



BANK OF ENGLAND

News release

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Finance for Small Firms - An Eleventh Report

The Bank of England today publishes its 11th annual report on Finance for Small Firms.

The report reviews the availability of finance for small firms in 2003; how the Basel II Accord might affect access to finance for SMEs; competition in the SME banking market; and it includes a special article on developments in the financing environment for small firms in the last decade.

This will be the last such report. In the foreword (copy attached) Nigel Jenkinson, Executive Director for Financial Stability, explains the Bank's decision.

Mr Jenkinson says: "In recent years there has been a major expansion in government resources devoted to small firms. The Small Business Service was set up in 2000 as an executive agency of the DTI, to be a centre of excellence on the whole range of small business issues, including access to finance. The Bank has strongly supported the SBS, including seconding one of its senior staff to be the SBS' first Director of Investment and SME Finance from 2000 to 2003."

He adds: "Given the substantial improvement in information flows over the past ten years and the growing importance of the SBS in addressing access to finance issues in the government's Action Plan for Small Business, there is no longer a need for the Bank to be involved in these issues. The principal objective of supporting an improvement in the financing relationship has been achieved, and stepping back from the work stream will avoid potential overlap and duplication with the work of the SBS... Active contact with small firms will continue through the work of the Bank's regional agents. And the Bank will continue to take a keen interest in the financial health of the whole corporate sector."

The main findings in the 11th annual report are:

- There was little evidence of smaller firms having difficulties accessing bank finance and the liquidity of the sector remained strong.
- In deprived areas, bank lending was broadly similar to previous years, although a break in the series makes comparisons with previous years difficult.

- There was continued growth in the use of leasing and invoice finance.
- The venture capital market remained quiet in 2003 with early stage funds finding fund raising difficult. Public sector funds focusing on bridging any finance gap played an increasing role but remain a small part of the market.
- Business angel activity remained subdued, though there are some indications of higher levels of activity among some regions and sectors.
- The Basel Accord should not have a significant impact on finance for SMEs in the UK. However, there are some potential issues on venture capital.

A special article reviews developments since the Bank's first report, in 1992. It says:

A variety of factors have improved relationships between borrowers and lenders and today small firms rarely cite access to debt finance as a major constraint.

However, some challenges remain, most of which the SBS is addressing. These include: the ability of early stage businesses to attract small amounts of risk capital; the need to develop the investment readiness of such firms; and a lack of reliable data on business angel activity.

This autumn, a major benchmark survey, conceived by a consortium of 19 organisations led by the Bank, will publish the first major benchmark survey of all forms of external finance for small firms.

Notes to Editors

1. The report is available, free, from the Small Firms Publications page or 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 DETR Index of Local Deprivation.
3. The 19 organisations involved in the benchmark survey are:
 - Bank of England
 - Small Business Service
 - HM Treasury
 - Lloyds TSB Group
 - Institute of Directors
 - British Venture Capital Association
 - Barclays Bank
 - CBI
 - Finance and Leasing
 - Bank of Scotland
 - Federation of Small Businesses
 - Factors and Discounters Association
 - RBS NatWest Group
 - British Chambers of Commerce

HSBC
Forum of Private Business
National Australia Group
The Co-operative Bank
Abbey Business Banking

Key Resources

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<http://webarchive.nationalarchives.gov.uk/20100114080129/http://www.bankofengland.co.uk/publications/financeforsmallfirms/fin4sm11.pdf>