



BANK OF ENGLAND

News release

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Finance for Small Businesses in Deprived Communities

The Bank of England today publishes a report on Finance for Small Businesses in Deprived Communities. This report, intended as the first in a series of assessments of the provision of finance to businesses in deprived communities, follows a recommendation by the Government-appointed Policy Action Team 3, in its November 1999 report "Enterprise and Social Exclusion", that: "the Government should invite the Bank of England to report regularly on finance for business in deprived areas (and for groups within deprived communities)."

As a first report it identifies the key issues and sets a benchmark against which future progress in this area can be assessed. Key findings (pages iv and v of the report) are that banks currently lend over £1.5 billion to small businesses in deprived areas. Many businesses in these areas appear to be able to access bank finance and other traditional sources of finance on broadly comparable terms to small businesses in the UK as a whole, although the margins on such loans tend to be rather higher, reflecting a higher assessed level of risk. It is also clear, however, that there is a group of marginal and near bankable businesses which require alternative approaches to technical and financial support, for example from community loan funds and micro-credit schemes.

Preparation of the report involved an extensive series of regional visits to urban and rural areas in the UK, and provided an opportunity to learn from the experience of a wide range of organisations (including banks, businesses, Community Finance Initiatives and business support and advice networks) with an active involvement in this area. The Bank also collected data from banks with significant exposures to the UK small business market. Data on the volume and types of lending to businesses in these areas demonstrate the important role that the banks are playing.

Sir Edward George, Governor of the Bank of England said, "The Bank has extended its work on the financing of small businesses to include an analysis of the specific issues affecting the supply of finance to businesses in deprived communities. Finance for commercial activity in deprived communities appears to be available on terms broadly comparable to those available in the country as a whole, allowing for differences in risks. The key issue is the availability of finance for broader community and other activities that have yet to demonstrate their sustainability and commercial viability. I have been impressed by the number and variety

of initiatives that have been taken across the country to address this issue and I think, in the light of our research, that much could be achieved by encouraging co-operation between them – and commercial lenders and investors – at both the local and the national level”.

The Bank’s work on small firm financing dates back to 1993, and has included a series of annual reports that have assessed changes in the financing environment for small firms. The Bank will continue to monitor developments relating to the financing of businesses in deprived communities. It will undertake further regional visits, will review new initiatives and consider the success of existing ones. It will also collect further data relating to bank exposures to small firms in deprived areas, and will be looking at progress among other finance providers, in particular Community Finance Initiatives.

Note for Editors

Copies of the Finance for Small Businesses in Deprived Communities Report are available from the Public Enquiries Group, Bank of England, EC2R 8AH (Tel: 020 7601 4012; Fax 020 7601 5460) or from the Bank’s website <http://www.bankofengland.co.uk/accesstofinance.pdf>

Key Resources

Finance for Small Businesses in Deprived Communities

<http://webarchive.nationalarchives.gov.uk/20100114080129/http://www.bankofengland.co.uk/publications/financeforsmallfirms/accesstofinance.pdf>