

## Responsible Finance: 2025 Spending Review Submission

Responsible Finance is the industry body for Community Development Finance Institutions (CDFIs).

CDFIs invest in businesses to help them start and grow. There are 50 CDFIs across the UK that lend £287 million each year to 90,000 customers. They are not-for-profit lenders which focus on supporting businesses located in more deprived, underserved areas, and those led by women and people from ethnic minorities.

Growing the economy is the key policy goal for the UK government. The success of small businesses plays a central part in delivering on this ambition. However, access to finance remains a constraint. Government data indicates that out of a total of 5.5 million small businesses, the growth of 1.1 million (or 20%) is hindered by the unavailability of suitable financial support. Further analysis of public and private data indicates that each year 200,000 SMEs are either declined for bank finance or are too discouraged to apply<sup>1</sup>.

Estimates produced by Responsible Finance suggest that at least 50,000 of these excluded SMEs represent a moderate level of credit risk, but do not meet the lending threshold for mainstream lenders<sup>2</sup>. Improving access to finance for these “bankable” businesses is a clear opportunity to promote growth and reduce economic inequality. This is particularly true for businesses in areas of deprivation where rejection rates are higher<sup>3</sup>.

CDFIs focus on lending to small businesses which have been turned down by mainstream finance. The British Business Bank’s (BBB) Growth Guarantee Scheme (GGs) is critical to their lending. 99% of the viable SMEs CDFIs lend to have been declined, yet between 85% and 90% go on to scale and create jobs in the economy. In 2023 CDFI funding enabled SMEs to:

- Create 6,500 jobs
- Create 3,800 new enterprises
- Safeguard 5,600 jobs at risk

### Recommendation

#### **Responsible Finance recommends that the Government:**

- **Makes a minimum 4-year commitment to the BBB’s Growth Guarantee Scheme until the next Spending Review.**
- **Increases the funding envelope for the GGS to ensure it meets the demand in the economy.**

**This will give lenders certainty about the scheme into the future, giving them confidence to scale and increase access to finance for SMEs. It will also ensure the scheme keeps pace with the scale-up of the UK CDFI sector’s lending.**

Loan guarantee schemes are critical to increasing economic growth by enabling more lending to underserved SMEs. Responsible Finance welcomed the introduction of the Growth Guarantee Scheme

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<sup>1</sup> Longitudinal Small Business Survey 2023, SME Finance Monitor Q4 2023, analysis by Responsible Finance.

<sup>2</sup> <15% term default over a 5 year term loan as estimated by Responsible Finance 2021.

<sup>3</sup> See British Business Bank

which launched in July 2024 with a two-year term. It unlocks access to finance for small businesses by overcoming structural barriers to SME lending through a 70% loan loss guarantee for lenders.

The Growth Guarantee Scheme succeeded the Recovery Loan Scheme, and previous similar loan guarantee schemes dating back 40 years<sup>4</sup>. They are recognised by Governments across the globe as an important policy tool to mitigate widely accepted market failures in financing for small businesses.

The UK's loan guarantee schemes have been extremely effective at unlocking finance for SMEs who lack adequate security, including women, ethnic minorities, and those located in disadvantaged areas. They do this by being a crucial part of CDFIs' business models and how they manage the risk of lending to underserved businesses. In 2023 74% of CDFI loans were guaranteed by the Growth Guarantee Scheme's predecessor, the Recovery Loan Scheme.

The GGS enables CDFIs to raise capital to on-lend to SMEs as it gives investors in CDFIs greater reassurance that their investment will be re-paid.

The current c. 2 year renewal intervals for the guarantee schemes do not give lenders certainty. Confidence, in addition to an increased funding envelope for the GGS, is particularly important for CDFIs as they undergo a period of growth due to:

- 1. The British Business Bank's £150 million Community ENABLE Funding scheme**, which will unlock finance for SMEs across the UK's nations and regions by delivering and catalysing capital investment into CDFIs. The GGC is integral to the scheme.
- 2. JPMorgan Chase's £4 million support for Responsible Finance's CDFI scale-up programme**, which will strengthen CDFIs' operations enabling them to more efficiently deploy small business loans.

In addition, we support the BBB's proposed development of a Green Growth Guarantee Scheme, which seeks to incentivise SMEs to shift towards greater investment in greener assets.

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<sup>4</sup> The Small Firms Loan Guarantee Scheme launched in 1981, it became the Enterprise Finance Guarantee Scheme in 2009 and subsequently the Coronavirus Business Interruption Loan Scheme in 2020