

## Responsible Finance Manifesto

The **responsible finance industry** works to promote prosperity and address inequality by empowering people to take control of their financial futures. We help people start businesses, create good jobs, enable families on low incomes to save; these are all outcomes that contribute to strong and diverse industries and an inclusive and resilient economy.

Over the past 10 years, responsible finance providers lent a total of £1.6 billion to 55,000 businesses and social enterprises, creating 68,000 jobs and helping to protect a further 41,000 jobs at risk. This accounted for up to 5% of the UK's total jobs growth each year. They also helped 216,000 people save £20 million in repayments to high cost lenders, generating a consumer surplus for some of the most disadvantaged households in the UK.

The responsible finance industry has a significant impact on our customers and communities; for every £1 responsible finance providers lend, they generate £7 in economic value. This is made possible by our model: local market knowledge and reach, a customer-centric approach, providing support alongside finance helps to open access to opportunity.

Nearly 10 years on from the financial crisis, responsible finance providers are more critical than ever in supporting local economic growth and financial resilience. The UK is still feeling the effects of banks withdrawing investment and physical presence from large parts of the market, and trust in the system remains at a low. Our financial services system underpins the economy, so a flawed system prevents businesses from starting up and growing, and households from accessing credit and other banking services to effectively manage their money. This has real implications for economic growth, especially in those communities that face long-term underinvestment and deprivation.

Responsible Finance calls on all political parties to support a financial services system that allows everyone access to the services and products they need for economic inclusion and prosperity. This includes supporting responsible finance providers focused on serving 'underserved' markets, through providing resources and incentives to encourage investment, appropriate regulation and the replacement of EU funding and facilities.

As the UK prepares to leave the EU, it must plan for the financial services of the future: a system that is competitive, diverse, inclusive, and underpins a fairer society.

To achieve this, there must be a healthy supply side, which includes a thriving responsible finance industry. We ask all political parties to pledge the following commitments.

### 1. Launch a Responsible Finance Fund

A Responsible Finance Fund is needed to properly address under-capitalisation of the responsible finance sector that is a significant constraint on growth. The creation of a dedicated responsible finance fund of £150 million would unlock significant private sector investment and scale the sector's impact on excluded and underserved communities. The United States Government invests

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\$200 million annually into its CDFI<sup>1</sup> Fund. The Fund has been an important force in allowing US CDFIs to operate sustainably by providing them with equity and first loss capital; it is cited as one of the major milestones in achieving their \$45 billion loan book. In 2015, CDFIs benefitting from the programme financed over 12,300 businesses and provided more than 35,000 individuals with financial literacy training.<sup>2</sup>

## **2. Ensure Tax Reliefs and Guarantees are fit for purpose**

Tax reliefs and guarantee schemes are tools widely utilised by the responsible finance industry to leverage commercial investment, thus increasing our impact on underserved communities. These tools need to be kept competitive to maximise social and economic return, including:

- Enabling the Enterprise Finance Guarantee (EFG) to be used on investments with the Community Investment Tax Relief (CITR);
- Aligning the benefits of CITR with those of the Social Investment Tax Relief (SITR) so that the suite of reliefs for socially-oriented investors is easier to navigate;
- Expanding the wholesale EFG option to incentivise larger scale private investment;
- Launch a guarantee scheme or tax relief for the personal lending sector; which would enable greater investment into responsible finance providers that are competing head-on with high cost credit providers;
- Ensure that tax reliefs, guarantee schemes, and other tools are appropriate and flexible to enable responsible finance providers to effectively serve the demand across demographic and industrial landscape. This includes inclusivity of industrial sectors and both rural and urban economies.

## **3. Maintain or replace access to EU funding and facilities**

The Chancellor has guaranteed that key projects supporting economic development across the country which are dependent upon European Union funding would continue to receive funding. It is important that EU facilities which incentivise commercial investment into the responsible finance sector, namely EaSI, COSME and ERDF, are replaced, or access is maintained.

## **4. Ensure proportionate and appropriate regulation**

The responsible finance industry is regulated by the Financial Conduct Authority (FCA) and therefore is compliant with the FCA's rules and regulations that protect consumers and promote competition. However the FCA's rules are designed for large scale financial institutions and hamper the type of diversity in the system that would lead to greater access; and small firms like responsible finance providers have increased regulatory and reporting requirements. Proportionate and fit-for-purpose regulation would enable fair small providers to grow and innovate.

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<sup>1</sup> CDFI: Community Development Finance Institution; US counterpart to responsible finance providers

<sup>2</sup> CDFI Fund, *The CDFI Fund: Empowering underserved communities*,

[https://www.cdfifund.gov/Documents/CDFI\\_Brochure%20Updated%20Jan2016.pdf](https://www.cdfifund.gov/Documents/CDFI_Brochure%20Updated%20Jan2016.pdf)

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