



Department for  
Communities and  
Local Government

# Ethnic Minority Businesses and Access to Finance

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July 2013

ISBN: 978-1-4098-3906-4

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# Foreword

It has never been more important to develop and support economic growth in our country. We know that success will depend on our next generation of start-up businesses and established Small and Medium sized Enterprises. So when the evidence shows that one slice of our society is keen to start new businesses, but somehow often doesn't, it's time to look at what the barriers are, and whether we can knock them over.

Results from the 2011 Census show that with rising numbers of people identifying themselves as having an ethnic minority background we are now more ethnically diverse as a nation than we have ever been before. We need all sections of our society to contribute fully to the economic vitality of our nation. The National Audit Office estimates that the cost to our economy from the failure to fully use the talents of people from our ethnic minority population could be more than £8 billion annually.

There are higher aspirations to start-up in business amongst ethnic minority groups, especially Black African (35%) and Black Caribbean (28%) groups (compared with 10% for White British counterparts), but conversions to start-ups remain very low. That is why the Deputy Prime Minister asked us to report to him on what we need to do to put that right.

Creating a successful business requires ambition, skills and aptitudes, and much more. Ethnic minority businesses are already highly successful and contribute £25 billion to the economy. But some minorities, especially those from a Black African and Caribbean heritage, are under-represented in this success. We need to enable people from ethnic minorities to get the jobs they want and assist those with the aspiration, drive and ambition to become their own bosses.

There is work to do by Government, the banking industry, business groups, mentors and others to ensure that those who are under-represented are given every opportunity to turn their ideas and aspirations into successful businesses. An important part of this is ensuring that they have the access to finance they need to set up in business.

The banks have shown a real willingness to respond to our invitation to engage, not just with Government, but also with the ethnic minority business community, with the result that action is already underway. This should mark the start of further engagement and action between the banks and ethnic minority entrepreneurs.

*The Rt. Hon Sir Andrew Stunell OBE MP  
Former Minister for Communities*

*The Rt Hon Don Foster MP  
Communities Minister*

# Introduction

1. The Deputy Prime Minister, the Rt Hon Nick Clegg MP, delivered the Scarman Lecture in Brixton on 24 November 2011. His speech “Economic opportunity is the next frontier for race equality” acknowledged the progress that has been made towards racial equality in this country, but also highlighted some of the challenges that remain for ethnic minority communities.
2. The Deputy Prime Minister talked about the difficulties that ethnic minority businesses and would-be entrepreneurs were reporting in accessing business loans and asked Andrew Stunell, the then Communities Minister, to work with interested parties to review:
  - the barriers preventing ethnic minority businesses and would-be entrepreneurs from accessing loans and,
  - whether the banks were doing enough to address these problems.
3. This report summarises that review, which has benefited from the involvement of various ethnic minority business groups and experts in academia. The report also lists actions being undertaken by the British Bankers’ Association .
4. Whilst there are a range of parties that have a role to play in helping ethnic minority businesses access finance, there is a particularly important role for banks themselves as providers of finance, to ensure that their offering is equitable and encompasses all.
5. The review therefore involved detailed discussions with the British Bankers’ Association, the leading trade association for the UK banking and financial services sector. They speak for over 200 member banks from 60 countries on the full range of UK and international banking issues. We are grateful to the Association for engaging with this review and committing to a set of actions designed to overcome the barriers that have been identified. We are also grateful to the range of ethnic minority business groups that took the time and effort to submit their views to Government.
6. This review involved close working with the Government Equalities Office, who conducted a review into the record of high-street banks and building societies in lending to women.
7. The definition of ethnic minority businesses used in the Small Business Survey, and in this report, refers to businesses where at least half their management team are from an ethnic minority group. According to the Small Business Survey 2012, seven per cent of all Small and Medium sized Enterprise employers fit this description.
8. The analysis in this report is geared towards explaining the issues around ethnic minority businesses and would-be entrepreneurs accessing finance, given the challenge laid down by the Deputy Prime Minister in his speech, but some of the challenges and solutions apply to Small and Medium sized Enterprises more widely.

# Summary List of Actions

9. Discussions between Government, the British Bankers' Association and ethnic minority business groups led to a greater understanding of the barriers facing ethnic minority businesses and would-be entrepreneurs. The actions set out in this report (see page 23) highlight in more detail the key areas in which a strategic and long term focus is required by the banks and their partners.
10. However, engagement between the Government and the British Bankers' Association has also resulted in agreement by the Association to immediate actions which mainly involve promoting existing initiatives aimed at helping Small and Medium sized Enterprises more widely, so that ethnic minority businesses are fully aware of the support and finance schemes available to help them access finance.
11. The Association has agreed to:
  - organise and deliver a series of road show events across the country, with its partners, focusing on areas with a high ethnic minority population, on issues around access to finance and 'investment readiness'
  - ensure that mentoring support provided by *Mentorsme*, the national online portal hosted and operated by the British Banker's Association, allows mentoring organisations to highlight where specific ethnic minority business support is offered
  - expand a pilot project aimed at ensuring that referrals from banks to alternative providers of finance takes place across the country
  - fund the independent research group BDRC Continental to extend the Small and Medium sized Enterprise Finance Monitor to conduct research on ethnic minority businesses' experience of accessing finance and, through funding from Barclays, HSBC, Lloyds and RBS, create the new Enterprise Research Centre with a research strand focused on business diversity
  - establish a British Bankers' Association chaired committee comprising ethnic minority business groups to look at the findings from the Small and Medium sized Enterprise Finance Monitor so that it informs future work in this area
  - engage with ethnic minority business groups to ensure a continued dialogue on issues around access to finance, and include ethnic minority business representation on the Association's Business Finance Roundtable. This will be through representation from the Enterprise Diversity Alliance and the Enterprise Research Centre.

Action is already underway here.

# Where are we now?

12. The broader picture reveals that Small and Medium sized Enterprises play a vital role in our economy, accounting for 99.9% of all enterprises, 59% of private sector employment and 49% of the UK's economic output. The Government in its Coalition Agreement made clear its commitment to supporting Small and Medium sized Enterprises including ensuring viable businesses are able to access the finance they need.
13. The ability of these Small and Medium sized Enterprises to access finance is important for funding business investment, ensuring businesses reach their growth potential, and for entrepreneurs facilitating new businesses. The lack of finance can constrain cash flow and hamper businesses' survival prospects.
14. While access to finance is important, around two thirds of Small and Medium sized Enterprises do not in fact use external sources of finance, instead relying on trade credit from their suppliers or retained earnings. The most commonly used form of external finance is bank funding in the form of loans, credit cards and overdrafts, meaning banks have a critical role to play.
15. Where firms are dependent on accessing finance, and specifically loans, to start and grow, it is vitally important that ethnic minority businesses are not discriminated against in their search for finance.
16. Academic research on access to finance for ethnic minorities reviewed for this report, and tested and discussed with key academics in the field, including Professor Stuart Fraser (Warwick University), Professor Monder Ram (De Montfort University) and Dr Omar Khan (Head of Policy and Research at the Runnymede Trust), shows that specifically for ethnic minority businesses:
  - “there is a greater variation in financial outcomes between ethnic minority groups than between ethnic minority businesses in aggregate and White businesses”<sup>1</sup>.
17. The variation is evident when one looks at the experiences of particular ethnic minority communities, notably Black African, Black Caribbean, Bangladeshi and Pakistani groups. Evidence suggests that people from these ethnic minority groups are more likely to have their loan applications rejected than Indian and White businesses.
18. There are, however, a number of factors contributing to loan outcomes, and the disparities in success rates are not due to an applicant's ethnicity. These include:
  - collateral shortages

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<sup>1</sup> Fraser, S. (2009), Is there ethnic discrimination in the UK market for small business credit?, *International Small Business Journal*, 27 (5), 2009, 583-607

- poor credit worthiness (as assessed through credit-scoring)
- lack of formal savings
- poor financial track record
- perceptions by some of discrimination by banks
- language barriers.

19. **There is no evidence to indicate that disparities are due to racial discrimination per se**, but variances could be accounted for by other business characteristics. This conclusion is based on a variety of survey evidence of businesses, with robust sample sizes.
20. Banks themselves do not currently enquire about the ethnicity of applicants for loans, or the ethnicity of Small and Medium sized Enterprises' leadership teams when firms apply for finance. Assessing credit worthiness, especially for smaller customers, is heavily based on automated credit scoring models, which do not incorporate ethnicity.
21. The British Bankers' Association reports that postcode level analysis is not used by banks in credit scoring<sup>2</sup>, although external credit references, which may be incorporated in scores, may do this. As businesses and individuals make use of credit, their credit score is increasingly based on their actual use of credit facilities, but for firms borrowing for the first time without past history, basic factors like firm location, sector, and experience of directors or their personal ability to service debt, will play an important role.
22. There have been calls by some, for banks and building societies to be required to capture, and disclose, data on the ethnicity, postcode and gender of individuals that make loan applications and whether they are successful or unsuccessful ('lending disclosure').
23. The British Bankers Association recently published new data showing SME borrowing and saving, broken down by 120 postcode areas (to the first two digits). . Using data from the main high street banks, these figures highlight for the first time the regional geography of SME borrowing and saving in Britain and is a major step for transparency of bank lending.
24. The Government welcomes this progress but is committed to securing even more transparency. From the end of this year seven of the major lenders, which make up around 80% of the current stock of lending, will publish more detailed data that will show lending across 10,000 individual postcodes. This will make it easier to identify where action is required to help boost access to finance. This new data will allow us to see clearly how the banking and building society sectors are serving the wider economy, and in what areas of the UK there is a lack of funding. Publishing data in such a detailed way will assist competition, allowing smaller lenders to identify where there is unmet demand and to pursue new business in these areas.

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<sup>2</sup> <http://www.bba.org.uk/download/3493>



25. Khan (2008) highlighted the need for further research to address the challenges faced by ethnic minority businesses and would-be entrepreneurs in accessing finance. He also identified the need to explore potential differences in accessing other kinds of credit, for example mortgages<sup>3</sup>.
26. Collecting and publishing lending data by ethnicity would provide banks with information that could help identify whether their products and services are reaching the diverse communities they serve. If there are patterns or trends that are apparent from the data then it would allow the banks to focus on those that are not being reached, or perhaps adapt their products or services. It would also allow the banks to identify specific bank branches which are lending to those ethnic groups that are finding it difficult to access finance, thereby helping to identify and spread best practice.
27. In response to this review, the British Bankers' Association have made a welcome commitment that future iterations of the Small and Medium sized Enterprise Finance Monitor - the most robust quarterly survey review of Small and Medium sized Enterprises' use of external finance - will produce data on the use of finance by businesses broken down by their management's ethnicity and gender. The survey will, amongst other things, ask whether businesses have applied for a bank loan or overdraft in the past twelve months, and what the outcome of that application was.
28. As part of this we also welcome the British Bankers' Association and major banks commitment to establish a committee which will include key members of the ethnic minority business community to review the findings from the survey and other relevant research; learn lessons from them; and inform ongoing policy development for ethnic minority businesses, including how any disparities may be addressed. We believe that this could be a key step forward in addressing transparency concerns.
29. We further welcome the creation of the newly established £2.9 million Enterprise Research Centre. This is funded through a partnership between Barclays, HSBC, Lloyds and RBS through the British Bankers' Association; the Department for Business, Innovation and Skills; the Economic and Social Research Council; and the Technology Strategy Board, and led by Warwick and Aston Universities. Working alongside a consortium of other universities, the research centre will help develop understanding of the factors affecting business investment, performance and growth.
30. The consortium includes specialists in enterprise and diversity from the University of Strathclyde Business School and De Montfort University, placing research in this area at the heart of the Enterprise Research Centre, and ensuring that where areas for development are identified future policy is driven by robust research.
31. The Enterprise Research Centre has published its first strands of research including a White Paper on 'Diversity and business growth', which provides a systematic review of the current state of knowledge regarding diversity and the emerging economy, informing the relationships that exist between entrepreneurial resources,

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<sup>3</sup> Khan, Omar, *Financial inclusion and ethnicity: An agenda for Research and Policy Action*, Runnymede Report, 2008, p5

social group (including gender and ethnicity) and business start-up and growth. This piece of work was led by Professor Sara Carter, Head of Entrepreneurship at the University of Strathclyde Business School, working with De Montfort University. The published findings will help inform future work by Government, banks and others.

32. It is important that, wherever possible, major Government support schemes to help Small and Medium sized Enterprises access finance reach all communities. While the Government has a range of support to help entrepreneurs and small businesses access finance, the Government does not itself have interactions with specific businesses and is therefore unable to monitor on the basis of ethnicity or other grouping. Instead, Government schemes are designed to work with the grain of existing provision, and make use of people and businesses' existing relationships with banks (in lending schemes) or investors and funds (for equity support).
33. Schemes such as the Enterprise Finance Guarantee are also designed to be as easy as possible for lenders to implement quickly, using their existing processes and introducing as little new paperwork as possible.
34. However, there are opportunities to ensure that the impact of public support across different groups is monitored, where this can be done effectively and efficiently, using the Small and Medium sized Enterprise Finance Monitor. This includes testing the awareness of business about the various Government schemes available such as the Enterprise Finance Guarantee and Funding for Lending schemes.
35. As well as a research based approach to the concerns that ethnic minority businesses may have with regards to accessing finance, Government engaged directly with a number of ethnic minority business groups - including DWP's Ethnic Minority Employment Stakeholder Group - formerly known as the Ethnic Minority Advisory Group<sup>4</sup>, the Equality and Human Rights Commission, academics and others, to understand their experience of the issues.
36. Ethnic minority business groups who commented as part of the review accepted that the issue of accessible and affordable finance is not one that is unique to ethnic minority businesses. However, they suggested that the problems faced by some ethnic minority businesses in search of finance can be far more acute than for White owned businesses<sup>5</sup>.
37. Ethnic minority communities can be among the most disadvantaged in the country and tend to be concentrated in the most deprived areas. For some ethnic minority

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<sup>4</sup> Following a review of the terms of reference and ways of working, the Ethnic Minority Advisory Group has been reconstituted as the Ethnic Minority Employment Stakeholder Group. This change took effect from 1 October 2012. The Ethnic Minority Employment Stakeholder Group acts as a critical friend to Government on actions it might take to ensure ethnic minorities do not face disproportionate barriers to achievement in the labour market

<sup>5</sup> BTEG (2011) 'Challenges for BAME employment and enterprise in the new policy context'; Department for Business, Innovation and Skills (2011) 'Estimates for Women-led Minority Ethnic Group led and Social Enterprises in the UK'; Regeneris Consulting (2010) 'Ethnic Minority Business Advocacy Network: EMBAN Legacy Report'; Minority Ethnic Enterprise Centre of Expertise Briefing, Issue 5, (2010); Department for Business Innovation and Skills (2009) 'The Government's Response to the Ethnic Minority Business Task Force'; Fraser, S (2009), 'Is there Ethnic Discrimination in the UK Market for Small Business Credit?', International Small Business Journal 27; Fraser, S (2007) 'Finance for SMEs: Comparisons of Ethnic Minority and White Owned Businesses: A Report on the 2005 UK Survey of SME Finances Ethnic Minority Booster Survey'.

entrepreneurs, particularly women and recent immigrants, the problem of accessing finance can be further exacerbated by cultural and linguistic barriers<sup>6</sup>.

38. Ethnic minority business groups agreed that there was no evidence to support the notion of racial discrimination or prejudice by the banks. They further agree that the evidence<sup>7</sup> suggests that the disparities in credit outcomes (loan denials, loan interest rates and discouragement) between some ethnic minority businesses and White owned businesses can be explained by standard risk factors and credit worthiness, including poor financial records and lack of collateral or assets against which to raise finance.
39. Some of the ethnic minority business groups that we spoke to considered that the British Bankers' Association and the banks themselves recognised the disparity in credit outcomes experienced by ethnic minority businesses and have taken and continue to take measures to address the concerns expressed by some businesses.
40. The Ethnic Minority Employment Stakeholder Group characterised the barriers ethnic minority businesses face in accessing finance as:
  - a perception in some quarters of discrimination and prejudice against ethnic minority businesses and entrepreneurs seeking to access finance
  - low confidence stemming from a perception that mainstream support services lack cultural sensitivity and knowledge of traditional ethnic sectors and markets, and
  - poor take up of professional support services which are perceived as intimidating and not relevant to ethnic minority businesses and would-be entrepreneurs.
41. The Ethnic Minority Employment Stakeholder Group's view was that tackling the perception of discrimination and prejudice in accessing finance is critical. However, they considered that this would not make a discernable improvement to the level of finance ethnic minority businesses access unless backed up with additional action aimed at increasing the confidence of ethnic minority businesses, and would-be entrepreneurs, to act upon their ideas and proposals for start-up and growth.
42. In its written representation to the review, the British Bankers' Association cited research<sup>8</sup>, which indicates that standard risk criteria, rather than racial discrimination, are responsible for differential lending outcomes (poor credit worthiness and financial track record for example). The Association also acknowledged that the banks were looking at ways to promote stronger relationships between bank and ethnic minority businesses and that more needs to

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<sup>6</sup> Regeneris Consulting (2010) Ethnic Minority Business Advocacy Network: EMBAN Legacy Report'; Manchester Business School (2006) 'Black and Minority Ethnic Small Business Owners: A Comparative Study Investigating the Problems, Experiences and Barriers faced by BME Female and Male Entrepreneurs in North West England'.

<sup>7</sup> Fraser, S (2009), 'Is there Ethnic Discrimination in the UK Market for Small Business Credit?', International Small Business Journal 27

<sup>8</sup> British Bankers' Association, Bank Support for Ethnic Minority Businesses in the UK, 2002; Finance for Small and Medium-Sized Enterprises: Comparisons of Ethnic Minority and White Owned Businesses, A Report on the 2005 UK Survey of SME Finances Ethnic Minority Booster Survey, <http://www.bis.gov.uk/files/file39925.pdf>

be done to overcome issues of perception. This perception issue also seems to be more prevalent in Pakistani, Bangladeshi, Black African and Black Caribbean communities than in other ethnic minority communities.

43. All parties acknowledged the importance of sound business advice and support in helping businesses and would-be entrepreneurs get to the point where they are 'investment ready'. This includes support in the preparation of business plans as well as advice on sources of finance.

# In Summary

44. From our review of academic evidence, and engagement with ethnic minority businesses, the challenge for lenders, businesses and Government is clear:
- there is no evidence of racial discrimination by banks
  - however, ethnic minority businesses disproportionately face challenges which make access to finance more difficult:
    - collateral shortages
    - poor credit worthiness (as assessed through credit-scoring)
    - lack of formal savings
    - poor financial track record
    - language barriers.
45. Our engagement with interested parties revealed that:
- there is a perception of discrimination and prejudice amongst some ethnic minority businesses and would-be entrepreneurs in accessing finance
  - low confidence stemming from a perception that mainstream support services lack cultural sensitivity and knowledge of traditional ethnic minority sectors and markets
  - poor take up of professional support services by ethnic minority businesses, as they are perceived as intimidating and not relevant to ethnic minority businesses
  - there is a range of help from Government and the banks to support Small and Medium sized Enterprises, but a continued commitment is required to make sure this is relevant to and accessible by ethnic minority businesses.

# Responding to the challenge: Action already under way

## Government

46. The Coalition Government has put significant schemes in place to support businesses looking for finance:
  - the Bank of England, working with Government, recently launched the Funding for Lending scheme, to further boost lending to households and businesses. The participating major banks all have programmes which support businesses and households with cheaper finance
  - the Enterprise Finance Guarantee is enabling firms lacking a financial track record or collateral to access finance, and the Banks continue to work with Government to further improve the Enterprise Finance Guarantee to help more businesses
  - the Start Up Loans programme provides young people with support and finance to make their business ideas a reality. This initiative is supported by the British Bankers' Association and its members.
47. These initiatives aim to support all entrepreneurs and Small and Medium sized Enterprises. The Government is also supporting businesses to access non-bank finance, and welcomed the recommendations of Tim Breedon's recent review of this area<sup>9</sup>. To support non-bank lending channels, Government announced the £1.2 billion Business Finance Partnership and the evolving Business Bank.
48. These measures are designed to support the widest range of Small and Medium sized Enterprises. Government is committed to ensuring that businesses led by individuals from an ethnic minority background are able to access finance.
49. Last year, the Government launched two new online services on [businesslink.gov.uk](http://businesslink.gov.uk) for people starting up in business and for Small and Medium sized Enterprises wanting to grow. The services were all thoroughly user tested to ensure they were accessible to a broad range of groups, including those under-represented in enterprise, such as ethnic minority communities.

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<sup>9</sup> Tim Breedon, Boosting finance options for business, 2012.  
<http://www.bis.gov.uk/policies/enterprise-and-business-support/access-to-finance/taskforce>

## **New Enterprise Allowance**

50. Government is providing extra help to unemployed people who want to start their own business under the New Enterprise Allowance. This Allowance is available to Jobseeker's Allowance claimants, lone parents on Income Support and Employment and Support Allowance claimants in the Work Related Activity Group. Participants will gain access to a volunteer business mentor who will provide guidance and support as participants develop their business plan and through the first six months of trading. Once a claimant can demonstrate they have a viable business proposition with the potential for growth in the future, they will be able to access financial support when they begin trading and close their claim to benefit.
51. The New Enterprise Allowance scheme is open to all claimants on Jobseeker's Allowance whilst they are with Jobcentre Plus. Access to the scheme is entirely voluntary but once a claimant has agreed to start on the scheme, they are required to participate or inform the Jobcentre that they no longer wish to participate. Participants are self-selecting and Jobcentre Plus advisers promote the scheme to all eligible claimants:
- 15.6% of New Enterprise Allowance starts with a business mentor were people with an ethnic minority background (Q4 2012).
  - 13.2% of those who have started to claim the New Enterprise Allowance weekly allowance were from an ethnic minority (Q4 2012).
52. Government has reviewed the effectiveness of the New Enterprise Allowance which showed that overall views of the programme were positive. The New Enterprise Allowance was seen as an important source of support for those considering self-employment as a route into work, along with being effective in encouraging the development of new businesses.

## **Big Society Capital**

53. Government has worked with Big Society Capital to examine how initiatives such as the Big Society Capital fund could be used to improve access to finance by social entrepreneurs and social enterprises. While Big Society Capital does not work directly with front line groups, it indicated that it was open to approaches from Social Investment Finance Intermediaries, including Community Development Finance Institutions that are specifically focused on disadvantaged groups or areas. We encourage Big Society Capital to look at ways it can further work through the Community Development Finance Institutions in this area.

## **'Business in You' Campaign**

54. Government recognises that starting and growing a business is challenging, especially in the current economic climate. Knowing where to go for information and advice is clearly important – Small and Medium sized Enterprises need to know the range, extent and nature of support. Government wants to encourage people to fulfil their dream of starting a new business or take the leap to grow their business, to employ more staff, or to start exporting.

55. To raise awareness of the support available to start-ups and growing businesses, and to encourage businesses of all kinds to start and grow, Government launched the 'Business in You' Campaign in early 2012.
56. The campaign features a web portal which brings together the resources available to business owners and entrepreneurs to help them start or grow their business, as well as inspire them with stories of how other people have achieved success - including female entrepreneurs and entrepreneurs from different ethnic backgrounds. The British Bankers' Association are participants in this campaign.

## The Banks

57. The British Bankers' Association have indicated that their ethnic minority business recruitment activity has put an increasing emphasis on recruiting from within the communities the banks seek to serve, and that this has led to a steady increase in the number of ethnic minority staff.
58. Overall, the major UK banks nationally employ around 50,000 individuals from ethnic minority backgrounds. At around 12 per cent of employees, the British Bankers' Association asserts that the banking industry has a greater ethnic minority representation than the national average<sup>10</sup>.
59. The British Bankers' Association also states that all banks have developed internal training programmes to promote cultural and diversity awareness. Broadly speaking, all new bank staff undertake an online programme of training when they are first recruited. Additionally, the banks now ensure that senior management take part in 'unconscious bias' face-to-face training, which looks at issues around inclusion and diversity in a business context.
60. The major UK banks have also implemented Diversity and Inclusion strategies across their organisations. Steering committees for Diversity and Inclusion have made practical changes to bank buildings and operational activities to adapt to local communities with a significant ethnic minority population. Practical examples include: internal bank signage being updated to be multilingual; banks acknowledging the major festivals celebrated by many religious and ethnic communities by displaying posters across their networks of branches and offices; and banks offering flexible working aligned with local practices around the world as a mark of respect.
61. Across the UK, the banks also run Cultural Diversity Networks which are open to staff interested in race equality issues, and staff mentoring programmes are being established to further assist with the development of a more representative workforce at all levels of the organisation.

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<sup>10</sup> Business in the Community, Ethnic Minorities in UK region factsheet 2010 with data from 2008



62. Some banks provide specific products to groups based on demand. For example, certain banks have specialist products such as Islamic Banking which are supported by bespoke marketing literature.

### **‘Better Business Finance’**

63. The banks have also developed a range of support tools, designed to reach out to all businesses, including ethnic minority businesses. The ‘Better Business Finance’ website ([www.betterbusinessfinance.co.uk](http://www.betterbusinessfinance.co.uk)) provides impartial information and support for business customers looking to raise finance. It has specific guidance on developing robust business plans and managing cash flow, provides top tips on how to approach a bank for finance (including a lending application checklist), and allows businesses to compare and contrast bank offers.

### **‘Business Finance for You’**

64. In addition, the banks, with alternative providers of finance, have developed a new national ‘Finding Finance’ website ([www.businessfinanceforyou.co.uk](http://www.businessfinanceforyou.co.uk)) which can also be accessed on ‘gov.uk’ and has access to over 500 finance providers nationally. These range from banks to Angel networks, to Community Development Finance Institutions to venture capitalists, and others.

### **Mentoring**

65. In addition, businesses and would-be entrepreneurs can visit a free web portal connecting businesses with mentoring organisations around the country that can help match them with a suitable mentor. With over 115 mentoring organisations on the ‘Mentorsme’ portal ([www.mentorsme.co.uk](http://www.mentorsme.co.uk)), Mentorsme provides access to over 27,000 mentors, making this a rich source of support for all businesses. Many of these are free mentors. Icons depict where support and guidance is free or chargeable. The website has received over 800,000 page views since its launch<sup>11</sup>.
66. As part of the Mentorsme support, the banks also have a national network of finance mentors working with businesses up and down the country through key mentoring organisations that participate in Mentorsme. Ethnic minority businesses can directly access mentoring support from a bank mentor on the portal even before applying for any finance by checking the box under the search function for finding a mentor on the Mentorsme website.
67. As an extension of this service, in 2013 the British Bankers’ Association has launched a programme of ‘export mentoring clubs’ around the country to be delivered throughout 2013. The first events have already taken place in Sheffield and Westminster. The export mentoring clubs involve the Association working with local Chambers of Commerce and mentoring organisations to develop export skill-sets and promote exporting to upcoming entrepreneurs, while also providing a forum for businesses to share their experiences. Further events are scheduled to take place in Scotland, Wales, North West England and South West England throughout the year and will involve ethnic minority businesses.

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<sup>11</sup> Figures correct as of 12<sup>th</sup> March 2013

68. Evidence from the BIS 2010 and 2012 Small Business Surveys show that use of mentors is at least as high amongst ethnic minority led Small and Medium sized Enterprise employers as it is for Small and Medium sized Enterprise employers generally.
69. During the review some ethnic minority business groups indicated that mentees visiting the Mentorsme portal may want a mentor from a particular ethnic background. The facility now exists for mentoring organisations specialising in working with ethnic minority entrepreneurs to include this in their profile on Mentorsme. If a mentoring organisation chooses to specify that they specialise in mentoring individuals from an ethnic minority background in their profile, this will show up in a key word search. If a mentee wishes to specify a particular ethnicity for their mentor they can do this at the matching stage.
70. Government has also recruited and trained 15,000 volunteer business mentors from the small, medium and micro business community as part of the 'Get Mentoring' project ([www.getmentoring.org](http://www.getmentoring.org)) delivered by the Small Firms Enterprise Development Initiative. They form part of the 27,000 mentors accessible via [mentorsme.co.uk](http://mentorsme.co.uk). Small Firms Enterprise Development Initiative monitored take-up from minority groups, including those from ethnic minority communities. Of the 15,000 volunteers trained through this initiative, 11% are from ethnic minority groups and 42% are female.
71. Mentoring is a helpful tool and is complementary to business support which is focused on the mechanics of the business, such as capital planning and sales ambitions. Formal business support, such as that provided by a business advisor or an accountant, is also important. Making business finance advice more readily recognisable and accessible for businesses was a priority recognised in Tim Breedon's recent report on broadening finance options for business more generally<sup>12</sup>.
72. We would encourage more ethnic minority business groups to become part of the national mentoring network and to help raise awareness of, and demand for, the mentoring support available, as well as encouraging more ethnic minority entrepreneurs to become mentors themselves.

### **The Lending Code and Appeals Process**

73. The British Bankers' Association and banks have also developed a 'Guide to the Lending Code' for micro-enterprises, lending principles for larger businesses and a new appeals process. These processes are embedded in the banks at all levels. The Association is committed to ensuring that ethnic minority businesses understand the lending code and lending principles, and also the help available through mechanisms such as the appeals process.

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<sup>12</sup> Tim Breedon, Boosting finance options for business, 2012.  
<http://www.bis.gov.uk/policies/enterprise-and-business-support/access-to-finance/taskforce>

## **‘Better Business Finance’ outreach programme**

74. The British Bankers’ Association point to the activity of the ‘Better Business Finance’ (BBF) programme under which the banks have organised a range of support for businesses including a number of outreach events in the last few years, which includes working with groups like the Enterprise and Diversity Alliance in delivering workshops on ‘Access to Finance’ and ‘Mentoring’. In addition, banks have held programmes of events targeted at ethnic minority communities in many of the UK conurbations, for example, an ‘Exporting’ event held in conjunction with UKTI and the Birmingham Chamber of Commerce.
75. The British Bankers’ Association have further committed to work with the Enterprise and Diversity Alliance to deliver a series of road show events across the country, targeted in areas with a high concentration of ethnic minority communities, to raise awareness, understanding and confidence in accessing finance in order to increase ‘investment readiness’ amongst ethnic minority businesses and would-be entrepreneurs. The road shows will include workshops on writing business plans, mentoring and professional help. The road shows will also involve representatives from Community Development Finance Institutions, professional advisors, and other business support groups such as Local Enterprise Partnerships.
76. The British Bankers’ Association have reported that such events have already taken place this year in London, Bristol and Wolverhampton and more are planned in the coming months for Norwich, Birmingham, Leicester and Glasgow. The Association will again host the Enterprise and Diversity Alliance annual conference following their hosting of the 2012 event at the British Bankers’ Association offices, with the focus of 2013 activities on both would-be entrepreneurs and established businesses.
77. The British Bankers’ Association has agreed to continue working with partners such as Business in the Community, the Enterprise and Diversity Alliance and the Ethnic Minority Employment Stakeholder Group to make sure that a range of businesses and interested parties are present at these road show events through 2013. This outreach programme will build on the work the Association undertook in 2012, which focused on London, Leicester, Birmingham and Bristol, reaching 250 ethnic minority businesses and business networks. The Association state that this represents one element of a comprehensive outreach programme. A further nine events are being arranged with local Chambers of Commerce across the country in 2013, which will also include ethnic minority businesses where appropriate.

## **Enterprise Finance Guarantee scheme**

78. The Enterprise Finance Guarantee is a loan guarantee scheme to facilitate additional lending to viable Small and Medium sized Enterprises lacking adequate security or a proven track record for a normal commercial loan.
79. As part of the continual assessment of the Enterprise Finance Guarantee scheme, the British Bankers’ Association and their member banks are working with the Department for Business Innovation and Skills to adapt the Enterprise Finance Guarantee, so that it can address a wider range of factors behind loan declines. One option under development is a targeted measure to support established businesses seeking to borrow less than £25,000 on an unsecured basis.

80. The lack of adequate security and a proven track record are both factors in banks declining loans to ethnic minority businesses, and the planned changes to the Enterprise Finance Guarantee scheme may be of particular value to this part of the business community. Changes to the Enterprise Finance Guarantee, such as the below £25,000 unsecured lending initiative, will be tested through pilot programmes. The British Bankers' Association and relevant member banks will consider operating this to reach locations with a high ethnic minority business customer base.

### **Start Up Loans**

81. Start Up Loans<sup>13</sup> is a BIS initiative that provides start up support in the form of a repayable loan together with pre-business and post loan support through mentoring for entrepreneurs across England and Northern Ireland, with roll out in Scotland and Wales also in development.
82. Originally designed to support young people who have a viable business idea but no access to finance, the Government recently accepted Lord Young's recommendation that the age cap should be lifted to allow those aged over 30 equal opportunity to benefit from the scheme with a view to providing a robust Small and Medium sized Enterprises sector as an engine for economic growth and jobs.
83. 35% of the 6,000 loans provided so far have been to ethnic minority entrepreneurs and like the New Enterprise Allowance, but with a greater amount of funding per person available, Start-Up Loans also help get people out of unemployment, with around 45% of loans going to this group.

## **The Community**

84. Some ethnic minority business groups reported that they provide advice and support to local businesses through business advice surgeries and workshops, and by proactively building relationships with local banks and accountants. These are often funded through the European Regional Development Fund, through private sources and/or via pro bono support. Given the localised nature of these initiatives, it is unlikely that such business advice is evenly spread across the country.
85. Feedback indicated that some ethnic minority business groups were fortunate in being able to forge links with banking and other professionals to provide business support, but other organisations with fewer resources struggled with this. Some ethnic minority business groups wanted to see the banks provide greater resources for professional business support providers to help get ethnic minority businesses investment ready and boost the prospects of a successful outcome to loan applications.

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<sup>13</sup> [www.startuploans.co.uk](http://www.startuploans.co.uk)

## Local Enterprise Partnerships

86. Local Enterprise Partnerships bring Local Authorities and businesses together to work across natural economic areas. They provide the vision, knowledge and strategic leadership needed to drive sustainable private sector growth and job creation in their area. They are business-led partnerships which bring the private and public sectors together to create the conditions for growth in local areas. The 39 Partnerships around the country now provide 100% national coverage. Each Local Enterprise Partnership has different economic development objectives, reflecting the needs of their local economies. They are diverse in terms of form, function, focus and capacity.
87. Ethnic minority business groups are keen to see Local Enterprise Partnerships play a greater role in supporting ethnic minority businesses. The Birmingham and Solihull Local Enterprise Partnership are welcome exemplars in this respect. Local Enterprise Partnerships can play a significant role in supporting and encouraging the development of mentoring networks locally and the Government is keen to see Local Enterprise Partnerships and ethnic minority business groups engage with each other for this purpose. Further information on Local Enterprise Partnerships can be found at: <http://www.bis.gov.uk/policies/economic-development/leps>.

## Community Development Financial Institutions and alternative sources of finance

88. A particularly relevant source of finance for start-ups comes from Community Development Finance Institutions. These are independent financial institutions, serving a specific disadvantaged geographic area or disadvantaged group (e.g. charities, non-profit distributing social enterprises or organisations supporting specific groups such as ethnic minorities). Community Development Finance Institutions provide loans (sometimes referred to as micro-finance) to start-up companies, individuals and established enterprises from within that area or community who may not be able to access finance from more traditional sources, i.e. banks. Enterprises supported by Community Development Finance Institutions are nevertheless viable and benefit the community in which they operate, for example, in terms of jobs and services provided.
89. A BIS evaluation<sup>14</sup> of the sector shows that Community Development Finance Institutions are efficient vehicles for improving access to finance in under-served markets. It considered that they need to improve in terms of financial sustainability and identified a variety of reforms that can be used by Community Development Finance Institutions to improve income relative to the cost of lending.

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<sup>14</sup> Evaluation of Community Development Finance Institutions (March 2010)

90. The Regional Growth Fund has awarded a £30 million grant to Community Development Finance Institutions. This money is being matched by £30 million of finance from the Unity Trust Bank and the Cooperative Bank. Community Development Finance Institutions can use the funding to provide loans to businesses that may previously have been unable to access bank finance. Government also supports the sector through the Community Investment Tax Relief, and some Community Development Finance Institutions are also accredited Enterprise Finance Guarantee lenders.
91. Ethnic minority business groups suggested during the review that ethnic minority businesses could be made more aware of this avenue for obtaining finance and called for the banks to ensure systemised referrals from banks to Community Development Finance Institutions.
92. As referenced in the Autumn Statement in 2011, the banks have worked closely with the Community Development Finance Association (which represents the sector) on a pilot for systemised referrals in Glasgow, Manchester, Bradford, Yorkshire and London, operating from autumn 2012 to spring 2013. With the pilot now complete, the programme has begun to roll out nationally, and the British Bankers' Association now has one bank operating with the Community Development Finance Association across England, with a second bank providing national coverage in Scotland.
93. In 2013 the British Bankers' Association will continue to work with the banks and the Community Development Finance Association on implementing this national referral programme across the major banks. The Association are working closely with Government on possible mechanisms for a broader referral programme to further connect businesses within the UK financial landscape, and are discussing the ways in which the newly announced 'Business Bank' may fulfil this function as well as providing a support role to businesses.
94. In addition, the British Bankers' Association has recently developed a strategic partnership with the British Business Angels Association in conjunction with the Business Growth Fund (launched by the major banks in 2011). The Association is also considering, together with Business in the Community, the Enterprise and Diversity Alliance, and the Ethnic Minority Employment Stakeholder Group how these linkages can further support ethnic minority businesses.

# A Plan for Action

## Action 1: Spreading the word

Government, the banks and other professionals have a range of activities aimed at providing all Small and Medium sized Enterprises with help, advice and guidance. Ethnic minority businesses can, and should, be able to benefit from these.

*Government calls on the British Bankers' Association, the banks and professional advisors, including accountants, to improve their efforts to ensure that business support and advice reaches the widest range of ethnic minority businesses, by working with a broad range of ethnic minority businesses and local and national ethnic minority business groups.*

## Action 2: Making support easier to access

The banks have worked together to provide [wwwmentorsme.co.uk](http://wwwmentorsme.co.uk), a free portal where businesses can find mentors to help build their skills and improve their finance readiness. Many mentoring organisations do monitor take up by ethnicity and some have specialist provision for certain groups, including ethnic minority entrepreneurs. If a mentee wishes to specify a particular ethnicity for their mentor they can do so at the matching stage.

*Government calls on ethnic minority business groups to join the mentoring community, and make full use of initiatives like 'Mentorsme' and 'GetMentoring', to raise awareness of, and demand for, mentoring and other sources of business advice.*

## Action 3: Promote the alternatives

Banks clearly play a critical role in lending to businesses. However, there are a range of alternative sources of finance that loan applicants may be able to access. When loan applications to the banks are declined, an applicant may not always be aware of these alternative sources. Key amongst these alternative providers of finance are Community Development Finance Institutions.

*Government recommends that the banks and Community Development Finance Institutions create the necessary infrastructure to ensure that systemised referrals take place as a matter of course in all areas where there is a demand for alternative sources of finance, including in deprived ethnic minority communities across the country, and to monitor the referrals process.*

## Action 4: Use Local Enterprise Partnerships to best advantage

Ethnic minority business groups have said that Local Enterprise Partnerships should be doing much more to engage with local ethnic minority businesses in their area. While most Local Enterprise Partnerships see access to finance as a key to growth, some ethnic minority business groups felt that Local Enterprise Partnerships needed to make more of an effort to operate in an inclusive manner.

*Government recommends that Local Enterprise Partnerships do more to ensure that they take into account the needs of their local ethnic minority businesses in developing their business priorities, and play a role in helping ethnic minority businesses access the business support and advice that they need to successfully apply for finance.*

## Action 5: Expanding our understanding

Collating data on the use of finance by ethnicity can shed light on any discrepancies in lending patterns by banks.

The review resulted in some calls for banks to collect and publicly disclose lending data by ethnicity – ‘lending disclosure’. The British Bankers’ Association have acted on their commitment to include a question in the Small and Medium sized Enterprise Finance Monitor survey on ethnicity to collect data on the experiences of ethnic minority businesses. The Association will work with their partners to produce a report aimed at analysing this data by the third quarter of 2013.

*Government welcomes this commitment, and invites the banks to demonstrate publicly how they will improve their practices using this data. Implementing this recommendation could potentially help to identify trends in lending to specific ethnic minority groups and provide a basis on which to focus support in the future. The British Bankers’ Association should put in place arrangements to work closely with ethnic minority business groups to ensure that this information results in action being taken to meet the needs of ethnic minority businesses in accessing finance.*

## Action 6: Supporting the dialogue

Feeding into the banks’ existing outreach work to small businesses, the British Bankers’ Association host the Business Finance Roundtable, featuring business representative groups. This features many groups, but at present there are no individuals on the Roundtable from an ethnic minority business group.

*Government recommends that the British Bankers’ Association include ethnic minority business representation on the Association’s Business Finance Roundtable and welcomes the Association’s positive response to this recommendation.*



# Conclusion

95. This review was initiated by the Deputy Prime Minister following his speech on 24 November 2011. In the months since, the review has led to intensive engagement between various ethnic minority business groups, the British Bankers' Association and banks, and relevant Government departments, and others. The Association and Government both have a genuine and strong desire to stimulate entrepreneurship and improve access to finance for ethnic minority businesses and would-be entrepreneurs.
96. It has not always been easy for the banks, or for the relevant Government departments, to know who to turn to, and how to engage ethnic minority businesses. It is hoped that the relationships that have been developed during this review provide a foundation on which to build greater engagement between all parties.
97. In terms of the immediate questions around whether some ethnic minority businesses are having problems accessing loans, the answer is very clearly 'yes' – but there is no evidence that the challenges they face are due to racial discrimination by the banks. Actions by the banks to collate and publish lending data that is disaggregated by institution and presented on a postcode-level basis, alongside a commitment to use the Small and Medium sized Enterprise Finance Monitor survey to collect data on the experiences of ethnic minority businesses, are significant advances.
98. Ethnic minority business groups highlighted areas and activities they felt were important if lending outcomes for ethnic minority businesses are to be improved. In particular, it is important that bank staff are sensitive to the needs of their customers' diverse backgrounds in delivering services and that bank staff reflect the make-up of their local communities. More could be done by the British Bankers' Association and banks to engage with their local ethnic minority communities to ensure that initiatives aimed at promoting entrepreneurship and access to finance reach the attention of ethnic minority businesses and would-be entrepreneurs.
99. There are a number of areas, as set out in this report, in which the banks can and must play a role in directly or indirectly helping ethnic minority businesses and would-be entrepreneurs to access finance. The British Bankers' Association has shown great awareness of this, and there is much to commend in their approach so far. The Government would welcome further progress.
100. Despite the differing ways in which the barriers have been articulated by the different parties we engaged with, there is a broad consensus about what those barriers are. There is broad agreement for example about the important role that can be played by mentoring and the important role of business support and advice for start-up businesses.

101. Access to finance remains key to supporting Small and Medium sized Enterprises. There are a wide range of support tools available to all Small and Medium sized Enterprises, including those from an ethnic minority background.
102. However those tools are not always utilised by people from some ethnic minority communities. There is a challenge to the British Bankers' Association, professional advisors and to Government to make sure that ethnic minority businesses are aware of the support available. The Government's 'Business in You' campaign, in which the Association participates, highlights Small and Medium sized Enterprises from a diverse range of backgrounds and how they achieved business and finance success. In addition to this, the new Start Up loan scheme and the New Enterprise Allowance offer practical help and support for those looking to start up a business and access finance.
103. Taken together with the package of recommendations and expected follow up action by the banks, communities and Government, there is every prospect that business lending outcomes for ethnic minority businesses and would-be entrepreneurs can improve.