRMS
(percentage of respondents)



Source: SAFE (2021).

Meanwhile, 17% of domestic SMEs have reported 'other problems' than those listed in the survey as the most challenging issues that they faced in 2021. When asked about the main issues underlying these other problems, around a third of domestic SMEs related these to new challenges brought about by the pandemic as opposed to 75% across the European Union. By contrast, around two-thirds of SMEs continued to cite other problems besides those brought about by COVID-19, a significantly higher proportion than 13% of SMEs in the European Union. Nonetheless, no SMEs in Malta and across the European Union reported Brexit as being a most important problem. Furthermore, no domestic firms considered issues related to taxes, cash flow and liquidity, bureaucracy and exchange rate fluctuations as the most important problem currently facing their firm.

Other non-financial barriers that undermine firm growth include costs of production and labour and a burdensome regulatory framework. The share of SMEs in Malta that consider these problems as their most pressing ones rose to 12% in 2021 – double the share of SMEs citing regulation as a most important problem in 2020 and marginally above the 10% of domestic SMEs concerned about costs of production and labour that year. The share of firms concerned with these issues in 2021 was similar to that in the European Union.

During the reference period, 10% of SMEs in Malta considered the problem of finding customers for their products or services as their most pressing problem, down from 18% a year earlier and in the European Union.

Similarly, 10% of domestic SMEs considered competition as the most pressing problem – marginally above the share of 8% in 2020 but below that of 16% reported pre-pandemic. In 2021, competition was considered as a most important problem for only 9% of SMEs across the European Union.

Meanwhile, access to finance has declined steadily in importance throughout the survey years. The share of SMEs in Malta that considered access to finance as a most pressing problem was unchanged from the preceding year's 9% and slightly above that of 7% of SMEs in the European Union. According to SAFE 2021, access to finance remains a very pressing problem to SMEs in Greece where it was mentioned by around 16% of participating firms, and least of a problem in Austria, Belgium and the Netherlands – reported by just 5% of respondents in each country.

Availability of financing

When asked about the availability of different types of financing, a net share of 3% reported a deterioration in the availability of bank loans in Malta, as opposed to an improvement in 2020, when a net share of 2% reported improved availability of this source of funding. By contrast, in the European Union the net share reporting an improvement rose to 6% from 4% a year earlier.

Furthermore, a net 3% of SMEs in Malta believed that the availability of credit lines, bank or credit card overdrafts has deteriorated in 2021. This contrasts with a net share of 5% which reported an improvement in 2020. Meanwhile, in the European Union the net share of SMEs reporting improved availability rose to 6% from 2% a year earlier.

By contrast, on balance, SMEs in Malta claimed improved availability of trade credit and 'other loans', with the share of firms reporting such improvement standing at 7% in each category. Availability of trade credit improved compared to 2020, when on balance 7% of respondents had reported a deterioration. By contrast, the availability of 'other loans' worsened.

Although a small net share of domestic respondents claimed that the availability of financing through leasing or hire-purchase has deteriorated, the extent of deterioration was smaller than in 2020.

Meanwhile, on balance, respondents in the European Union reported improved availability in all these types of financing.

Looking forward to the six months ahead, domestic SMEs expected a deterioration in the availability of credit line, bank overdraft or credit cards overdraft, equity capital, leasing or hire-purchase as well as other loans. By contrast, they expected an improvement in the availability of retained earnings and trade credit. Meanwhile, in the European Union, on balance, surveyed SMEs expected an improvement in the availability of the various types of financing mentioned above.

Credit demand

The SAFE also provides information on the demand for finance by participating firms to complement replies on the availability of financing (supply). Table 1 shows the number of firms that applied for bank overdraft, trade credit, overdraft and credit lines since 2017. The proportion of SMEs that applied for bank overdraft, credit lines or credit card overdrafts fell from 26% in 2020 to 14% in 2021. During the same period, the share of those that did not apply because of possible rejection rose marginally to 4% from 3% a year earlier, while the proportion of those that did not apply for other reasons increased to 27%. However, slightly more than half of the surveyed firms – 55% – did not apply because of sufficient internal funds. This was above the share of 46% reported for the European Union.

During 2021, the proportion of domestic SMEs that applied for bank loans increased marginally to 21% from 20% a year earlier. While just 3% of respondent firms did not apply because of possible

Table 1
FOR EACH OF THE FOLLOWING WAYS OF FINANCING, COULD YOU PLEASE INDICATE WHETHER YOU:
Over the preceding 6 months; percent of responding firms

	Bank overdraft, credit line or credit card overdrafts					Bank loans					Trade credit				
	2017	2018	2019	2020	2021	2017	2018	2019	2020	2021	2017	2018	2019	2020	2021
Applied over the past 6 months	16	42	24	26	14	16	22	16	20	21	30	48	32	29	32
Did not apply because of possible rejection	2	2	8	3	4	3	1	6	1	3	5	0	1	1	2
Did not apply because of sufficient internal funds	31	32	48	51	55	33	45	53	59	58	18	32	29	44	48
Did not apply for other reasons	45	23	14	20	27	43	25	16	19	18	38	16	28	23	18

Source: SAFE (2021).

rejection, slightly less than a fifth failed to apply for other reasons. Meanwhile 58% of firms – compared with 59% in 2020 and 48% of SMEs in the European Union – did not seek bank loans due to sufficient internal funds.

The percentage of respondents that applied for trade credit rose to 32% in 2021 from 29% in the preceding year – the same share as that recorded in the pre-pandemic year. This was marginally above that of 30% in the European Union. Survey results show that a significantly higher share of respondents (48%) did not apply because of sufficient internal funds compared with 44% a year earlier. Only 2% did not apply for fear of rejection, while 18% did not apply for other reasons.

Looking forward, when asked about the type of external financing they would solicit to realise their growth ambitions, domestic SMEs expressed a strong preference for bank loans. Almost three quarters of SMEs in Malta as opposed to 65% of SMEs across the European Union prefer this type of financing. Only 12% of domestic SMEs showed preference to taking loans from other sources while 8% of respondents replied that they would seek equity investment.

Meanwhile, slightly over a third of domestic SMEs believed that there were no obstacles to get external financing as opposed to 47% across the European Union. The share of SMEs that considered interest rates or price as being a potential limiting factor stood at 17% compared with 12% in the European Union, while 13% of respondents said that they had insufficient collateral or guarantee, only marginally higher than 12% reported by their EU counterparts. A small share of respondents (around 7%) considered other issues as their most limiting factors, such as too much paperwork, lack of control over the enterprise and unavailability of financing.

Conclusion

The SAFE 2021 notes that on balance, turnover for domestic SMEs was unchanged during 2021, a significant improvement over 2020. On balance, Malta's SMEs continued to report lower profits as significant increases in the cost of labour and other costs (materials and energy) seem to have outweighed improvements in turnover compared with 2020. Nonetheless, the share of firms reporting higher labour and other costs remained below that in 2019.

Both in Malta and across the European Union, bank financing remained the most used source of external financing. In 2021 usage rates among domestic SMEs rose when compared to a year earlier and surpassed those in the European Union. Similarly, the proportion of SMEs that resorted to retained earnings and trade credit increased as the latter type of financing might have helped fill liquidity shortages. In fact, almost two thirds of Maltese SMEs reported that they had sufficient internal funds not to apply for a bank loan.

The share of SMEs in Malta that used grants or subsidised bank loans fell slightly in 2021 when compared to a year earlier. This reflects the fact that although policies that were introduced to support the flow of bank credit to enterprises during the COVID-19 pandemic remained in place, the number of beneficiaries has fallen gradually as the moratoria period gradually expired for many borrowers and economic activity continued to normalise in most sectors (Please refer to the section on liquidity conditions in this chapter).

Access to finance was among the least pressing of obstacles during the period under review. While no change was reported in the incidence of firms reporting this as their most pressing problem, labour shortages have returned to being the most pressing problem for SMEs in Malta and across the European Union. These were followed by other challenges, though those brought about by the pandemic were less of concern among domestic SMEs than their EU counterparts.