

Wiring Arcadia

The private sector is trying to bridge the “digital divide”

GIVEN its reputation for surfing and the slow life, Cornwall has a surprisingly solid technological pedigree. It is where the transatlantic cables that carry much of Britain’s telephone and internet traffic land. Its Goonhilly satellite station is among the world’s biggest. And on September 30th, its council confirmed that, thanks to fibre-optic cables costing £132m (£78.5m from BT, the formerly state-run telephone monopoly, plus £53.5m in aid from the European Union), its residents will soon enjoy some of the fastest internet access in the country. Alas, other country-dwellers are less well-connected.

Despite Britain being the fifth-biggest broadband market in the OECD, a club of rich nations, a rump of about 11% of British homes remain too remote to receive the 2 ▶▶

► megabit-per-second internet access the government thinks should be the minimum. The Euro-millions that will wire up Cornwall are available only because Cornwall is, by British standards, very poor.

The previous Labour government hummed and hawed about this rural-urban "digital divide". Eventually, in 2009, it proposed levying a 50p tax on every fixed telephone line in the country: the proceeds were to be given to BT to allow it to connect even the remotest hamlets by 2012. The new coalition administration abandoned that plan, ditching the tax and pushing the target date back to 2015. Jeremy Hunt, the Conservative culture secretary, insists that the private sector ought to be able to bring broadband to the rustics. Only if it fails will the government consider subsidies.

Mr Hunt may be right. A string of small firms are offering fast broadband to offline areas, via cables, satellites or the airwaves.

Rutland Telecom, for example, has laid fibre-optic cables to several small villages in and near Rutland, a technology that BT is only beginning to deploy in big cities. For around £30 a month, subscribers get super-fast internet access. Rural Internet, another niche provider, is a Cumbria-based firm that grew out of a not-for-profit initiative run by Bill Knowles, a local businessman, to bring broadband to villages too inaccessible for the big commercial internet service providers (ISPs). It now advises customers all over the country. Kijoma, a small company based near Portsmouth, offers long-range, high-speed wireless internet to around 1,000 subscribers in an irregular arc from Basingstoke to Lewes.

Since their overheads are low, such companies can turn a profit from small numbers of customers, and can tailor their offering to local needs. Rutland Telecom's first project, in the village of Lyddington, became profitable with just 40 subscribers. Because Kijoma uses radio waves to

bring the internet to its customers, it has no fixed-line infrastructure to maintain. They can be flexible about funding, too, tapping grants from local councils, charitable trusts or even rich benefactors. And they can compete with the big firms on quality of service. "If we promise you a certain speed, you'll get that speed," says Bill Lewis, Kijoma's boss, contrasting his firm's offering with big ISPs, whose connection speeds often fall short of their marketing.

Will this nimbleness and enthusiasm suffice to wire up the roughly 3m homes without fast broadband? Many of the new rural broadband specialists have no grand ambitions. "A lot of the work we do is still not for profit," says Mr Knowles of Rural Internet. Mr Lewis says Kijoma is "more in-

terested in offering a good service to existing customers than in growing fast".

But even if small firms cannot do it all themselves, their business models may be instructive. In 2009 the Labour government estimated that it would cost around £1,750 per home to connect all of Britain's country-dwellers to the web. David Lewis, Rutland Telecom's boss, says that figure is far too high. Costs could fall further, he says, if firms are allowed to run their own cables through BT's ducts and telegraph poles (something that Ofcom, the industry regulator, is keen on), to as little as £500 per house. Such arguments seem to be convincing at least one bigger player: tiny Rutland Telecom is currently negotiating a partnership with a big, FTSE-listed firm. ■

Financing small business

The mother of invention

New sources of finance aim to compensate for the inertia of big banks

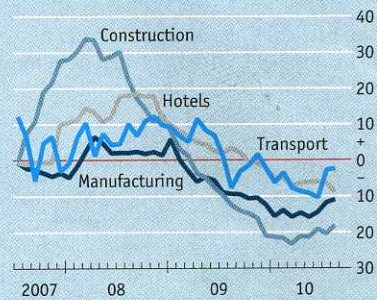
SCOTMAS, a family-owned company based in Scotland, is the kind of business on which Britain's economic recovery might depend. It exports water-treatment chemicals and equipment, competing with giants such as Siemens and GE. In August it wanted to bid to run a water-disinfection project in Dubai, but its bank, Royal Bank of Scotland, said it would take eight to ten weeks to approve the £30,000 of funding it needed to secure in advance. Happily for Scotmas, there was an alternative: a new financing platform called Funding Circle, which found it the money within two weeks.

Funding Circle matches businesses seeking cash with individuals or funds that want to lend it. Its website owes something to the online auction house eBay, and to Zopa, a person-to-person lending platform set up in 2005. An established company registers its needs and invites bids. The more interest there is, the lower its financing costs. Scotmas managed to raise £30,000 for three years at 7.8%. Indigo Clothing, a London-based T-shirt printing agency, recently used Funding Circle to raise £20,000 at 7.6%. It took all of two hours to put in the application, says Alex Walker, its boss; the money was secured within seven days. Funding Circle has raised over £500,000 for 18 companies since August, says Samir Desai, one of its founders.

It is one of a number of operators that are emerging to help small companies hitherto dependent on a handful of big—and, recently, stingy—banks. Around 90% of all banking services to small and medium-size companies are provided by Britain's five biggest banks, according to Mintel, a market-research firm. Anecdotal

Cash withdrawal

Bank lending to companies
% change on a year earlier

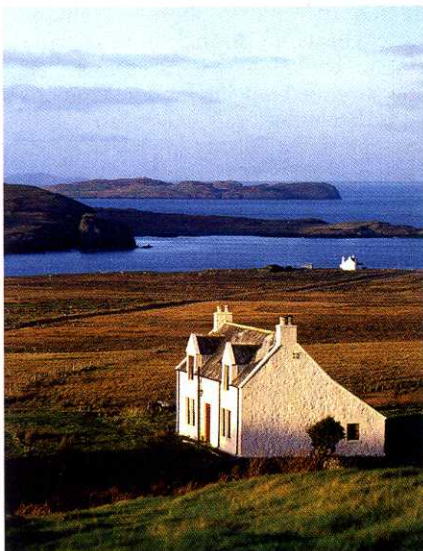


Source: British Bankers' Association

evidence suggests they are starving many small companies of capital. Lending to British companies by the dominant high street banks has been declining across the board since early 2009 (see chart).

Other new, niche providers include Fundingstore.com, an online financial dating agency that hopes to go live soon, which will allow lenders to browse lists of companies seeking loans. Most such firms currently go to their accountant or house bank, says Nick Montague, Fundingstore's chief executive. He hopes that all kinds of funders, including government agencies and venture capitalists, will use the site. Meanwhile Jono Shorrocks, a former banker, has begun raising capital for his British Enterprise Bank, which will be aimed purely at funding small business.

Should the big banks be shaking in their boots? Probably not. But these alternatives may encourage them to sharpen up their act.



Struggling to order the internet shopping