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News release

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25 April 2003

Finance for Small Firms - A Tenth Report

The Bank of England publishes its 10th annual report on Finance for Small Firms today.

The report reviews the availability of finance for small firms in 2002; the state of play on eight policy issues that might affect the availability of finance for small firms in future; and includes a special article on the financial structure of smaller quoted companies.

The report concludes that there was no evidence of small firms having any general difficulty in accessing bank finance. However, there were indications that venture capital start-ups were lower than in 2001.

Within deprived areas, bank lending did not rise as fast as elsewhere; and there is some evidence that, like for like, small firms in these areas may represent a slightly greater credit risk.

The 8 policy issues reviewed are:

- The availability and co-ordination of business support, where the report underlines the importance of having effective arrangements. The Government's proposals should help and could be developed further.
- Developments arising from the Competition Commission report on SME banking - it is too early to say if the introduction of interest on credit balances by the four major banks will make it harder for new entrants to the market. Strengthening competition will depend largely on convincing SMEs that it is easy to change banks.
- Moves to a more debtor friendly insolvency regime. The report concludes that there is no sign as yet that this has induced lenders to tighten terms on small business loans.
- The possible spillover effects into business lending of the regulation of mortgages and of proposed changes to the Consumer Credit Act. These could lead to more complex regulation of lending to unincorporated businesses, limit competition and impede their access to finance.

- Finance for ethnic minority businesses, where, as a follow up to a report last autumn co-sponsored by the Bank, a number of points are identified. Many of them, however, lie in what banks regard as competitive territory, so there may be little scope for collaborative action at industry level.
- The possible effects of the proposed Basel II Accord on lending to SMEs, which the Bank believes will not, for the most part, be significant.
- The Draft EU Prospectus Directive, which the report argues may deter smaller UK companies from raising equity, unless adequate safeguards are available.
- The Draft EU Transparency Obligations Directive - this will increase the regulatory burden on smaller quoted companies (SQC) without necessarily bringing compensating benefits through deepening the market in their shares. It may be sensible to explore special arrangements for SQCs.

The article on the financial structure of SQCs (quoted firms outside the FTSE-350) is based on a large sample of company accounts and identifies their main features in comparison with large quoted and non-quoted companies. SQCs are shown to be heterogeneous, making general conclusions difficult; but there is evidence to suggest that SQCs are more reliant on equity finance and retained earnings, and less heavily geared, than larger quoted companies.

Notes to Editors

1. The report is available in hard copy, free by ringing the Bank's Public Enquiries Group on 020 7601 4878.
2. Deprived areas comprise the postcode sectors covering approximately the most deprived 2% of wards according to the 1998 Index of Local Deprivation, published by the DETR.
3. Moves to a more debtor friendly insolvency regime refers to two pieces of legislation. First, the Insolvency Act 2000, which provides for a short moratorium preventing creditors of small companies from enforcing their claims while directors work up a proposal for a company voluntary arrangement to put to all creditors. That provision in the Act came into effect on 1 January 2003. Second, the Enterprise Act 2002, which will be implemented during 2003 and 2004. The Act shifts the focus away from receivership, where a single creditor with a floating charge has effective control, towards administration, which is a more collective process taking into account the interests of all creditors. The Enterprise Act also lessens the penalties for bankruptcy.
4. The report on ethnic minority business published last autumn is "Ethnic minority businesses in the UK: access to finance and business support" by Ram, Smallbone and Deakins. It was published by the British Bankers' Association in September 2002. The study was co-sponsored by the BBA, DTI

Small Business Service and the Bank of England, with support from the Commission for Racial Equality.

Key Resources

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<http://webarchive.nationalarchives.gov.uk/20100114080129/http://www.bankofengland.co.uk/publications/financeforsmallfirms/fin4sm10.pdf>