Integrated Communities Strategy - Responsible Finance Response, May 2018

Chapter 6: Increasing Economic Opportunity

Question 11 - The Green Paper proposes measures to provide tailored support to people, especially those who may not currently be active in the labour market, to build their confidence and skills to take up employment. Do you agree with this approach?

About our submission

Responsible Finance is the trade body for responsible finance providers (also known as community development finance institutions (CDFIs)). Responsible finance providers offer loans and support to SMEs and consumers who find it difficult to access finance from commercial banks.

Responsible Finance's mission is to support the development of a thriving and sustainable responsible finance industry that provides finance for underserved communities and, as a result, contributes to increasing economic growth and the prosperity of communities. In 2017, responsible finance providers lent £235 million to 61,163 customers across the UK. Of this, £67 million was lent to 5,072 small business, creating 4,270 new businesses and creating or saving 8,053 jobs. Responsible finance providers are a critical source of finance that helps businesses contribute to employment and job creation, including in some of the most deprived parts of the UK.[1]

Access to finance and financial exclusion continue to be significant barriers to growth and long-term prosperity in local economies across the UK, at the individual, household, and business levels. Despite the economic recovery and a wave of new entrants such as challenger banks and alternative lenders, there is still a large minority of businesses and people that cannot access the finance they need to achieve their goals. **Since 2011, high street banks have withdrawn £24 billion from the SME sector[2] and nearly half of all SMEs are now choosing not to borrow at all.[3] For consumers, 2 million people, or 3% of the population, do not have a bank account and a further 4 million people incur regular charges on their accounts.[4]** These indicators point to a persistently significant gap in access to appropriate finance, and the fragile nature of improvements in financial inclusion to date. All this has a knock-on effect on the health and harmony of communities across the UK.

---

[1] Responsible Finance, *The Industry in 2017*, http://responsiblefinance.org.uk/policy-research/annual-industry-report/

[2] Bank of England, http://www.bankofengland.co.uk/boeapps/iadb/NewInterMed.asp

[3] BDRC SME Finance Monitor Q2 2017, http://bdrc-continental.com/products/sme-finance-monitor/

[4] University of Birmingham, *Financial Inclusion annual Monitoring Report 2015*, http://www.friendsprovidentfoundation.org/wp-content/uploads/2015/10/University-of-Birmingham-Financial-inclusion-report-2015-final.pdf

Responsible Finance

Responsible Finance Response

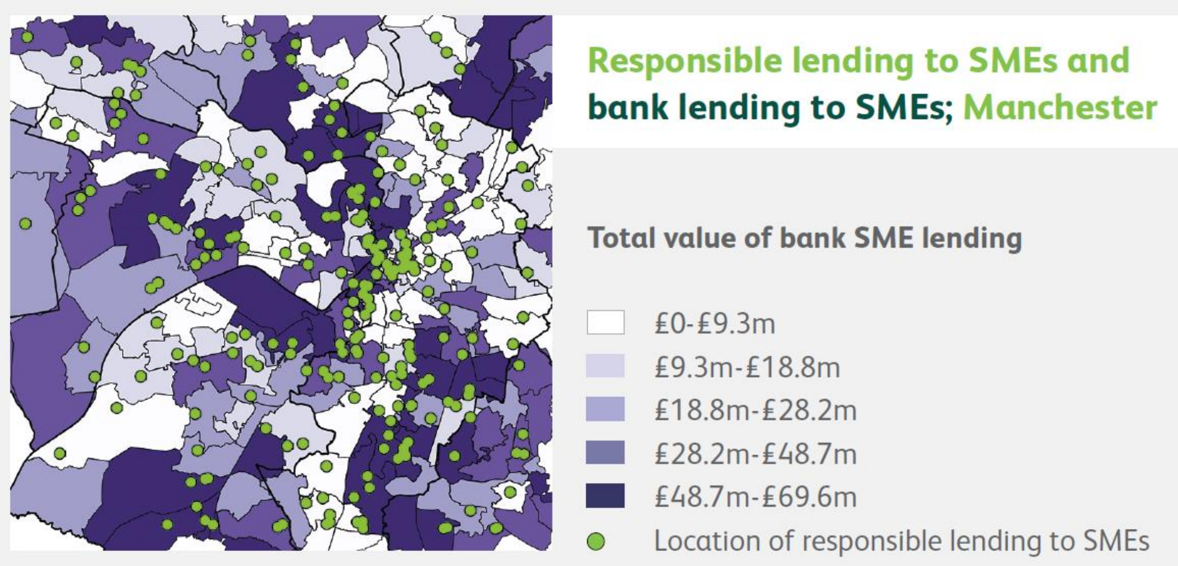
Responsible Finance agrees with the measures the government is proposing, however it believes more emphasis should be placed on the importance of access to finance as part of equalising economic opportunity for both individuals and businesses. This is essential for promoting the successful integration of communities: “communities where people, whatever their background, live, work, learn and socialise together based on shared rights, responsibilities and opportunities.”

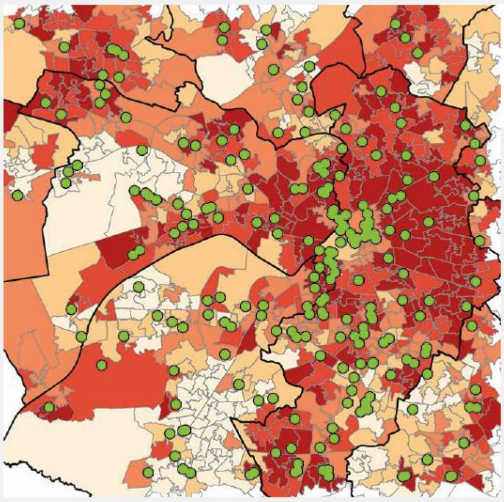
Access to finance is vital for creating economic opportunities in deprived communities. The inability to access appropriate financial services creates a drag on the economy and has led to financial instability, problem debt, and decreased productivity. It also hampers the start-up and growth of SMEs, dampening economic prosperity. This not only erodes society but also limits people and firms’ participation in the economy.

Responsible finance providers, along with Credit Unions and advice agencies, are essential delivery mechanisms for reaching businesses and individuals excluded from mainstream finance. It is essential for the government to help provide the tools for these organisations to capitalise on their core strengths, to partner and scale to serve larger markets and bring economic and social prosperity across the UK.

Our members are deeply rooted in their local communities, and many provide support and guidance alongside finance, increasing the diversity of networks and bringing confidence and a sense of belonging to individuals.

In Manchester, responsible finance providers are empowering local residents and businesses by filling gaps in access to finance. The data has been mapped with bank personal lending and geographies of deprivation in the region. The maps demonstrate that our members’ loans are made in areas where there are higher levels of deprivation and less bank lending. Their lending creates and saves jobs, and saves customers millions of pounds in interest payments, contributing to a stronger local economy:

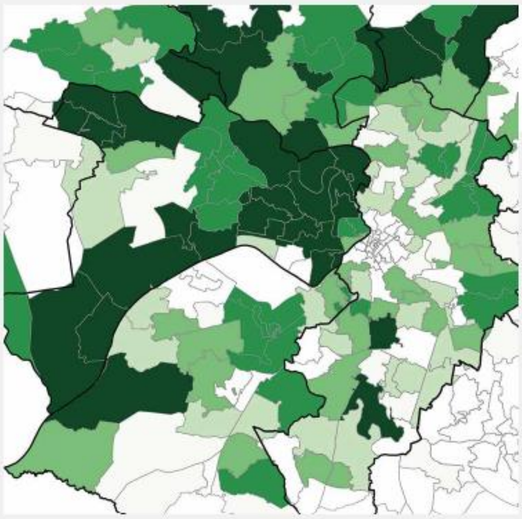




Responsible lending to SMEs and indices of multiple deprivation; Manchester

Indices of Multiple Deprivation 2010 (Percentiles)

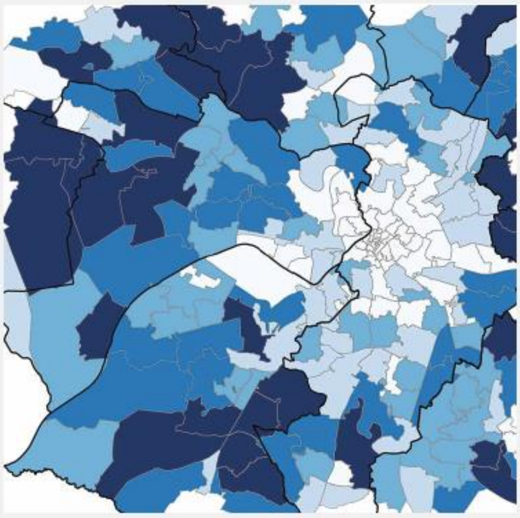
- 0-20% (most deprived)
- 20-40%
- 40-60%
- 60-80%
- 80-100% (least deprived)
- Location of responsible lending to SMEs



Responsible lending to individuals; Manchester

Total value of responsible lending to individials

- £0-£700
- £700-£1,470
- £1,470-£3,030
- £3,030-£8,500
- £8,500-£60,430



Bank lending to individuals; Manchester

Total value of bank personal lending

- £0-£6.6m
- £6.6m-£12.2m
- £12.2m-£16.2m
- £16.2m-£20.6m
- £20.6m-£37.1m [5]

[5] Responsible Finance, *The Industry in 2015*

There are local finance organisations currently operating in every locality across the UK. If responsible finance providers, credit unions and advice agencies worked together in a more joined up way they could achieve scale to fill the gap in the market. In 2017, Responsible Finance published research analysing partnership models and their potential to scale.[6] The advice collaborative that Fair Finance (a responsible finance provider based in London) is part of is a highly effective way of reaching migrant and vulnerable individuals and families with tailored advice. Despite the positive social and economic impact of the initiative, a lack of investment means that it is unable to expand its existing infrastructure. The organisations that deliver this advice collaborative are not for profits, which often do not generate enough surplus to reinvest into innovation and systems.

The role of government is to provide the tools for Responsible Finance providers, Credit Unions and advice agencies to capitalise on their core strengths. This includes providing catalytic grant funds (used to leverage in commercial funds), policy tools such as guarantee schemes, seed capital for innovation and partnership projects.

These organisations need these tools to be able to scale and serve larger markets. Responsible finance providers already have a route to market, market understanding and customer trust. It is essential for harmonious, integrated communities that they are given the resources to scale to create equal economic opportunity for all. For this reason Responsible Finance calls for a £150 million responsible finance fund that will enable the responsible finance sector to scale up and form partnerships to mitigate the gap in access to finance.

[6] Responsible Finance, *Tackling Financial Exclusion through Local Finance Partnerships*, http://responsiblefinance.org.uk/download/tackling-financial-exclusion-through-local-finance-partnerships/