The Impact of the Recession on Ethnic Minorities: June 2010

There is a range of evidence to show that the recession has had a particularly negative impact on ethnic minorities. Unemployment levels in BME communities have risen by a greater percentage than among the white population, particularly over the last six months. In addition, given that up to 60 per cent of Black and Asian people have no savings, as well the fact that there is evidence of discrimination against BME Small and Medium Enterprises’ (SME) access to credit in the UK, BME communities are in a particularly vulnerable position.

Unemployment
According to research by the Government Equalities Office (December 2009) people from ethnic minorities have seen an increase in their rate of unemployment since the start of the recession:

- Members of the Caribbean and African community have seen unemployment levels rise by 6.9 per cent - from 13.2 per cent in the first quarter of 2008, to 20.1 per cent in the third quarter of 2009. This compares with a 2.8 per cent rise in white unemployment, up from 4.8 per cent to 7.6 per cent, over the same period.
- The trend has become more marked over the last six months, with Asian unemployment rising by 2.2 per cent and Caribbean and African unemployment rising by 4.4 per cent, whilst white unemployment has risen by just 0.8 per cent.

The full report is available here: http://www.equalityhumanrights.com/uploaded_files/research/impact_of_the_recession.pdf

Younger people have been particularly badly affected by the recession. As there are more younger people in BME communities they are more likely to be affected by the short and long-term affects of unemployment. Furthermore, while a large number of BME people go to university, they are less likely to go to the more
“prestigious” Russell Group institutions and are therefore less able to benefit from now reduced employment opportunities.

**Credit Access**

In Runnymede's report "Financial Inclusion" (2008, [http://www.runnymedetrust.org/publications/111/32.html](http://www.runnymedetrust.org/publications/111/32.html)) we highlighted that there is evidence of discrimination against BME Small and Medium Enterprises' (SME) access to credit in the UK. Figures from the former Department for Trade and Industry (2007) highlighted that ethnic minority-owned businesses pay higher bank loan charges than white owned businesses. On average:

- The gap between the amounts of business finance sought and the amounts agreed is significantly greater for Black African and Pakistani-owned businesses.
- Black African and Black Caribbean-owned businesses are much more likely than Indian, Pakistani and White-owned businesses to be rejected for loans outright.
- Black African and Black Caribbean-owned businesses are significantly more likely to feel discouraged from applying for finance than Indian, Pakistani and White-owned businesses.

Whilst many of these discrepancies can be explained by standard business risk factors and financial relationships (for example, the age of businesses and how much collateral businesses can offer against a loan, as well their financial track records), the DTI concluded that these do not fully explain the differences, particularly with regard to the margins paid on loans, and gaps in financing.

During the recession, access to credit has been particularly difficult for SMEs generally. There has been a flight from risky lending. Lloyds and RBS have missed their lending targets, and have recently agreed with the Chancellor to try to improve this. As BME businesses are often more likely to be SMEs than white-owned businesses, this reduced access to credit is likely to be having a disproportionate effect on them.

**Assets**

Recent Runnymede research into assets ("Why do Assets Matter?" 2010, [http://www.runnymedetrust.org/uploads/publications/pdfs/WhyDoAssetsMatterv8.pdf](http://www.runnymedetrust.org/uploads/publications/pdfs/WhyDoAssetsMatterv8.pdf)) found that that up to 60 per cent of Black and Asian people have no savings. For those affected there are serious knock-on effects including limited access to
higher education, decreased capacity for buying and renting a property of their choice, and problems with access to affordable credit. It could therefore be argued that as BME people are already in a vulnerable position due to asset inequality, the recession will have a bigger impact on them.

In addition, with fewer assets, BME people and businesses may have to pay more for credit even when they get it. Without assets as collateral, they are considered more 'risky' and therefore have to pay more for credit.

**Policy Recommendations**

- The UK Government introduced the Social Fund Budgeting Loan scheme to help poorer people access credit. This should be extended to include those not on benefits. (Runnymede, "Financial Inclusion", p.9)
- To help tackle asset inequality, BME people should be made aware of their eligibility for existing saving schemes. This includes asset-based schemes such as the Saving Gateway and Child Trust Fund, but also ISAs and premium bonds. (Runnymede, "Why do Assets Matter", p.7)
- BME people would also benefit from universal policies (such as the Child Trust Fund) that achieve asset-building for everyone. (Runnymede, "Why do Assets Matter" p.7)