

Funding the Future

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It was glaringly obvious from day one of the coronavirus crisis - which was well before Rishi Sunak's March 11 budget - that small businesses were going to need the most massive support to get through whatever was going to hit them. I had a discussion on this with one business in mid-February. Despite that, Sunak's original offer of coronavirus support was in relative terms tiny, deeply conditional, and when it came to loans, entirely dependent on the willingness of banks to bear part of the risk of any advance made, which unsurprisingly few have been willing to take.

I criticised Sunak on Radio 2 on budget day, saying that his response was inadequate. I did so again when he offered loans subject to an 80% government guarantee, which from the moment that they were announced were glaringly obviously not going to meet the needs of the UK economy. That was especially true given the inadequacies of UK banking, which is almost universally hostile to business because of its dependence upon security, guarantees, and asset finance which is ill-suited to many small enterprises' needs.

And now, far too late in the day, but I suppose better late than never, [the FT reports that](#):

Chancellor Rishi Sunak is preparing to offer 100 per cent guarantees on loans to Britain's smallest businesses, after sustained pressure from Conservative MPs and the Bank of England.

But let's not get too excited, they add that:

Mr Sunak's colleagues say he is "weighing up" whether to go against his instincts and offer full state backing to loans of up to £25,000 to "micro-SMEs" struggling to get credit to see them through the coronavirus crisis.

And they note that:

He said this week he was "not persuaded" that a total state guarantee was the right thing to do despite pleas from Tory MPs, Bank of England governor Andrew Bailey, and former Tory chancellor George Osborne to change course.

Despite that, the rumour is that the Treasury is working on a new scheme targeted at maybe one million of the smallest companies, typically employing a handful of workers.

However, I would not hold your breath as yet. He has yet to get one of these schemes right. Unlike Germany and Switzerland where the time-lapse from applying for a loan of this type to receiving the funds is hours, and the payments made are much larger, the hint is that the usual massive problems to access will be put in the way of this scheme. The usual paranoia will apply.

So, for example, expect there to be conditions that evidence must be supplied that all other options have been applied for and used before such loans can be given. That will include commercial loans.

And expect that there will be greater concern that small sums will be fraudulently claimed than for the survival of companies, a problem overcome in Germany by linking the claims in most cases to previously declared turnover for tax purposes.

Whilst since delivery will still be via banks, who are not in any way geared up for this, expect delay to be the order of the day. Many businesses will die of cash starvation before these funds might possibly reach them. If only we had a national investment bank, as I have long argued for, that could manage this process. It could even raise specific bonds to finance it, if that was considered desirable, as I think it would be. But we haven't got anything like that.

In summary, a clueless Chancellor who is in post solely because of his obedience to a prime minister who has put on record his contempt for business and who has displayed his lack of comprehension of business need for so long that even one of his ignoble predecessors has had to implore him to act, will now do so in falteringly inadequate fashion.

This is not party political comment. This is a simple statement of fact. And yes, I am angry about it. Real people will suffer as a result of this incompetence. If that is not reason to be angry, what is?