



# Scaling up Community Investment in the UK

The case for investing

NOVEMBER 2019



# Thank You

Thank you to the Community Investment Steering Group and CDFIs (Community Development Finance Institutions) who contributed to, and helped prepare, this paper.

We are also grateful for the generosity of the people and organisations who gave up their time to share their experiences and perspectives.

## ABOUT THE COMMUNITY INVESTMENT STEERING GROUP

From March 2018 to April 2019, Big Society Capital and Citi brought together the Community Investment Steering Group focused on ways to achieve capital at scale for CDFIs.

The group assembled representatives from the CDFI sector, small businesses, banks, investors, foundations and thought leaders.

It aimed to:

- set a clear vision for capitalising CDFIs to meet the needs of underserved small businesses across the UK
- offer ways to achieve this vision to ultimately drive more social and economic impact in communities.

Our ambition is that the group's Call for Action will be the basis of further efforts to develop and grow the CDFI sector.

This report outlines the group's key considerations that came out of our discussions.

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## About Big Society Capital

Big Society Capital is the leading financial institution dedicated to social impact investment in the UK. We collaborate with investors and expert partners to achieve deep and lasting measured impact while targeting positive, sustainable returns and building the UK social impact investment market.

In 2018, we launched [a range of initiatives](#) with partners to support community lenders to reach more underserved small businesses in disadvantaged areas across the UK. These initiatives included providing socially motivated capital, building evidence and bringing together stakeholders in the Community Investment Steering Group in partnership with Citi.

## About Citi

Citi is a leading global bank, serving more than 200 million customer accounts and doing business in more than 160 countries and jurisdictions. Citi provides consumers, corporations, governments and institutions with a broad range of financial products and services, including consumer banking and credit, corporate and investment banking, securities brokerage, transaction services and wealth management.

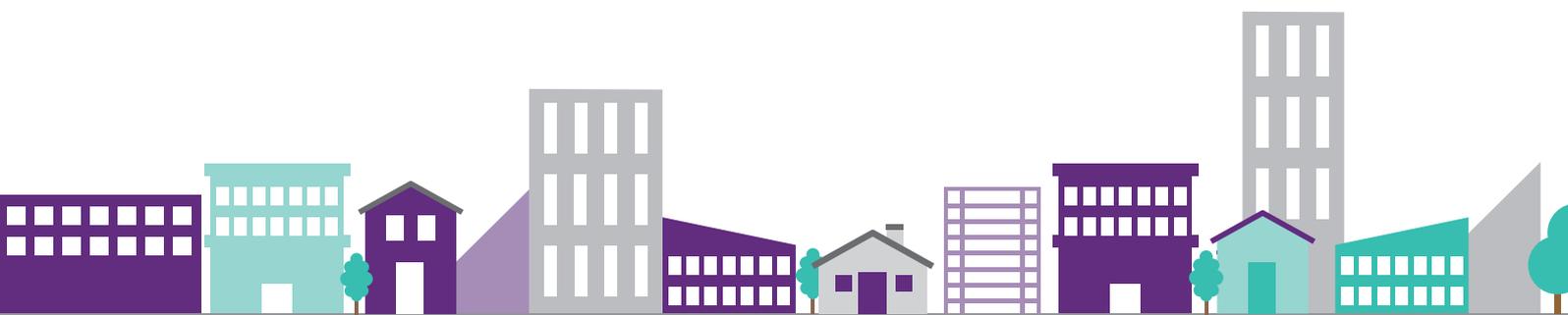
Want more information on the Community Investment Initiatives?

Visit [www.communityinvestment.co.uk](http://www.communityinvestment.co.uk)



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# Transforming Disadvantaged Communities Through Finance

## FOREWORD FROM BOB ANNIBALE, CHAIR – COMMUNITY INVESTMENT STEERING GROUP



**I've seen first-hand the difference community-based lending can make to people's lives and local communities across the world. In the UK, finance for small businesses that cannot access mainstream lending can be transformational. This includes the business owners and their employees from**

**the local community. The economic activity the business generates in the place it is based helps tackle inequality and promote inclusive growth.**

In the UK, Community Development Finance Institutions (CDFIs) are the main providers offering community-based lending to small businesses that struggle to access finance. They share a social mission with their more established CDFI siblings in the US and microfinance institutions worldwide. These UK CDFIs have not yet reached their potential. They could scale significantly to amplify the social and economic impact they help create, often in disadvantaged communities, by supporting small businesses. Yet, what I've learned from the many successful organisations or countries delivering this type of finance is that they need a supportive environment to achieve this.

Together with Big Society Capital, Citi brought together representatives with an interest and ability to influence the UK CDFI market to form the Community Investment Steering Group. People were asked to join from the CDFI sector, small business, banks, social investors, foundations and thought-leaders to reflect the broad range of stakeholders needed to create a supportive environment. The Steering Group focused on developing a shared vision for capitalising CDFIs to meet the needs of small businesses across the UK. Achieving this vision will ultimately help create more social and economic impact in disadvantaged communities and promote inclusive growth.

### Ambitions for the future

This report is the result of the Steering Group's discussions over the last year, with input from CDFIs through structured workshops, and other stakeholders including government. It aims to be a reference point for future collaborative efforts by building a case for investing in CDFIs, as well as setting out an ambition for those efforts to achieve.

We believe the main audiences that will benefit from this report are government (local authorities, combined authorities and central government) and investors (public sector, social investors and commercial investors). Together they can help create the environment for CDFIs to thrive and to capitalise them to reach their potential to support small businesses.

I'd like to thank my fellow Steering Group members for their time and input, as well as others who helped shape our activities.

The wider Steering Group and I hope this is the start of a discussion in the UK on how to realise the potential of CDFIs. We estimate their potential could result in £250 million lending a year to small businesses to achieve economic and social impact, especially in disadvantaged communities.

### Bob Annibale

Global Director, Community Development and Inclusive Finance at Citi



# 1. A Growth Vision for Community Investment

Small businesses can play an important role in society by creating and sustaining jobs for local people and supporting local economic activity, especially in left-behind communities. Yet many sustainable small businesses in these communities cannot access mainstream finance and remain underserved.

Community Development Finance Institutions (CDFIs) are one solution to this problem. They offer the opportunity to transform how these small businesses access finance enabling them to survive and thrive. CDFIs have a social mission. This means they target lending at underserved small businesses that are often based in disadvantaged communities across the UK or are led by disadvantaged groups.

We define 'disadvantaged' as areas or groups that are underserved and as a result do not enjoy the same level of social and economic benefits as other people. This might include factors like income, employment, education or health and safety. Yet, CDFIs themselves are constrained by the lack of significant capital, and are not currently meeting their potential to support these underserved small businesses at scale.

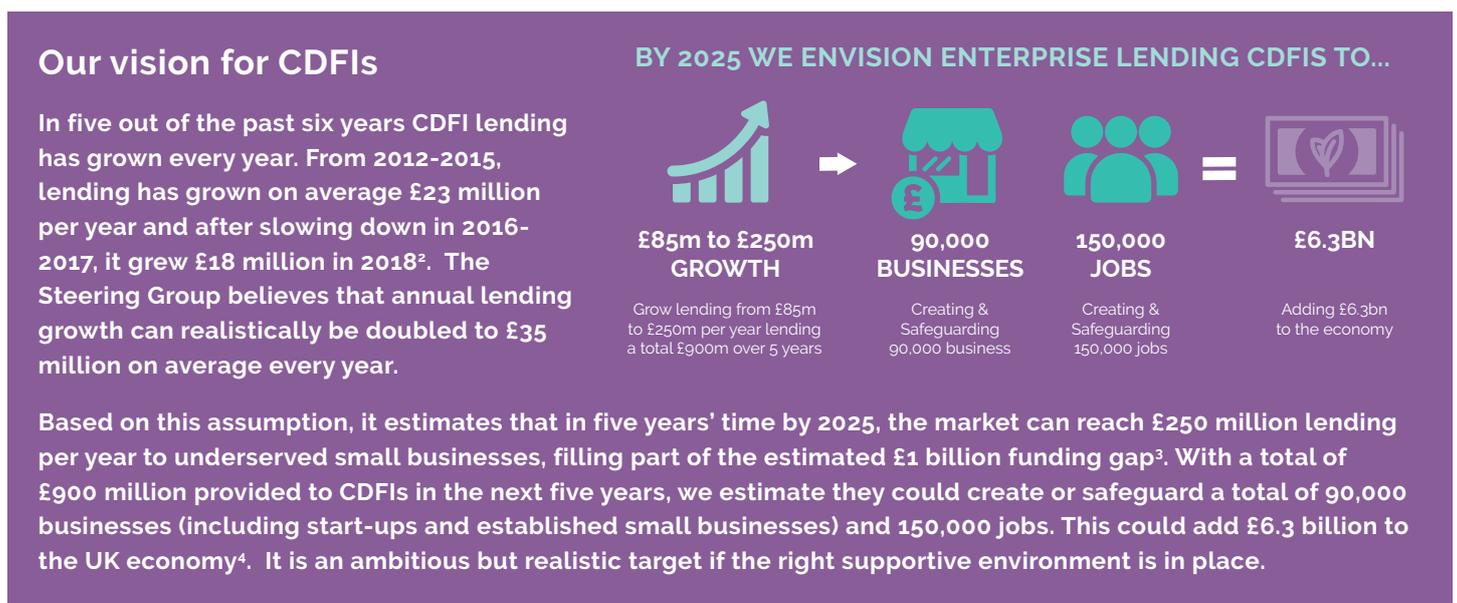
The Community Investment Steering Group believes that we should work towards a vision to achieve...

*“significant social and economic impact in underserved communities, created through sustainable capital invested at scale by a resilient enterprise lending CDFI sector”.*

CDFIs have set out what this means in practice over the next five years<sup>1</sup>. They want to:

- have continued to scale lending and support to more underserved small enterprises to create and preserve more quality jobs and generate greater local economic activity
- be recognised and understood as a route to achieving measurable impact in more disadvantaged communities and the wider economy
- be more investible with strong people, processes and platforms present across the sector
- be able to access appropriate and sustainable sources of capital from a diverse investor base
- be operating in a favourable policy environment that promotes small enterprises.

The UK CDFI sector has the potential to reach a tipping point where it can harness significant capital to better meet the needs of small businesses. It can help them to create and keep jobs and strengthen their local communities.



1. Developed during two workshops with 19 CDFIs in May 2018.

2. [Responsible Finance annual industry reports](#). Note that this includes lending to start-ups, microbusinesses and SMEs. The data source did not separate start-ups and established microbusinesses. Note that in 2016 CDFI lending slowed down to only grow by £5 million and there was a -£36m decline in growth in 2017.

3. See Section 2 below for further details.

4. These estimates were calculated based on social impact data reported in the [Responsible Finance annual industry reports](#) (see section 4). Between 2014 and 2018, 99.6 businesses and 169.6 jobs were created and safeguarded per £1 million lent to CDFIs over this period on average. Note that the number of businesses created includes both start-ups as well as established businesses, as the data source does not distinguish between them.

## 2. How Small Businesses Drive Inclusive Growth in Disadvantaged Communities

Small businesses play an important role harnessing inclusive growth and local wealth-building – especially in disadvantaged and underinvested communities. These small businesses create job opportunities for local people and support economic activity.

In 2018, there were 5.4 million micro-businesses in the UK, each employing fewer than 10 people. There were also 210,000 small businesses employing fewer than 50 people. Together, they employ 12.9 million and make up 99% of businesses in the UK, 48% of jobs and 36% of turnover<sup>5</sup>.

The economic benefits from this are not enjoyed equally across the UK. More could be done to support small businesses to thrive and survive, and contribute to greater inclusive growth, especially in the UK's most left-behind communities.

Small businesses working in these communities face many disadvantages. They do not have the same opportunities to grow as businesses elsewhere. For example, small businesses in disadvantaged areas report much lower turnover growth than firms in other parts of the UK (0.7% versus 3.2% in 2017)<sup>6</sup>. However, wherever they are based, their ambitions are the same: around 20% of small businesses in disadvantaged areas aim to 'grow a national or international business' compared to around 75% who are more focused on 'keeping the business similar to how it operates now'<sup>7</sup>.

### Meeting small businesses' demand for finance

Small businesses need the right support and finance to thrive and survive. Yet many struggle to access the business support and finance products and services they need to do so. This holds back their ability to safeguard and create jobs, and contribute to local economic activity.

This is especially true in disadvantaged areas with high unemployment and/or low economic activity.

The British Business Bank's initiatives, and the work of alternative online finance providers, have made more small business finance available<sup>8</sup>. Yet there is still an opportunity to improve and scale this provision for small businesses that are either unable to access mainstream finance, or are not reached by the existing programmes.

The SME Finance Monitor is a key longitudinal data project in this sector. Its latest 2019 report notes that the emphasis for SMEs has moved away from issues around broad access to finance. The focus now is on how much providers are offering the right type of finance<sup>9</sup>.

The issue of demand for finance from small businesses is in part driven by the low business confidence and appetite for borrowing given current economic conditions and the uncertainty around Brexit.

Yet, anecdotal evidence suggests that many small businesses believe they will be rejected by mainstream lenders, and so do not apply for finance. Supporting this view, the British Business Bank notes many applications declined by mainstream banks are from viable businesses able to take on and repay finance<sup>10</sup>.

However, many have no or a thin credit history and/or a limited trading track record, which makes it difficult and/or costly to adequately assess the risk of lending to the small business. This 'market failure' has increasingly become the case as more mainstream banks move away from relationship-based banking and decision making, to automated credit rating-driven models of lending decisions where the context of a small business' history is often not taken into account.

5. [Chris Rhodes, Business Statistics, House of Commons Library research paper, Number 06152, 12 December 2018](#)

6. [Enterprise Research Centre and the Federation of Small Businesses \(2018\) Sharing prosperity: the future of UK business support](#)

7. [Enterprise Research Centre and the Federation of Small Businesses \(2018\) Sharing prosperity: the future of UK business support](#)

8. Net flow of bank lending to SMEs remained positive in 2018 but weaker than the previous three years, while flows of alternative finance continued to grow ([British Business Bank, Small Business Finance Markets 2018/19 report](#))

9. [BVA BDRC \(2019\) SME Finance Monitor Q4 2018](#)

10. [British Business Bank \(2016\), Assessing the unmet demand for SME debt finance](#)

The second issue is whether small businesses are being offered the right product to meet their goals to thrive and survive. This has improved in recent years with the funds established by the British Business Bank and an increase in online alternative lenders<sup>11</sup>. Many underserved small businesses require unsecured loans on flexible terms given a lack of, or limited, collateral which many lenders find challenging to provide given their risk appetite.

Taken together, the case can be made that there is latent and nascent demand for finance from small businesses, including in underinvested areas, even though the market data can at times be limited.

A 2015 Regeneris study on behalf of the European Investment Bank, suggested the theoretical demand for this group of underserved small businesses stood at around £1.6 billion per year.<sup>12,13</sup>

The Mind the Finance Gap report from Royal Bank of Scotland and the Community Development Finance Association (now Responsible Finance) estimated that the demand for community finance from business was £1.3 billion per year in 2013<sup>14</sup>.

Even if only a fraction of this theoretical demand is realised, there is a market opportunity for alternative lenders to meet the needs of small businesses while also delivering social and economic impact.



📍 The Dressing Rooms Bridal borrowed from BCRS Business Loans



📍 My Ed borrowed from ART Business Loans

11. The UK online alternative finance industry market volume grew by 35% year-on-year to reach £6.19 billion in 2017 ([Cambridge Centre for Alternative Finance \(2017\) The 5th UK Alternative Finance Industry Report](#))
12. [European Investment Bank\(2015\). Using Financial Instruments for Small businesses in England in the 2014-2020 Programming Period.](#)
13. This estimate assumes cautiously that 10% of businesses seeking and unable to secure finance are creditworthy. This unmet demand for finance is over and above what the private sector and public sector-backed providers (for example through the Regional Growth Fund) are already providing to start-ups and SMEs. The authors of the study rightly state that this large level of unmet demand should be treated with caution.
14. [Henry N., Craig P. \(2013\) Mind the Finance Gap: Estimating Demand For Community Finance. RBS and Community Development Finance Association](#)

### 3. Enterprise Lending CDFIs are One Solution

Enterprise lending CDFIs<sup>15</sup> are one solution to meeting the unmet demand of underserved small businesses, particularly in disadvantaged and underinvested communities. CDFIs are socially motivated lenders, close to the communities they serve with an aim to lend sustainably while creating local social and economic impact. Because of these twin objectives, CDFIs can offer products and consider risk differently from commercial lenders. This means they can reach underserved small businesses without collateral or a proven track record.

Mainstream lenders may retreat from lending to small businesses in an economic downturn. However, CDFIs continue to lend to small businesses whatever the economic environment and contribute to the resilience of local economies. As a result, CDFIs take a relationship-based approach to lending and decision-making designed to work better for underserved small businesses and allow CDFIs to achieve their social mission. CDFIs are actively engaged in local business networks and provide a personalised and hands-on service that can involve more detailed discussion on a small business' circumstances. Research shows small businesses want a more active relationship with a lender. For example, SME Monitor noted that 63% of businesses surveyed described their relationship with their bank as 'fine but transactional' – 15% openly said they wished they had a more active relationship<sup>16</sup>.

This relationship-based lending model is supported by a more flexible lending policy than mainstream lenders. They take into account more about the history and the context of the business than mainstream lenders. CDFIs are often willing to lend where there is limited or no collateral. They mostly offer unsecured small loans, which many small businesses consider the right product for them.

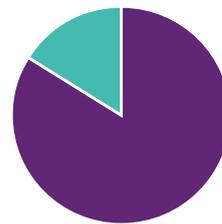
Some CDFIs are also able to offer training, mentoring and advice ('business support') alongside their loans. Or, they are part of networks that can refer the small businesses to other business service providers such as enterprise hubs or local Chambers of Commerce. This improves the experience of the small businesses, adds value and further supports their ability to thrive and survive.

#### Exploring the enterprise lending CDFI landscape

CDFIs have a positive impact in the places where they operate. However, their contribution to annual SME lending in the UK remains small. In 2018, the Bank of England found that the gross flow of new loans to smaller businesses reached £58 billion<sup>17</sup>. CDFI loans to micro and small business totalled £67 million in 2017 and £85 million in 2018<sup>18</sup>. This means CDFIs lent in a year what the market lent in three hours<sup>19</sup>. There is an opportunity to help amplify the social and economic impact they have in communities by supporting them to scale, and meet the financial needs of more underserved small businesses.

#### What are CDFIs?

- Social enterprises that create positive social and economic impact by lending to underserved small enterprises and business owners, many of which are located in more disadvantaged communities, to create jobs and generate local economic activity.
- Alternative lenders taking diverse approaches to meet local needs but united in their open, fair and relationship-based decision making that puts the small enterprise at the centre.
- Targeting a market-wide need for small-scale risk capital, which mainstream lenders are not currently fulfilling.
- CDFIs self-defined this description through engaging in a workshop and follow up survey in June 2018.



**84% OF VIABLE BUSINESSES LENT TO BY CDFIS WERE PREVIOUSLY TURNED DOWN BY A BANK IN 2017/18**

Source: Responsible Finance (2018) The industry in 2018

15. CDFIs are also known as Responsible Finance Providers in the UK.

16. [BVA BDRC \(2019\) SME Finance Monitor Q4 2018](#)

17. [British Business Bank Small Business Finance Markets 2018/19 report](#)

18. [Responsible Finance \(2018\) The industry in 2018](#)

19. This estimate is based on data from [British Business Bank Small Business Finance Markets 2018/19 report](#) and [Responsible Finance 2018 industry report](#). Total amount lent by the market per hour = £58 billion / (261 working days \* 8 working hours = £27.8 million. Number of hours it takes to the market to lend £85m = £85m/£27.8m = 3.1 hours

The CDFI landscape has changed in size and composition over the past two decades, often in line with the available public sector-led funding programmes.

What has emerged is a diverse group of CDFIs with business models, mission, customers, scale and geography that vary substantially.

There are three broad CDFI Groups that emerge when considering current deployment capacity and future trends as outlined on the spectrum below.

- **Specialist CDFIs:** CDFIs focused on serving a specific client group or narrower geographical areas to achieve their social mission. This approach often deploys less lending capital per year and may focus on higher risk clients that need concessionary capital<sup>20</sup>.
- **Established CDFIs:** CDFIs that are firmly established in their target area and are deploying a sizeable level of capital every year. They have ambitions to grow their activities further to meet their social mission. They are building their organisational capacity to achieve this ambition.
- **Scaling CDFIs:** CDFIs that have scaled to deploy relatively high levels of capital per year with a broad reach in the geographies they serve, with further ambitions to reach deeper into their target area or move into adjacent areas to further their social mission.



Figure 1. Types of CDFIs along the spectrum of enterprise lending

The CDFI Groups tend to serve different client groups (see below). This mix is important to ensure that a diverse range of underserved small businesses are served. Different types of capital may be needed to support the different social objectives of the Groups or individual CDFIs to appropriately support clients.

**This report predominantly considers the case for more commercial capital to support the ambition of scaling collective CDFI activity to achieve greater social and economic impact. It is therefore largely focused on the Scaling CDFIs and Established CDFIs Groups which have the aspiration to take on commercial capital. It also focuses on access to finance for more established small businesses (micro to medium-sized enterprises) rather than start-ups.**

## Who are the clients of CDFIs?

CDFIs lend to small businesses who are underserved by mainstream banks, because they lack collateral or a track record. The CDFIs serve a broad range of clients, including different sizes and types of businesses. They can serve sole traders and self-employed people, start-ups, micro-enterprises employing less than 10 people, small businesses employing 10-50 people and medium-sized businesses (up to 250 people).

The CDFIs' level of risk and associated social impact varies depending on their social mission. Some CDFIs support certain groups of underserved entrepreneurs further away from the labour market, such as ex-offenders, women, or people from an ethnic minority. Others support more established businesses that lack collateral but have an ambition to grow.



20. Concessionary capital offers terms that are flexible and more favourable to borrowers such as below market rate returns, longer repayment period or grace periods.

There are 23 CDFIs in the UK (see Annex B). They offer good coverage but work at different 'depths'. This means there are opportunities to expand deeper into existing communities or into adjacent communities. As shown on the map below, most of the Scaling CDFIs and Established CDFIs are in England, which has a different funding environment than the other Home Nations. However, there are learning and investment opportunities across the UK.

There is an uneven spread of CDFIs across the country. Most CDFIs are in the North West, Yorkshire and the Humber, the West Midlands and the South East. This is where more districts score highly on the Index of Multiple Deprivation (IMD)<sup>21</sup>. There are fewer CDFIs (1-2) based solely in the other regions, with two CDFIs covering the whole of the UK.

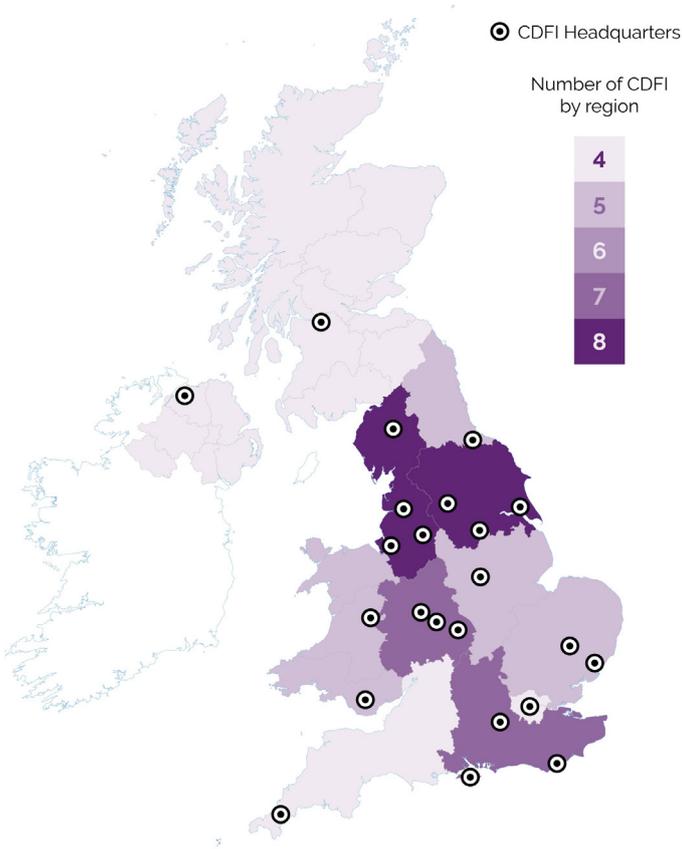


Figure 2. Map of CDFIs in the UK and number of CDFIs covering each region. Some CDFIs span their activities across regions



Stainless Metal Solutions Ltd borrowed from BCRS Business Loans

21. See [Social Value Portal](#) website

Many of these CDFIs focus on both micro and small businesses, serving the former mainly through the British Business Bank's Start Up Loans Scheme and New Enterprise Allowance for new businesses.<sup>22,23</sup> So far, small business lending has mainly been through European funded programmes, the British Business Bank or from local funds. The Enterprise CDFI lending under the Responsible Finance Regional Growth Fund (RGF) programme lent £30 million between 2012 and 2016. This was matched 1:1 with commercial capital from Unity Trust Bank and the Co-operative Bank. This programme came to an end in 2016/17 with some funding recycled beyond. As shown in Figure 3, the end of this programme resulted in CDFIs lending 35% less to small businesses than the previous year, despite strong demand.

There has been some pick-up in deployment as the CDFIs begin to recycle the RGF funds repaid by small businesses. This is accompanied by funding from the British Business Bank's three regional funds: Northern Powerhouse Investment Fund, Midlands Engine Investment Fund and Cornwall and Isles of Scilly Investment Fund. In total these three funds will make £90 million of debt and equity finance available to smaller businesses and start-ups. Much of the funds will go to larger SMEs.

These public-funded programmes require match-funding from private capital. The Community Investment Enterprise Facility, established by Big Society Capital and managed by Social Investment Scotland, is beginning to also deploy funds to accompany these other programmes. This will see up to £60 million deployed over the next three years.

**This investment case is focused on scaling lending to more established small businesses. This is where CDFIs note there is the greatest unmet demand and greatest opportunity for commercial capital at scale given the risk profile of lending to more established small businesses.**

There is scope for the CDFIs to increase their activity. Figure 3 above shows current activity levels and potentially CDFIs' baseline capacity to engage and lend to high numbers of small businesses.

Equally, there is still a long way to go in terms of scale of lending and attracting other sources of finance such as commercial or public-sector led finance. This is especially when compared to other countries or regions such as in the US and Europe.

The US is one good example of how a scaled and sophisticated CDFI market can effectively support local economic growth when underpinned by substantial support from the public and private sector over a sustained period. While we can learn from the US, we need to recognise that the US context is different from the UK. The scale of philanthropic funding and policy incentives for CDFI investment are much greater there.

## ANNUAL GROSS ENTERPRISE LENDING FLOW FROM CDFIS (ON AND OFF BALANCE SHEET)<sup>22</sup>

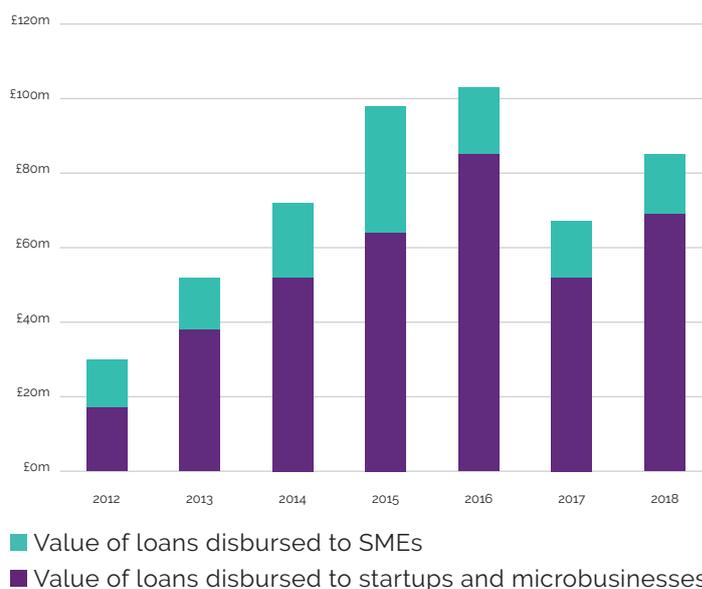


Figure 3. Annual gross enterprise lending flows from CDFIs  
Source: Responsible Finance (2018) The industry in 2018; Responsible Finance (2016) The industry in 2016

### British Business Bank



British Business Bank is a government organisation which aims to make finance markets work better for smaller businesses in the UK at all stages of their development: starting up, scaling up and staying ahead.

Through its programmes, British Business Bank increases the supply of finance available to smaller businesses where markets don't work well. They work with more than 100 finance partners in the market including CDFIs.

They have established a number of regional programmes for underserved small businesses some of which are being delivered by CDFIs including the Midlands Engine Investment Fund and the Northern Powerhouse Investment Fund.

22. R. Roberts, Banks, CDFIs and SME funding (2015), p.1. in [Civitas \(2017\) Helping Small Businesses Access Finance: The importance of responsible finance providers](#)

23. Note that this includes both on and off balance sheet lending. For some programmes such as SULCO, the CDFIs will source and select the small businesses but a central team at BBB administers the loans. Hence the amounts are not on the CDFI's balance sheets.

## Learning lessons from the USA

A detailed report on the lessons learned from the US community investment market was developed following a Citi-BSC trip with five UK CDFIs in Autumn 2018<sup>24</sup>. A Harvard Kennedy School report from 2015 also analyses the lessons the UK can learn from the US community investment sector<sup>25</sup>.

The US CDFI market began to form in the late 1960s and early 1970s, where some of the first community development focused organisations came out of government's effort to reduce poverty and racial discrimination. Over the decades, the market has grown, in particular in the 1990s when a number of government initiatives created the conditions to leverage significant financial and non-financial support for CDFIs.

As of Autumn 2018, there are 1066 certified CDFIs operating in all 50 states, serving both rural and urban communities. There is also a mix of CDFIs serving all people in a community, and those focused on specific groups including minorities.

US CDFIs manage more than \$150 billion with a focus on investing in economically distressed communities, creating jobs and affordable housing. The majority of the capital under management is in affordable housing and infrastructure.



Salon Cristina borrowed from Excelsior Growth Fund (from USA Learning Report)



Guadalupe borrowed from Grameen America (from USA Learning Report)



Flowers and Flores borrowed from BCNA (from USA Learning Report)

24. McCartney R. (2019) Community Investment Lessons learned from the US. Big Society Capital and Citi

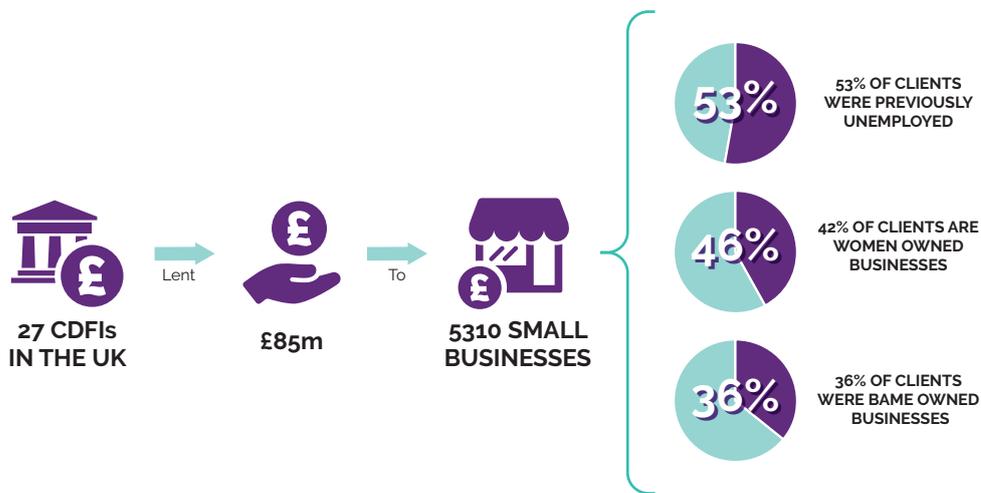
25. Sakaue L., Stansbury A. (2015) Tackling Financial Exclusion through Community Investment: How should the UK strengthen its community investment sector? Lessons from the US experience

# 4. The Social And Economic Impact Of CDFI Lending

CDFIs were established to support positive economic and social impact in the often disadvantaged places they operate in by lending to underserved small businesses. This mission remains core to CDFIs activities and has been shown in part through the number of businesses and jobs that have been created and/or sustained, as well as the many small business success stories shared by CDFI borrowers.

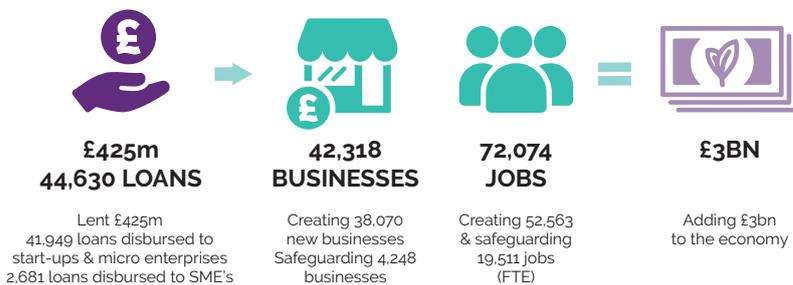
The figures below show the impact created by enterprise lending CDFIs with their current level of funding in 2018. You can also see the groups of people they support, based on the 2016 survey.

Small businesses in disadvantaged areas are more likely to be owned by members of ethnic minorities than elsewhere (4.7% compared to 1.7% in other areas in 2017)<sup>26</sup>. Thanks to their relationship-based models, CDFIs are able to serve client groups that are traditionally underserved by mainstream finance providers such as Black, Asian and Minority Ethnic (BAME) and women-owned businesses.



N.B. The 2018 Responsible Finance Industry Report reports 27 operating CDFIs in the UK. Since then, four have stopped lending to SMEs.

To highlight what could be achieved in the future, the infographic below shows the impact of enterprise lending CDFI lending over the last five years (2014-2018).



On the next page case studies of CDFIs illustrate their approach to creating social and economic impact:

26. Enterprise Research Centre and the Federation of Small Businesses (2018) Sharing prosperity: the future of UK business support



## Backing small businesses: the Business Enterprise Fund

**Business Enterprise Fund** (BEF) was established in 2004 with a social mission to support businesses in Bradford, particularly those in deprived communities. Over the past 15 years it has grown to lend money to small businesses that need access to finance to thrive and grow across Yorkshire and the North East.

BEF is a social enterprise, and its goal is to 'provide flexible finance to businesses in areas that need it most'.

In 2018-2019, it supported 331 client deals, provided 3,000 hours of investor-readiness support, and helped create or safeguarded 820 UK jobs. It estimated that for every £1 lent, £4 was added to the region's economy – totalling £39 million. Forty per cent of loans are made to the most disadvantaged areas in the UK.

Read about BEF's [approach to social impact](#) and their latest [impact report](#).

## ART Business Loans: fuelling small businesses

Established in 1997, **ART Business Loans** provides finance to businesses and social enterprises across the West Midlands that struggle to access bank finance. It operates across the West Midlands, Staffordshire, Herefordshire, Worcestershire, Shropshire and Warwickshire.

As a CDFI, ART's remit is to ensure that viable businesses and social enterprises across the areas it serves can access the finance they need. Typically, its clients are established businesses that are unable to meet a bank's lending criteria but have a viable business model. ART's clients seek finance to sustain or grow their businesses and are able to protect or create jobs as a result.

Over the last five years, ART has lent £11.7m to 363 businesses that had been declined a loan by banks, which in turn has supported the protection or creation of over 2,300 jobs for local people across the West Midlands.

Read their [latest impact report](#)

## Enterprise Loans East Midlands: supporting local communities

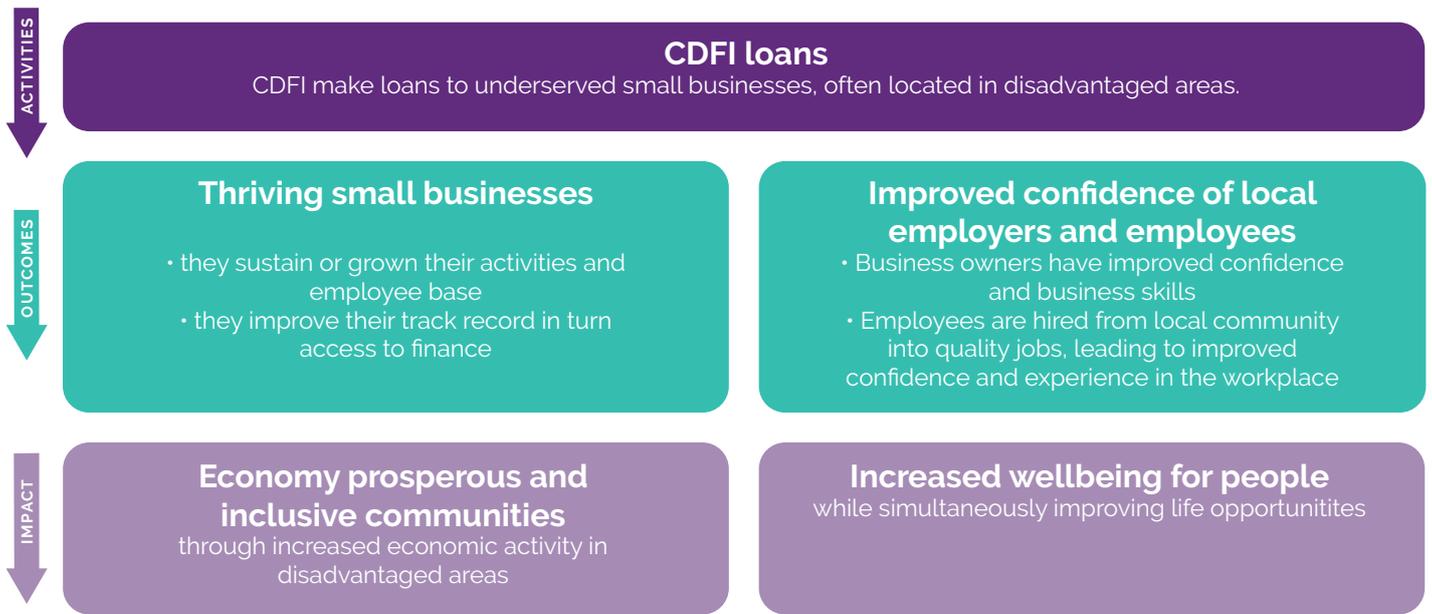
**Enterprise Loans East Midlands** (ELEM) was established in 2008 by First Enterprise Business Agency and the East Midlands Development Agency. It provides loans to self-employed, micro and SMEs with limited or no access to mainstream finance.

First Enterprise was formed in 1989 to provide culturally sensitive business support and finance to disadvantaged communities with a particular emphasis on serving black and minority ethnic (BAME) communities. Created to champion social inclusion with a mission to sustain economic advantage through self-employment, First Enterprise sees itself as more than a business support organisation. It is a vital link and resource for the communities it serves, providing services that aid business growth, job creation, skills and labour force development and community relations.

Since First Enterprise started, it has supported thousands of small businesses and each year lends over £3 million to start-up and growing businesses, which is expected to grow to £7 million in 2019/20.

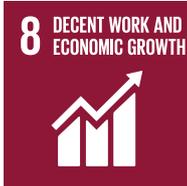


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The diagram below outlines how CDFI lending creates economic and social impact for people and communities.

More broadly, we believe that these outcomes from CDFI lending also contribute to a number of the UN Sustainable Development Goals (SDGs). These are 17 goals that the UN General Assembly agreed in 2015 as the blueprint for a better and more sustainable future by 2030. In particular, CDFIs contribute to the following SDGs<sup>27</sup>:

 <p><b>10 REDUCED INEQUALITIES</b></p>	<p>By lending to underserved small businesses often located in disadvantaged areas and supporting them to thrive, CDFIs work to reduce inequality across the UK. They provide opportunity in the form of finance, mentoring, training and other support to business owners from disadvantaged communities who cannot access mainstream sources of finance. By creating economically prosperous and inclusive communities, CDFIs contribute to reduce geographical and social inequality across the UK.</p>
 <p><b>11 SUSTAINABLE CITIES AND COMMUNITIES</b></p>	<p>CDFIs invest in the social fabric of places, helping to transform communities to become inclusive and socially sustainable. Local funding can develop the resilience of local small businesses and help places attract private capital.</p>
 <p><b>8 DECENT WORK AND ECONOMIC GROWTH</b></p>	<p>CDFIs provide financing to small businesses in disadvantaged and underinvested communities. They enable inclusive growth and sustainable job creation, and create work and income which circulates in local economies.</p>
 <p><b>3 GOOD HEALTH AND WELL-BEING</b></p>	<p>CDFIs provide financing to small businesses in disadvantaged and underinvested communities, this develops skills, confidence and resilience of business owners and their employees. By creating economically prosperous and inclusive communities, CDFIs also contribute to improving the wellbeing of people living there.</p>

27. Adapted from [Responsible Finance 2018 Industry Report, p 10-11](#).

There is both quantitative and qualitative evidence on the social and economic impact CDFIs are creating. For instance, British Business Bank regularly publishes economic analysis of its programmes, most recently on the Northern Powerhouse Investment Fund<sup>28</sup>. However, there is a recognition that an updated, longitudinal national investigation of impact would be welcome to deepen the evidence base of CDFI impact in the UK, especially in terms of social impact. More in-depth evidence on social impact will create greater confidence in its quality and making results available through open data would support investment decisions in the sector.

## Building evidence: a new academic evaluation from Sheffield Hallam

Big Society Capital has commissioned Sheffield Hallam University's Centre for Regional Social and Economic Research (CRESR) to undertake a long-term evaluation of CDFIs that receive investment from the Community Investment Enterprise Facility over the next seven years. It has these aims:

1. To evidence the financial performance of CDFI lending into small businesses.
2. To evidence the social and economic impact of CDFI lending at a community level and for individuals.
3. To consider the change in the CDFI market over the life of the Facility, including the impact of the initiatives BSC and its partners are leading.
4. To develop and model good practice in approaches to measuring social and economic impact of CDFI lending.

This evaluation alone cannot answer every question. But it builds on past research and will contribute to future research to test out enhanced impact hypotheses and provide robust evidence of social and economic impact.

The findings from the evaluation will be shared through a six-monthly data dashboard, short thematic reports, annual reports on key findings, and an interim and final report. All will be published on the [Knowledge Centre on the Community Investment website](#). The full evaluation framework is already available there.



Vanilla Pod Bakery borrowed from the Fredericks Foundation



Kindred Spirits Ltd. borrowed from BCRS Business Loans

28. [SQW Ltd \(2019\) Northern Powerhouse Investment Fund - Early Assessment Report, British Business Bank.](#)

## 5. The Financial Drivers of CDFI Lending

There is not currently a 'one size fits all' business model that all CDFIs employ given the diversity in funding streams, the clients they serve and the local context. There is greater commonality among the "Scaling CDFIs" and some of the "Established CDFIs" which have a clearer path to taking on increased commercial capital. Like any business, improving their operations and track record will likely broaden their options for accessing diverse funding streams. There is recognition from multiple stakeholders that more could be done to understand the financial track records of CDFI lending, and how this links to their different strategies, clients and models. It would be beneficial to build a deeper understanding in this area, in particular to inform potential investors and policy makers.

Below we cover the drivers of the financial case the CDFI's revenue model and operating costs, their product offering, deployment and defaults.

### 5.1. Revenue

CDFIs generally generate revenue from lending, most often through income from balance sheet lending or fees from managing off-balance sheet funds. Many CDFIs have not achieved sufficient economies of scale in their lending to cover all their costs, so they diversify their revenue streams to ensure a sustainable business model. For example, some purchase property for a regular rental stream and others secure contracts to deliver enterprise support from local authorities.

Spread on interest income from lending activity	Fund management fees
Rental income from properties owned	Contracts to deliver enterprise support

Figure 7. CDFIs' main revenue streams

### 5.2. Operating costs

A CDFI's operating costs are mostly related to staff given the relationship-based lending approach it takes. Compared to lenders that use algorithmic underwriting approaches, CDFIs have a higher cost per loan. However, the cost per loan decreases as a CDFI scales its deployment and fixed costs become a smaller part of making and monitoring a loan. This can cause tensions for CDFIs whose social mission is to continue to be close to their local community, when they need to also expand their reach to support a sustainable business model.

To help CDFIs be more efficient, there are initiatives underway to improve their reach to potential clients through online marketing. Other initiatives improve the efficiency of back office systems to reduce staff time on what can be time-intensive activities. These efficiencies will support sustainable business models. Yet they can conflict with the CDFIs' social mission if less time is spent with underserved small businesses that benefit from relationship-based lending.

This has already partly happened in the UK. CDFIs have been forced to reduce the level of business support they provide to small businesses over the past 5-10 years because there are fewer funding sources to pay for it. The profit margins from lending are insufficient to fund this additional support without passing the cost onto the small business. This is at odds with lending at affordable, yet sustainable, interest rates. This is in contrast to the US, where the majority of enterprise lending CDFIs are providing both loans and business support thanks to the level of grants available.

### Building a picture of CDFIs' financial track record

Sheffield Hallam University will undertake the research project, working with five CDFIs that have a large volume of lending data. The project is funded by Citi and managed by Big Society Capital. The research aims to:

- explore the performance and risk profile of enterprise lending CDFIs, including levels of non-performance and at risk loans, for different industry sectors, small business characteristics, geographies and funding programmes
- understand how CDFIs' financial resilience has changed in the last five years whether it is correlated with a) the nature and/or type of programme or funding they have delivered, and b) correspond with the product offered to small businesses.

The findings will be shared in a short report and through online data visualisation in Autumn 2019.

## 5.3. Product

CDFIs principally make loans that are unsecured or have limited security. The table below shows the range of terms the CDFIs offer to small businesses for loan typically ranging up to £150,000.

Average loan size range:	£30,000 – £50,000
Average loan term range:	3 – 4 years
Average interest rate range:	12 – 18% p.a
Average arrangement fee:	1-2%
Security	Generally unsecured

The research Sheffield Hallam University is undertaking both through the evaluation of the Community Investment Enterprise Facility and research on the financial track record of the sample of CDFIs will provide more detail on the products offered by CDFIs to different client groups and sizes of small business.

## 5.4. Default rates in loan book

Given CDFIs' focus on underserved small businesses that have mostly been declined by mainstream lenders, it can be expected that default rates are higher than amongst small businesses which are considered bankable. In recognition of this, the British Business Bank introduced the [Enterprise Finance Guarantee](#) for any lender that serves this client group to cover a portion of the defaulted loan value. This guarantee contributes significantly to a CDFI's sustainability.

Default rates are difficult to accurately report because:

1. Many CDFIs have delivered public sector-funded programmes which have targeted different client groups and risk parameters. So, the underwriting decisions CDFIs make for these programmes are not always representative of the decisions they would take if they managed commercial capital – they are driven by the economic and social goals of the funded programme.
2. Some CDFIs deliberately make higher risk decisions that are guided by their social mission to serve specific client groups, for example ex-offenders or long-term unemployed. As outlined in section 3, these CDFIs are less likely to pursue commercial capital and are therefore not the focus of this investment case given a need for more concessionary capital to support their social mission.

## Enterprise Finance Guarantee

Available to all enterprise lenders, including banks, to facilitate finance to small businesses that are able to take on and repay finance but are unable to access it due to no, or limited, collateral.

The government-backed Guarantee offers 75% against the outstanding loan balance (up to a 20% cap on the lender's annual portfolio). The coverage ratios are intended to share risk between the government and the lender. The Guarantee also helps reduce the cost of capital by increasing the threshold that default rates begin to impair a lender's return.

Although this is not a CDFI-specific tool, a number of CDFIs use the Guarantee given they are often lending on an unsecured basis.

The Guarantee has supported 29,000 small businesses that would not otherwise have received finance, with finance totalling £3.2 billion since 2009. In 2014 CDFIs raised over £7.5 million using this scheme.



3. Partly due to 1) and 2), CDFIs do not consistently use the same default definitions or write off approaches. This makes it challenging to compare between CDFIs. This is starting to be addressed through Sheffield Hallam's evaluation of the Community Investment Enterprise Facility (CIEF) and the research into CDFIs' track record (see box in section 4 above).
4. The creditworthiness of small businesses will vary according to economic conditions. For example, during economic growth banks will often loosen their credit requirements and lend to many of the small businesses that they decline in economic downturns. So, during economic downturns the credit quality of the small businesses CDFIs lend to will tend to be higher than in periods of economic growth. This 'counter-cyclical' role of CDFIs is one of their wider economic impacts. Because of this it can be difficult to work out whether defaults are due to economic conditions, or the CDFI's underwriting abilities.

Enterprise lending CDFIs have experienced annual default rates of between 5% and 15% in recent years, however it has historically been much higher, especially after the 2008 financial crisis. The Community Investment Enterprise Facility assumes cumulative default rates of 15% over the eight year life of the fund. With the caveats above in mind, the diagram below outlines data from Responsible Finance on the average default rates of all enterprise lending CDFIs.

**PORTFOLIO AT RISK AND WRITE-OFFS - MICRO AND SMALL BUSINESS LENDING (EXCL. STARTUPS)**

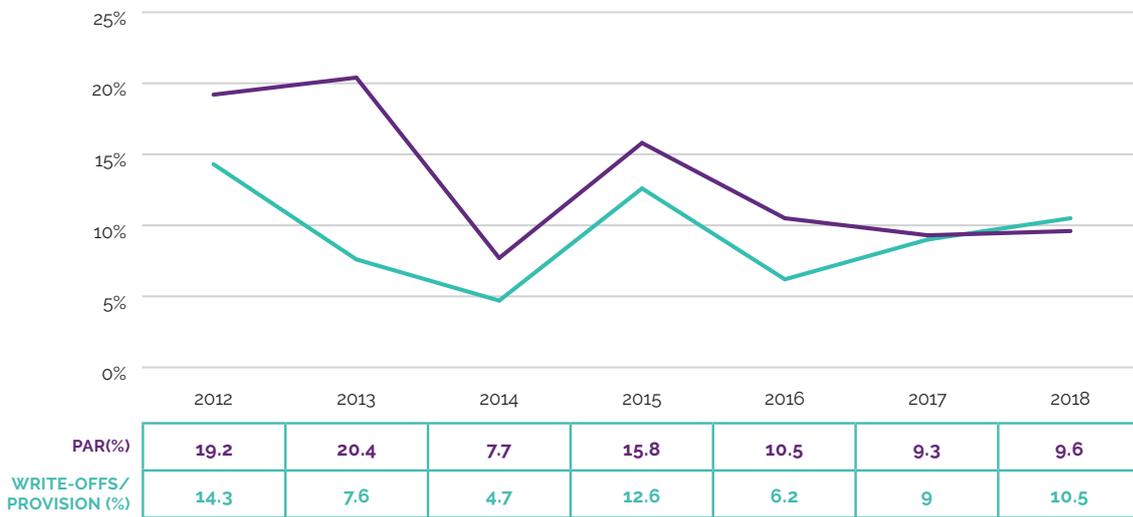
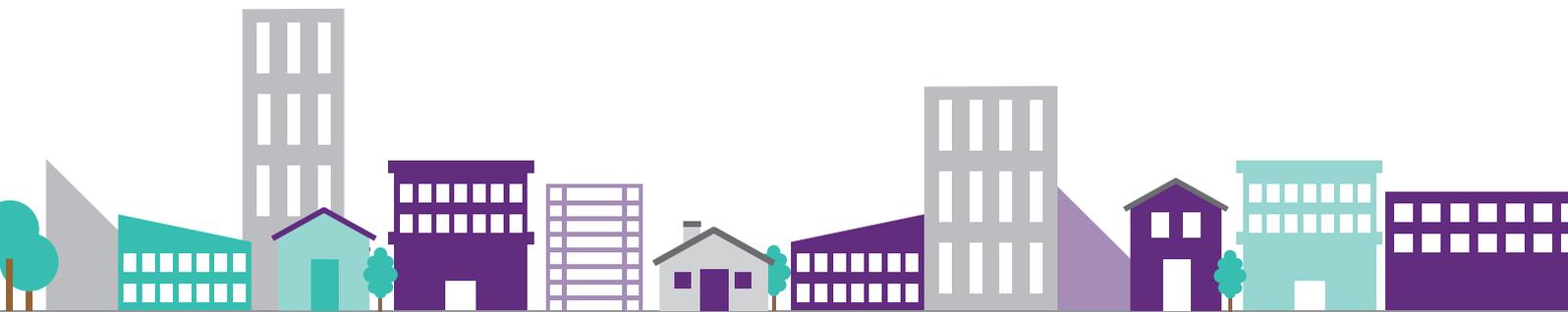


Figure 8. Average default rates of enterprise lending CDFIs  
Source: Responsible Finance Industry report 2018



## 5.5. Cost of capital

Many CDFIs have benefited from previous grant programmes, which they continue to recycle by making further loans to small businesses. The Regional Growth Fund sat alongside commercial capital from Unity Trust Bank and the Co-operative Bank. This resulted in a low weighted average cost of capital (WACC) of between 1% and 2%.

Without grant as a share of the lending and/or acting as the first risk capital, the WACC is expected to be higher. This is because of the perceived risk of CDFI lending and the limited financial data available on the sector. We expect this will improve over time as more data becomes available, and the CDFIs build their track record. The Community Investment Enterprise Facility is lending at between 4% and 6% depending on its position relative to other lenders.

Small businesses that borrow from a CDFI under the Enterprise Finance Guarantee scheme (see box in section 5.4) pay 2% per year on top of the interest paid to the CDFI. The Guarantee enables them to access finance, and also reduces the rate charged by the CDFIs given the risk of default decreases. Also, the Community Investment Tax Relief (CITR) offers 5% per year tax relief for eligible lenders that invest in CDFIs over a period of five years. This can lower the cost of capital invested in CDFIs. Since 2017, CDFIs can use the Enterprise Finance Guarantee and CITR simultaneously to combine their benefits, which makes investing in CDFIs more attractive.

### Community Investment Tax Relief

**Community Investment Tax Relief (CITR)** is provided by the UK government to people and companies who invest in accredited CDFIs. The tax relief is worth up to 25% over five years of the value of the original investment in the CDFI.

CDFI investors can broadly be categorised into three groups:

1. **Public sector-led investors** – Local authorities, combined authorities and central government, including the government-backed British Business Bank.
2. **Social investors** – Social banks, other social investors providing debt, trusts and foundations.
3. **Commercial investors** – Typically commercial banks.

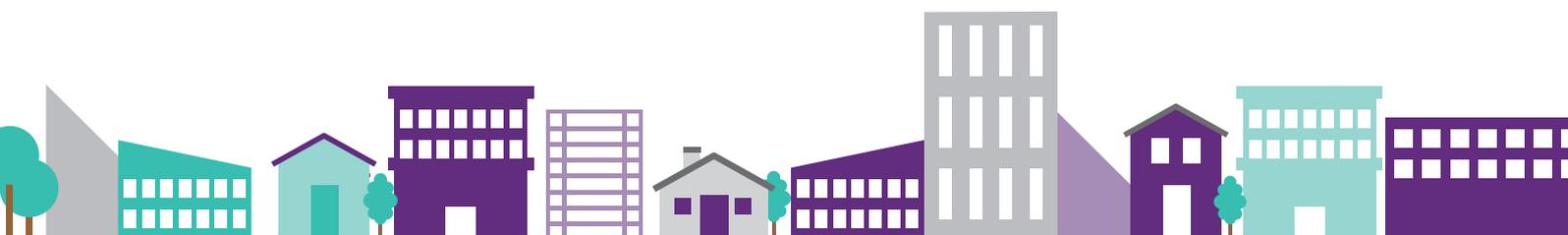
Some CDFIs have attracted investment from individual investors, however this is not widespread. Much of this investment sits alongside grant funding received from European funding sources (such as the Regional Growth Fund and European Regional Development Funds) or from local sources.

There is an opportunity to learn and build on existing investments CDFIs have received, some of which are outlined below:

### Supporting the North: the Northern Powerhouse Investment Fund

The British Business Bank established the **Northern Powerhouse Investment Fund (NPIF)** in 2014 with a 'mission to make finance markets for smaller businesses work more effectively, enabling those businesses to prosper, grow and build UK economic activity'. It provides loans of £25,000 - £100,000 and operates across the North of England. It is delivered by a range of CDFIs including Finance for Enterprise and Business Enterprise Fund in Yorkshire, the Humber and the Tees Valley, and the Growth Company and MSIF in the North West.

**Creating impact:** **BMECH** based in Warrington, Cheshire received £100,000 from the NPIF to support its growth plans. It provides energy efficient heating, air conditioning, ventilation and electrical systems. Set up 27 years ago – over the last eight years it has grown from £180,000 turnover with six employees to £2.2 million turnover with 29 staff. The loan will help the company grow, creating 10 new jobs and increasing turnover to £3 million.



## Regional Growth Fund with loan match from Unity Trust Bank and Co-operative Bank

Launched in 2012, the **Regional Growth Fund** was a £2.6 billion fund set up to support eligible projects and programmes raising private sector investment to create economic growth and lasting employment. It provided a £30 million grant delivered by 17 CDFIs across England to invest in small businesses in some of the most deprived and underinvested areas of the country. This grant was matched by £30 million loan capital from Unity Trust Bank and the Co-operative Bank.

So far, the Regional Growth Fund Programme has helped over 2,000 businesses – this has in turn created 1,200 jobs and secured 6,800 jobs across England.

The programme continues to be delivered by a range of CDFIs recycling the grant portion to support more small businesses to deliver economic and social impact.

## BCRS and Staffordshire County Council – Staffordshire Business Loan Fund

Staffordshire County Council established a **£500,000 fund with BCRS** to support small businesses across Staffordshire that have struggled to access finance through mainstream lenders to access loans of between £10,000 and £50,000. Since the fund started in 2009, it has benefited 176 businesses, and created and protected 1,555 jobs.

## Triodos investment in SWIG's South West Fund using CITR and Enterprise Finance Guarantee

In 2018, **SWIG Finance** launched its first loan fund using the Enterprise Finance Guarantee scheme (EFG) and Community Investment Tax Relief (CITR) with investment from Triodos Bank. The loan fund, worth £1.5 million, will support an estimated 30 SMEs in the South West that struggle to raise finance from traditional lenders. It is targeted at disadvantaged areas and communities in the region.

SWIG Finance is using this new opportunity of matching CITR alongside the EFG scheme, to secure investment to give critical support to businesses across the South West. This is an example of CDFIs taking highly innovative approaches to secure investment into local businesses.



© Dymacore Ltd in Devon borrowed from SWIG Finance



## Community Investment Enterprise Facility (CIEF): supporting underserved businesses

In 2018 Big Society Capital established the Community Investment Enterprise Facility, a £30 million fund managed by Social Investment Scotland (SIS). It will provide capital to up to five CDFIs across the UK to meet the demand they are seeing from underserved small businesses, often located in disadvantaged communities.

The CIEF acts as a match facility, providing some initial unmatched capital to the CDFIs to meet the immediate demand from underserved small businesses they are currently unable to fulfil, and providing further capital at a later stage to match co-investment the CDFIs secure. The aim is to leverage a further £30 million into the sector alongside the facility, with the CDFIs and investors benefiting from using available initiatives such as the Enterprise Finance Guarantee and Community Investment Tax Relief.

The facility will invest in up to five CDFIs across the UK to lend to underserved small businesses that have a positive impact in the communities where they operate. As of August 2019 it had committed £7.5 million each to [Business Enterprise Fund](#), [Finance For Enterprise](#) and [BCRS](#), which will be matched at the CDFI level by £22.5 million in total.

Big Society Capital set up the CIEF to act as a 'proof of concept' facility, with the aim of building a better understanding of the financial and social impact performance of CDFI lending. It will also test new models of funding for CDFIs that could attract other socially motivated investors and be replicated.



Miss Macaroon borrowed from BCRS Business Loans



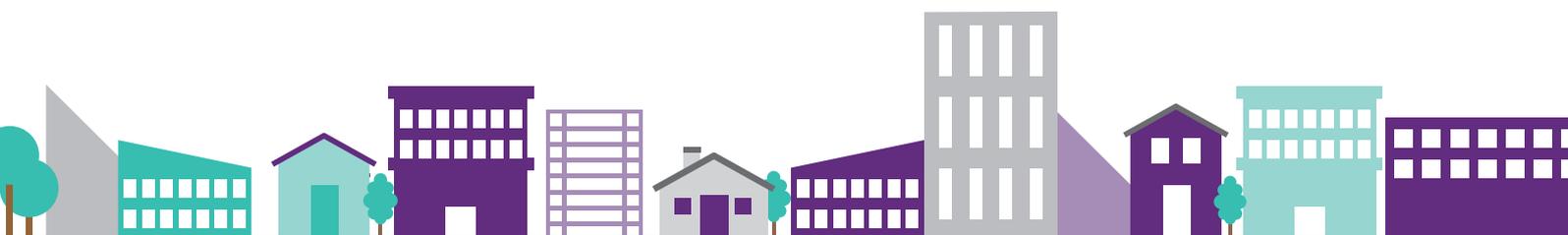
Motiv Trailers borrowed from BCRS Business Loans



## 6. Challenges and Opportunities for CDFI Lending

CDFIs currently face a number of challenges meeting our vision. But there are opportunities to overcome them. The Steering Group discussed both the challenges and opportunities to achieve the vision across business models, visibility, public sector support and investment which are summarised below.

CHALLENGES	OPPORTUNITY AREAS IDENTIFIED
<b>BUSINESS MODELS</b>	
<ul style="list-style-type: none"> <li>• CDFIs have relatively high operating costs for the size of loans they provide</li> <li>• They have to compete with alternative finance providers and focus on harder-to-reach small businesses</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Diversified revenue</b> Some CDFIs have started diversifying their revenue streams to reduce risk exposure and create a sustained source of money.</li> <li>• <b>Specialisation</b> By developing sector specialties CDFIs can gain more clients through focused marketing efforts. This reduces costs (the CDFI already understands the client's business model) and improves underwriting (with more information on one model) to fuel better decisions.</li> <li>• <b>Technology</b> Using Financial Technology would improve user experience and make CDFIs more competitive compared to alternative lenders. For example, a number of CDFIs are using online application systems to get information from clients.</li> <li>• <b>Standardisation</b> Standardising robust processes (across loan management, back office, reporting, accreditation and impact measurement) will boost efficiency and reduce costs.</li> <li>• <b>Sharing</b> Sharing resources, like data, back office systems, default analysis and impact collection, would reduce costs. This is especially true for CDFIs that wish to remain small to serve a particular client group and/or place.</li> </ul>
<b>VISIBILITY AND EVIDENCE</b>	
<ul style="list-style-type: none"> <li>• Data limitations prevent more detailed analysis on CDFIs' performance</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Impact data reporting</b> BSC has commissioned an evaluation of the Community Investment Enterprise Facility (see section 5). This will test a standardised reporting framework for CDFIs making it easier to demonstrate their social and economic impact.</li> </ul>
<ul style="list-style-type: none"> <li>• CDFIs lack visibility</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Representative group</b> An enterprise lender-specific representative group could improve the visibility and focus on issues specific to enterprise lending CDFIs. It could actively promote and lobby for enterprise lending CDFIs to stakeholders like government and investors.</li> <li>• <b>Index for investors</b> A benchmark CDFI index, built on the model being developed by Enterprise Community Partners in the US, that tracks historic and ongoing performance of CDFIs. This could raise investor awareness, increase transparency and support new products.</li> </ul>



CHALLENGES	OPPORTUNITY AREAS IDENTIFIED
<b>PUBLIC SECTOR</b>	
<ul style="list-style-type: none"> <li>• Guarantees and tax relief could do more</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Guarantees</b> Operating the administration of the Enterprise Finance Guarantee at CDFI level, rather than the small business level, could improve uptake and simplify the process. At the moment, each small business must be registered with the British Business Bank and pay a 2% equivalent annual fee in addition (and separately to) the interest rate charged by the CDFI. This contrasts with the previous European Investment Fund Employment and Social Innovation (EaSI) Guarantee where the CDFI paid the guarantee fee and absorbed all administrative complexity.</li> <li>• <b>Tax relief</b> The Community Investment Tax Relief (CITR) has broadly had a positive impact on the sector. Reforming its criteria could improve its uptake (see recent research<sup>29</sup>).</li> <li>• <b>Local Authorities, Combined Authorities and Local Enterprise Partnerships</b> They can play a more active role as a direct investor in CDFIs given their place-based focus, and potential investment returns. They could also give more support to small businesses through CDFIs, such as business development services.</li> </ul>
<b>INVESTORS / FUNDING</b>	
<ul style="list-style-type: none"> <li>• Lack of medium/long term capital to on-lend remains a main barrier to achieving social and economic impact at scale</li> <li>• Limited interest from commercial funders</li> <li>• Lack of standardised approach and rigour</li> <li>• Need for new product development</li> </ul>	<ul style="list-style-type: none"> <li>• <b>First-loss capital</b> at the CDFI level and/or at the fund level to leverage in other investors to scale CDFI activity.</li> <li>• <b>Concessionary capital</b> or equity direct to the CDFI to strengthen its balance sheet, that will enable it to leverage debt capital for on-lending to small businesses</li> <li>• <b>Cross-subsidy model</b> with a mix of commercial lending could offset higher expected losses associated with achieving social objectives.</li> <li>• <b>Evergreen</b> A scaled evergreen fund that can be listed, or a structured product that can provide capital in the longer term.</li> <li>• <b>Common standards and measurement protocols</b> to facilitate assessment for investors.</li> <li>• <b>Clarity to CDFIs</b> on the conditions at which commercial lenders can provide financing and what due diligence to expect.</li> </ul>

## 7. Realising this Vision: Our Call for Action

The Community Investment Steering Group believes that CDFI annual lending growth can realistically be doubled to £35 million a year on average. It estimates that in five years' time by 2025, the market can reach £250 million lending per year to underserved small businesses, filling part of the estimated £1 billion funding gap.

With a total of £900 million provided to CDFIs in the next five years, we estimate this could create or safeguard a total of 90,000 businesses and 150,000 jobs and add £6.3 billion to the UK economy<sup>30</sup>. This is an ambitious but realistic target if the right supportive environment is in place.

The UK's changing relationship with the European Union is likely to affect funding to small businesses and disadvantaged areas. CDFIs can provide loans to small businesses in the parts of the country most affected by these changes.

The Steering Group believes action needs to be taken. Only then can the sector realise a vision of significant social and economic impact in underserved communities, created through sustainable capital invested at scale by a resilient Enterprise Lending CDFI sector. It has focused on key actions that government and investors can each do to help realise the Steering Group's ambition. These actions could make a real difference to underserved small businesses.

These stakeholders cannot create change alone. CDFIs must also play an active role by promoting improvements, collaborating and engaging with government and investors to achieve these actions.

**National and local governments** should:

- **Use new Reclaim Funds and/or Shared Prosperity Funds to develop a dedicated funding source for enterprise lending CDFIs.** This could be modelled on Access – The Foundation for Social Investment, focused on offering support and finance to small-scale charities and social enterprises through social investors, including social enterprise CDFIs, and Fair4All Finance focused on supporting financial inclusion in part through personal lending CDFIs. This dedicated funding source could use concessionary capital to:
  1. Provide a revolving first loss programme to attract commercial capital.
  2. Provide equity or concessionary capital to enterprise lending CDFIs to strengthen their balance sheets, and enable them to leverage other finance.
  3. Provide grants so CDFIs can invest in their organisations to scale up activity.
- **Actively consider the role of CDFIs to deliver inclusive growth at the Combined Authority, Local Authority or Local Enterprise Partnership level.** Providing funding for on-lending and/or business support for small businesses could contribute towards local government's place-based outcomes and ambitions for an inclusive economy. Government should bring together local government representatives to develop specific propositions, and then commit to selecting three to five places to fund to test the role of CDFIs in a local inclusive economy strategy.
- **Through the British Business Bank,** develop further funding programmes for CDFIs to deliver. These programmes should increase the number of small businesses they can support, boost resilience and actively support them to leverage diverse sources of private capital.

**Investors** should:

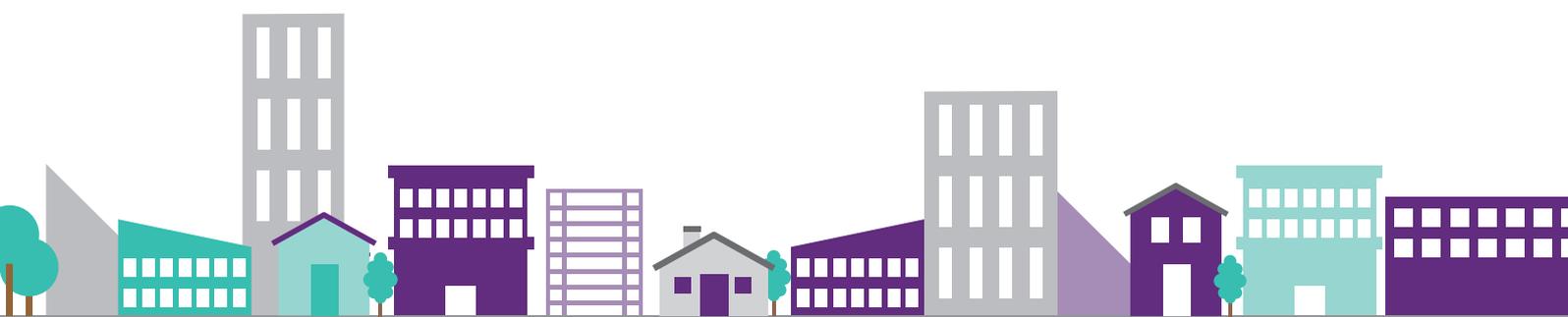
- **Come together through UK Finance to set out the conditions on which commercial lenders will invest in CDFIs.** This will provide greater clarity on what is required for CDFIs and the barriers that need to be overcome from the commercial lenders' perspective.
- **Establish a working group in partnership with CDFIs to develop a shared understanding of investors' broad diligence requirements.** This would help focus CDFI standardisation efforts, support CDFI investment readiness and improve investors' understanding of CDFIs. This group would include representatives from all investor types including public sector, commercial and social investors.

The Steering Group believes that if these recommendations are taken forward, a more favourable environment will emerge that will result in significant social and economic impact in underserved communities created through sustainable capital invested at scale by a resilient enterprise lending CDFI sector.

30. These estimates were calculated based on social impact data reported in the [Responsible Finance annual industry reports](#) (see section 4). Between 2014 and 2018, 99.6 businesses and 169.6 jobs were created and safeguarded per £1m lent to CDFIs over this period on average. Note that the number of businesses created includes start-ups as well as established businesses.

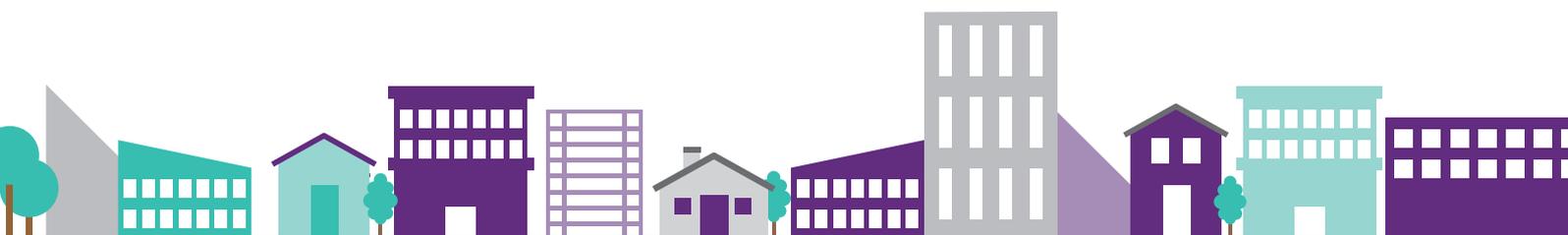
## ANNEX A. Acronyms

BBB	British Business Bank
BSC	Big Society Capital
CDFI	Community Development Finance Institution
CIEF	Community Investment Enterprise Facility
CITR	Community Investment Tax Relief
EaSI	EaSI Employment and Social Innovation
EFG	Enterprise Finance Guarantee
RGF	Regional Growth Fund
SDG	Sustainable Development Goals
SME	Small and Medium Enterprise
WACC	Weighted average cost of capital



## ANNEX B. Enterprise lending CDFIs in the uk

NAME	HEAD OFFICE /GEOGRAPHY	WEBSITE
ART Business Loans	West Midlands	<a href="http://www.artbusinessloans.co.uk">www.artbusinessloans.co.uk</a>
BCRS	West Midlands	<a href="http://www.bcrs.org.uk">www.bcrs.org.uk</a>
Business Enterprise Fund	North Yorkshire and North East	<a href="http://www.befund.org">www.befund.org</a>
Business Finance Solutions / Manchester Growth Company	North West	<a href="http://www.businessfinancesolutions.org.uk">www.businessfinancesolutions.org.uk</a>
Coventry and Warwickshire Reinvestment Trust	Coventry and Warwickshire	<a href="http://www.cwrt.uk.com">www.cwrt.uk.com</a>
DSL Business Finance Ltd	Scotland	<a href="http://www.dsl-businessfinance.co.uk/micro-loans">www.dsl-businessfinance.co.uk/micro-loans</a>
Enterprise Answers	North East	<a href="http://www.enterpriseanswers.co.uk/finance">www.enterpriseanswers.co.uk/finance</a>
Enterprise Northern Ireland	Northern Ireland	<a href="http://www.enterpriseni.com">www.enterpriseni.com</a>
Financing Enterprise	London and South East	<a href="http://www.connectworks.co.uk/financing-enterprise">www.connectworks.co.uk/financing-enterprise</a>
Finance for Enterprise	South Yorkshire and North Midlands	<a href="http://www.finance-for-enterprise.co.uk">www.finance-for-enterprise.co.uk</a>
First Enterprise / Enterprise Loans East Midlands	East Midlands	<a href="http://www.first-enterprise.co.uk">www.first-enterprise.co.uk</a>
Five Lamps	North East and Yorkshire	<a href="http://www.fivelamps.org.uk">www.fivelamps.org.uk</a>
Foundation East	East of England	<a href="http://www.foundationeast.org">www.foundationeast.org</a>
Fredericks Foundation	UK	<a href="http://www.fredericksfoundation.org">www.fredericksfoundation.org</a>
Isle of Wight Lottery	Isle of Wight	<a href="http://www.isleofwightlottery.com/lottery-business-loans">www.isleofwightlottery.com/lottery-business-loans</a>
Lancashire Community Finance	Lancashire	<a href="http://www.lancashirecommunityfinance.co.uk">www.lancashirecommunityfinance.co.uk</a>
Let's Do Business Group	South East	<a href="http://www.letsdobusinessgroup.co.uk/business-finance.aspx">www.letsdobusinessgroup.co.uk/business-finance.aspx</a>
Merseyside Special Investment Fund	Merseyside	<a href="http://www.msif.co.uk">www.msif.co.uk</a>
Newable	UK	<a href="http://www.newable.co.uk/lending">www.newable.co.uk/lending</a>
Purple Shoots Business Lending	Wales	<a href="http://www.purpleshoots.org">www.purpleshoots.org</a>
Robert Owen Community Banking Fund	Wales	<a href="http://www.rocbf.co.uk">www.rocbf.co.uk</a>
Sirius	Hull	<a href="http://www.sirius-hull.co.uk">www.sirius-hull.co.uk</a>
SWIG	South West and Hampshire	<a href="http://www.swigfinance.co.uk">www.swigfinance.co.uk</a>



## ANNEX C. Further Reading

- [Responsible Finance annual reports](#)

Responsible Finance, the membership body for the CDFI sector, publishes an annual state of the sector report. This covers Enterprise Lending CDFIs, Personal Lending CDFIs, and Charity and Social Enterprise Lending CDFIs.

- [Civitas \(2017\) Helping Small Businesses Access Finance: The importance of responsible finance providers](#)

Civitas explored the role of Enterprise Lending CDFIs to meet the financing needs of underserved small businesses given the decline in bank lending to these groups, especially those based in underserved areas.

- [Henry N., Craig P. \(2013\) Mind the Finance Gap: Estimating Demand For Community Finance, RBS and Community Development Finance Association](#)

Responsible Finance, supported by RBS, undertook a piece of research that sought to look at the demand for those small businesses that did not qualify for traditional bank finance and could be served by CDFIs.

- [Aslan, S. Freeman, R. and Henry, N. \(2018\) Community Investment Tax Relief \(CITR\) and the Responsible Finance Sector](#)

The first research on Community Investment Tax Relief since the scheme's launch in 2002.

- [Enterprise Research Centre and the Federation of Small Businesses \(2018\) Sharing prosperity: the future of UK business support](#)

Government is looking to rebalance the economy and generate inclusive growth through its Industrial Strategy. This report explores the differences between businesses in more disadvantaged areas of the UK who may feel left behind, compared to other areas of the country. It considers how business support can be improved to achieve inclusive growth.

- [McCartney R. \(2019\) Community Investment Lessons learned from the US. Big Society Capital and Citi](#)

A detailed report on the lessons learned from the US community investment market was developed following a Citi-BSC trip with five UK CDFIs in Autumn 2018.

- [Enterprise Finance Guarantee website](#)

- [Community Investment Tax Relief website](#)

