Responsible Finance 2019 Manifesto

The responsible finance industry works to promote prosperity and address inequality by empowering people to take control of their financial futures. Access to finance and financial exclusion are significant barriers to growth and long-term prosperity in local economies across the UK, at the individual, household, and business levels. Access to finance is access to opportunity, and consumers who struggle to borrow from mainstream lenders often struggle to climb out of disadvantage.

Responsible Finance Providers have a long and proven track record in providing access to credit to people and businesses that cannot access finance from mainstream providers. Over the past 10 years, responsible finance providers have lent almost £2 billion to 410,000 businesses, social enterprises, and individuals. This has helped start-up new businesses, created and saved jobs, enabled social enterprises to deliver community services, provided an affordable alternative for families who use high-cost credit, and supported cash-poor homeowners to stay in their homes. Responsible finance providers directly contribute towards achieving the United Nations Sustainable Development Goals.

In recent years UK households have experienced an unprecedented squeeze on incomes; insecure jobs, housing and changes to benefits are hitting people hard. The rise of the ‘gig’ economy, part time work and lack of progression are factors all negatively impacting families. This is alongside the benefits freeze - which if it continues as planned will push an extra 400,000 people into poverty - and the high cost of housing[1]. Low income consumers often pay a poverty premium for goods and services. Responsible finance providers offer significant costs savings compared to high-cost credit providers. Our support is needed now more than ever.

The responsible finance industry has a significant impact on its customers and communities. This is made possible by our model: local market knowledge and reach, putting the customer first, providing support alongside finance to open access to opportunity.

Over the last few years we have seen significant changes in the ‘alternative’ financial services market. The consolidation of high cost personal lending market and explosion of providers in the high cost business lending market, which remains unregulated, highlights the need for greater supply of responsible finance products.

Responsible Finance calls on all political parties to support the growth of responsible finance providers by endorsing 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 $200 million annually into its CDFI Fund. The Fund is essential to 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.

Regional Growth Fund as a precedent for a wider responsible finance fund

The Regional Growth Fund (RGF) programme aims to increase access to finance for small businesses. £30 million was allocated to the responsible finance sector, matched by £30 million from Unity Trust and the Co-operative banks. By 31st December 2018, this fund of £60 million, delivered through responsible finance providers, had supported over2,450 businesses and created or saved over 10,500 jobs, easily meeting the targets set by the Government. 91 % of the fund was lent outside of London into sectors that provide goods and services to the economy or support local supply chains. The Government cost per job supported (safeguarded or newly created) was £2,837, compared to the programme average of £37,400. TheGovernment cost per job will continue to fall as responsible finance providers recycle repaid capital into new loans, representing good value for the Government.

Responsible finance providers have supported businesses across a range of industries through the RGF programme, including manufacturing, clean energy, engineering, software and retail, all of which would otherwise not have accessed the finance they needed to succeed. The fund was successful because it was delivered through responsible finance providers – a sector with local reach that specifically focuses on underserved markets.

This type of targeted, good value for money and high-impact initiative is necessary to drive growth in small-scale ventures that do not feel confident or are unable to engage in mainstream finance.

RGF has demonstrated success in scaling the sector to meet the gap in finance that still persists nearly a decade after the financial crisis, and is a blueprint for a wider sector fund that is expanded to include more responsible finance delivery partners throughout England, Scotland, Wales and Northern Ireland. This will catalyse higher levels of commercial investment and allow responsible lenders to scale their impact

2. Invest in access to affordable credit

Responsible Finance is calling for a dedicated strand of funding from the Dormant Accounts Fund to be allocated to affordable lenders, including personal lending responsible finance providers. This will ensure the sector has the capacity and capital to expand its reach and impact. Like international models, a critical role of the fund will be to catalyse commercial investment into the sector, creating a public-private partnership. A strong affordable alternative market to high cost credit will build wealth, help move people out of poverty and reduce inequality of opportunity. We welcome the creation of Fair4All Finance, and will work with them to ensure that the sector is capitalised as quickly as possible.

3. Replace EU funding and instruments

It is vital that EU facilities which incentivise commercial investment into the responsible finance sector, namely EaSI, COSME and ERDF, are replaced in full by the UK's Shared Prosperity Fund.

Moreover, the Shared Prosperity Fund should be designed to channel funding through a diverse range of innovative, local third sector and private organisations in addition to larger players. It should not be biased to favour delivery partners based on their capacity to deal with large administrative burdens. Accessible, grass-roots organisations such as responsible finance providers are most suited to deliver interventions on the ground.

4. Open Community Investment Tax Relief to personal lending responsible finance providers

Community Investment Tax Relief (CITR) has proved effective at attracting investment into enterprise lending Community Development Finance Institutions. Personal lending by responsible finance providers does not currently qualify for access to CITR tax relief as the 2002 legislation targeted only qualifying enterprises.

Current UK government policy does support the need to increase the availability of affordable and appropriate credit products for people on low incomes, and the Autumn 2018 budget statement included a number of initiatives designed to support the expansion of responsible credit.

Launching a tax relief for the personal lending sector would support financial inclusion by generating investment for onward lending for responsible finance providers that are competing head-on with high cost credit providers. This would help to tackle problem debt, caused by reliance on high cost credit, which is a growing issue in the UK. It is estimated that households currently owe £200 billion in unsecured debt. Estimates put the number of 'non-standard' borrowers at around 10 to 12 million. Of these borrowers many can't get the financial services they need and rely on higher cost alternatives. Higher cost of repayment can push households further towards 'problem debt'. The scale of community lending, as detailed above is inadequate to meet the needs.

5. Ensure existing Tax Relieds 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. These tools need to be kept competitive to maximise social and economic return, including:

- Aligning the benefits of the Community Investment Tax Relief (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;
- Ensuring 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.

6. Introduce regulation to the business lending sector

The UK's business finance sector is unregulated and there are a wide range of different practices amongst lenders, with very few protections in place for businesses. There is a risk that without regulation, similar trends could occur to those that appeared in the consumer credit market prior to 2014 when the FCA stepped in. This can ultimately have a catastrophic effect on the small business market which is the engine of the UK economy. There is currently evidence of little transparency around pricing and a lack of affordability checks. This creates a strong case for introducing regulation that mirrors the FCA's regulation of consumer credit.

The responsible finance industry at work

Business lending responsible finance providers

Responsible finance providers have a flexible approach in determining the viability of a business and a different risk appetite to banks which allows them to lend to business who are otherwise excluded. They transform communities through the creative use of finance.

Responsible finance business lending data has been mapped with bank SME lending data and geographies of deprivation in the Northern Powerhouse region (using responsible finance lending data, UK Finance's bank lending data, and the 2015 English Indices of Multiple Deprivation). Figures 1 and 2 demonstrate that responsible finance loans are made in areas where there is less bank lending and higher levels of deprivation.

Figure 1

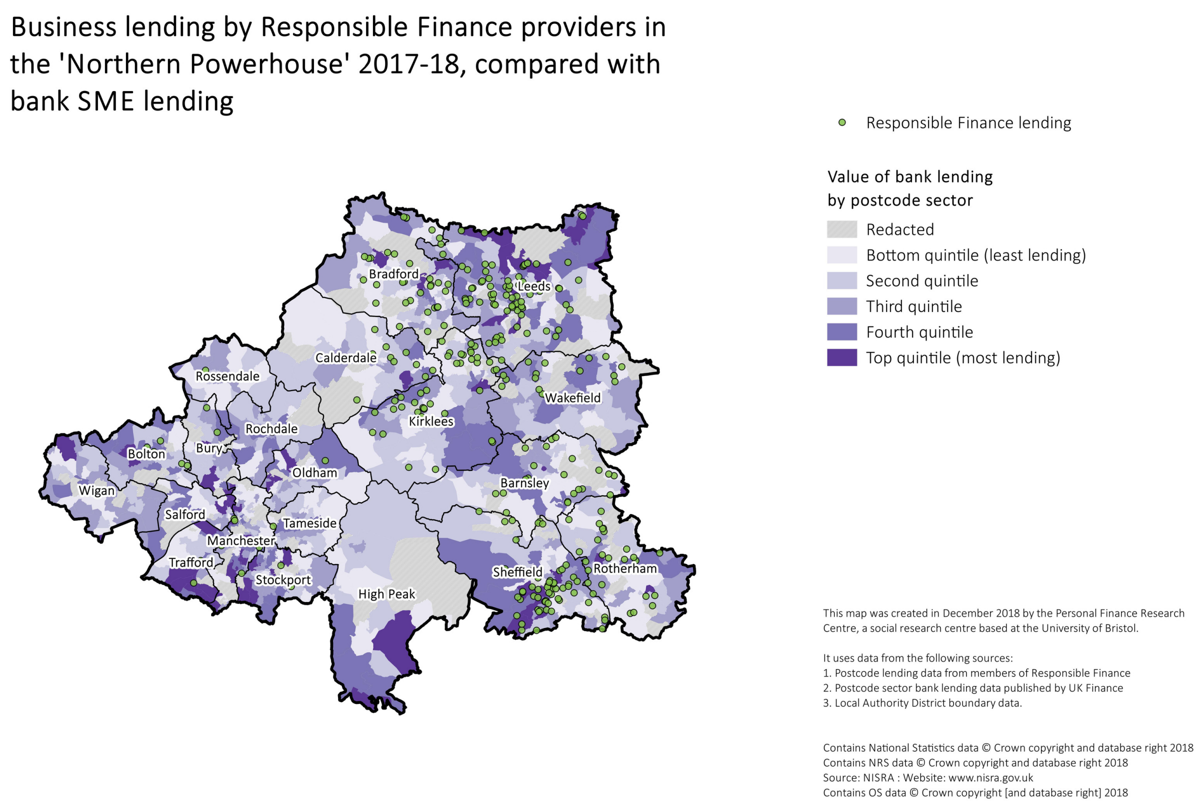
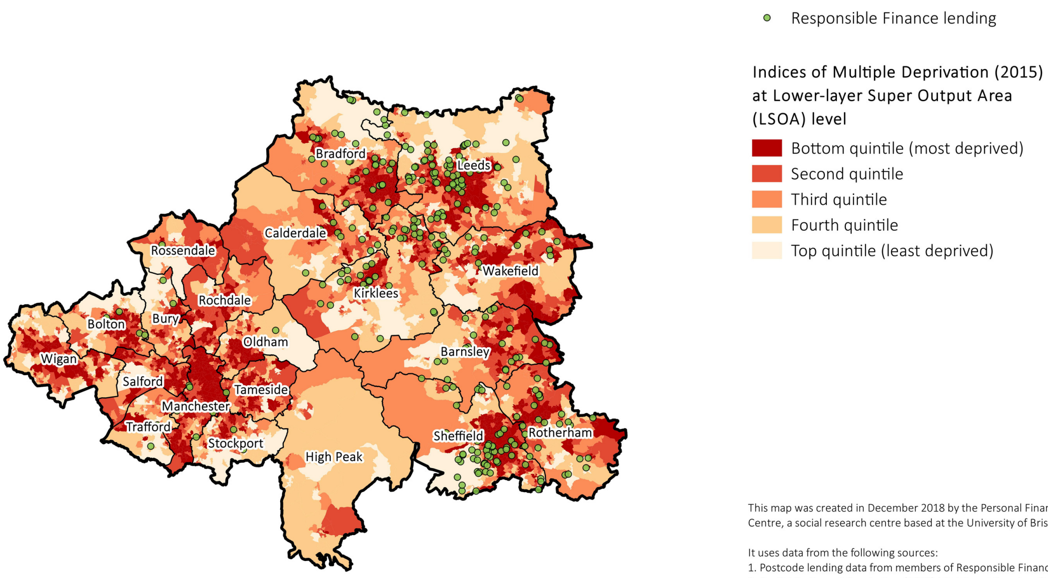


Figure 2

Business lending by Responsible Finance providers in the 'Northern Powerhouse', 2017-18, by deprivation



This map was created in December 2018 by the Personal Finance Research Centre, a social research centre based at the University of Bristol.

It uses data from the following sources:
1. Postcode lending data from members of Responsible Finance
2. English indices of deprivation (2015) Ministry of Housing, Communities & Local Government.
3. Local Authority District boundary data.

Case study - outdoors store ascends to new heights

Alpkit began when four friends with a shared passion for exploring the Alps started making gear for themselves and the people they knew. They then progressed to selling directly to outdoor enthusiasts in 2004 as an online-only retailer.

Alpkit required major investment in their IT systems to support their growth so they approached responsible finance provider Enterprise Loans East Midlands. After taking out the loan, they were able to increase their turnover significantly, grow staff numbers from 12 to 63, they scaled up their manufacturing and opened retail stores. Now every week the business' employees make more than 1,500 products for climbers, hikers and bikers, earning a reputation for quality and affordability. Alpkit plans further shop openings alongside the creation of more jobs.

Social enterprise lending responsible finance providers

Responsible finance providers are a vital source of finance and support for the UK's innovative social enterprises that sit at the core of civil society, tackling social challenges.

Case study - tackling funeral poverty in Scotland

Funeral poverty, when the price of a funeral is beyond a person's ability to pay, is a rapidly growing issue across the UK. Caledonia Cremation is a social enterprise funeral business which addresses funeral poverty by providing low-cost direct cremations.

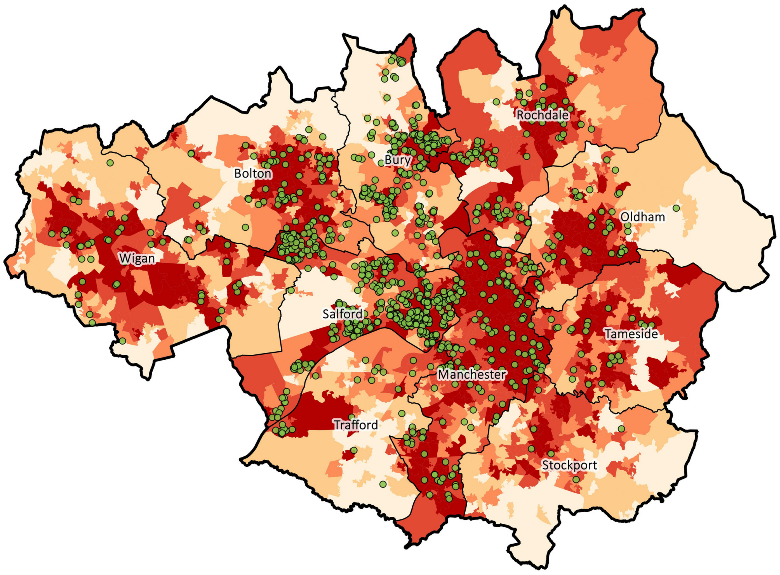
Caledonia Cremation offers direct cremations for a standard rate. They offer additional support to families who still find the cost a financial burden, and run 'death café' discussion groups, community conferences and a national advice helpline. The organisation approached Social Investment Scotland to help set-up capital expenditure and working capital. With backing and grants from others, Social Investment Scotland was able to support Caledonia Cremation in successfully commencing business operations and tackling funeral poverty.

Personal and home improvement lending responsible finance providers

Across the country there are pockets of poverty and deprivation. Responsible finance providers are lending to individuals in these areas who are unable to access other forms of affordable finance. Responsible finance personal lending data has been mapped with geographies of deprivation in the Manchester and Birmingham regions (using responsible finance lending data, UK Finance's bank lending data, and the 2015 English Indices of Multiple Deprivation). Figures 3 and 4 show that responsible finance lending is clustered in the most deprived areas of the Greater Manchester and West Midlands regions.

Figure 3

Personal lending by Responsible Finance providers in Greater Manchester 2017-18, by local area deprivation



Responsible Finance lending

Indices of Multiple Deprivation (2015) at Lower-layer Super Output Area (LSOA) level

- Bottom quintile (most deprived)
- Second quintile
- Third quintile
- Fourth quintile
- Top quintile (least deprived)

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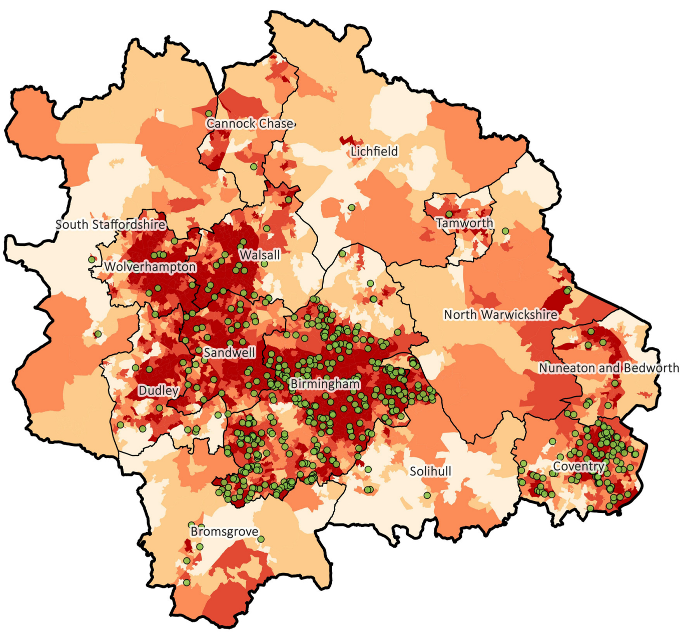
Figure 4

Personal lending by Responsible Finance providers in Birmingham 2017-18, by local area deprivation



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Case study - an affordable alternative

Sophie approached responsible finance provider Lancashire Community Finance (LCF) after she had entered a contract with a well-known rent-to-own store for a new TV after hers broke down. The contract would have cost her over £1,825.20 over 3 years which she soon realised she could not afford to repay. LCF advised her to return the TV immediately as she was still in the cooling off period. They helped her find an equivalent television online from a retailer for £419, and lent her £400 with repayments over 78 weeks totalling £699.66, saving her £1,125.54.

To learn more about the impact of the responsible finance industry, read our 2018 annual industry report.