

ten

YEARS OF RESPONSIBLE FINANCE



Responsible finance providers have lent £1.6 billion to 280,000 people and businesses in 10 years

Think about the UK's financial system and one word that may not spring immediately to mind is "responsible". On the other hand, "opaque," "reckless," and "exploitative" may do.

Although the rehabilitation of the banking sector continues, so too does the stark imbalance between the supply of appropriate finance from mainstream providers, and demand from society at large.

Britain's 5.4 million small businesses – according to the British Business Bank's own findings – continue to face challenges in accessing the finance they need to grow and create jobs.

Social enterprises are frequently misunderstood by financial service providers – and cite access to finance as their biggest barrier to starting up and becoming sustainable.

And 6 million adults (10% of the UK's population) either don't have access to a bank account or are on the edge of mainstream banking – putting them at risk of problem debt from the high cost short term credit sector.

Filling this gap is what responsible finance providers specialise in. Responsible finance providers are a dynamic network of organisations that tailor their services locally to the needs of those often excluded, giving access to fair, affordable finance to people and businesses. Their finance creates jobs, boosts enterprise and fuels growth.

They've made a difference where it's needed most – this report celebrates that difference. The UK's economy, its businesses, social enterprises, and people deserve access to responsible finance.

But the sector could do even more. Implementing the following recommendations will help to transform the way financial services are delivered, through building a more inclusive and fair system:

- Current guarantee schemes and the industry tax relief must be revised so they are fit for purpose and can fully harness the economic potential of the responsible finance industry.
- Every Local Authority and LEP should use their local responsible finance provider as a trusted delivery mechanism for reaching those underserved people and businesses that make a disproportionate contribution to the economy.
- The responsible finance industry should adopt innovative new technology to broaden its reach and efficiency, transforming the way ethical finance is delivered.

"The UK banking system works okay for most of us, but not all. This is unacceptable. Over a decade of innovation and experimentation by responsible finance providers has shown just how much more might be done to address unnecessary market failure and enable human flourishing. It is an open question as to what the government and the banks are going to do over the next decade."

Andrew Robinson MBE, Director, CCLA Investment Management

→ Over the past 10 years responsible finance has:



"Responsible finance providers have clearly been an essential source of finance for businesses over the last 10 years. Businesses need access to affordable finance from providers who understand them."

Emma Jones MBE, Founder and Chief Executive, Enterprise Nation



& **4,100** CHARITIES AND SOCIAL ENTERPRISES that could not access finance from banks

Responsible finance providers helped



Fuelling the economy with

£0.6bn GDP ANUALLY

or 2% of last year's growth in GDP

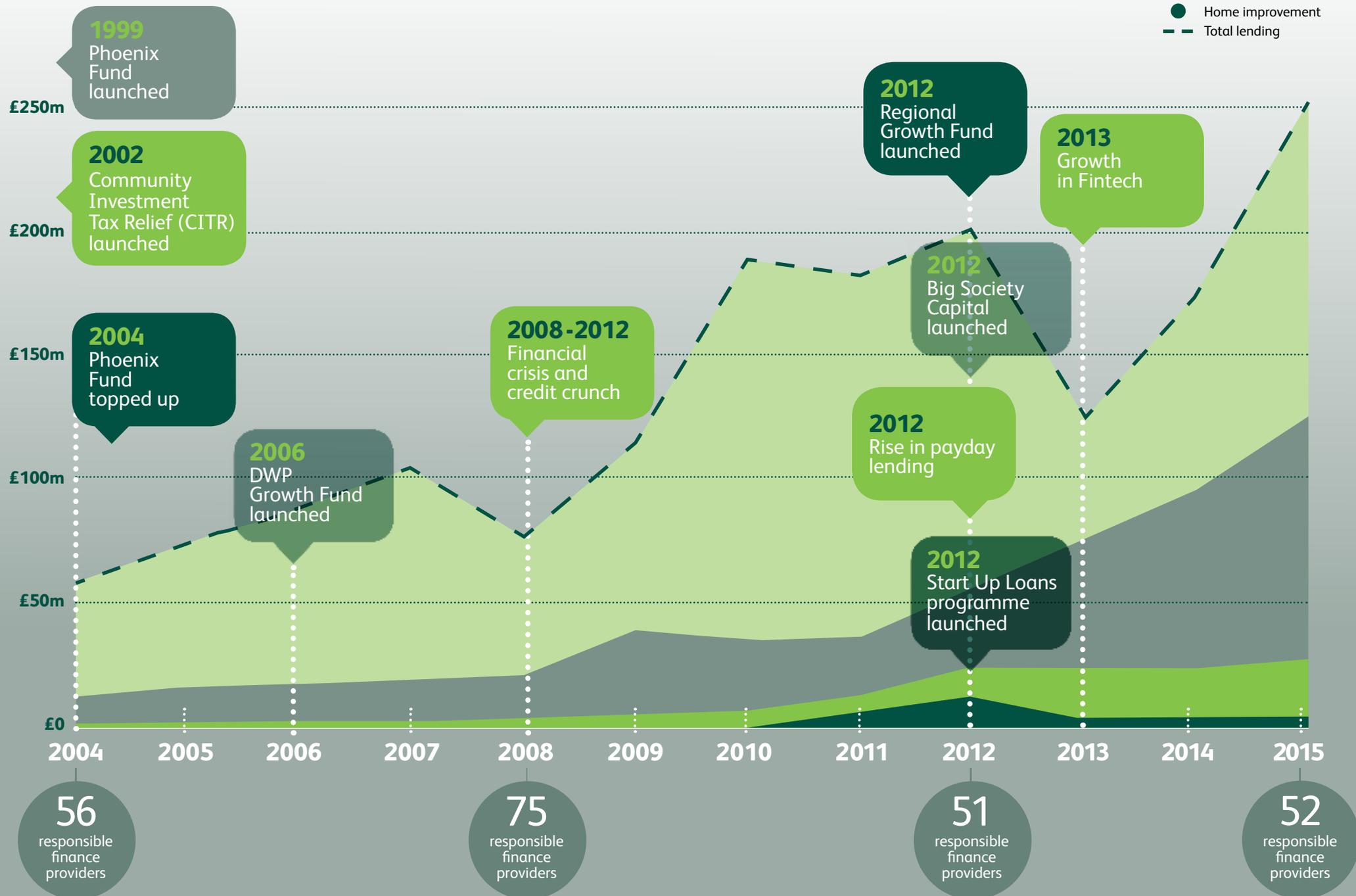
Created **68,000** JOBS and saved a further **41,000** that were at risk

→ That's up to **5%** of the UK's total jobs growth each year



Responsible finance over the years

- Social enterprise
- Business
- Personal
- Home improvement
- Total lending



---> What is responsible finance?

Responsible finance providers are a diverse range of organisations that are unified by their commitment to providing fair and affordable products and services that are tailored to the demand in the market.

The responsible finance model means:

Responsible Purpose

Responsible finance providers offer products and support to businesses and individuals who need finance but cannot access it – partially or in full – elsewhere. This gap filling role therefore creates value that otherwise would not have been possible – through employment created by new and growing businesses, and wealth and savings generated compared to high cost alternatives. Stimulating local growth and prosperity, and improving their customers' lives through access to finance, are central to how responsible finance providers operate.

Responsible Approach

Responsible finance providers have their customers' wellbeing at the heart of their approach, and therefore comply with both the FCA's rules for consumer credit and the Responsible Finance Code of Practice. Their approach is fair and transparent, tried and trusted. Responsible finance providers work with local stakeholders, such as housing associations, enterprise agencies, and chambers of commerce, to reach customers who otherwise would not be able to access finance, and establish themselves as local institutions.

Responsible Products

Responsible finance products and services are tailored and targeted to the customer base they serve. They are affordable, and the terms are flexible to accommodate the client's circumstances and ability to repay. Alongside finance, responsible finance providers offer formal and informal support and signposting to help the client – whether it is a business, social enterprise, or individual, to make informed decisions about their financial position, and use their finance effectively.

Responsible Organisations

Not only is this commitment in each organisation's mission statement, but it is also in their articles and legal structures as social enterprises. Responsible finance providers are mission-driven organisations that reinvest their profits back into the organisation, rather than distribute to private shareholders. Therefore their products are tailored to benefitting the customer rather than making a profit. This is particularly relevant considering the under invested market segments they serve, wherein the customers are considered relatively higher risk, have fewer options for accessing finance, and are often those facing unfair practices.

---> Responsible finance in action

HIGH GROWTH DIGITAL PIONEER SWAPS SILICON VALLEY FOR WEST MIDLANDS – AND SAYS RESPONSIBLE FINANCE “A LIFESAVER”



Tech entrepreneur Brian Donnelly traded Silicon Valley for Birmingham when he decided where to launch his software firm Synapse.

A serial entrepreneur with a special interest in developing software solutions to business problems, Donnelly, originally from Birmingham, lived in Palo Alto, California, for eight years, founding software firm Constellar, which he sold to IBM.

His new business Synapse offers a “revolutionary” group financial consolidation product, Cloud CFO, developed thanks to a need flagged up by Brian's partner:

“My other half is a CFO (Chief Finance Officer),” he says, “and she drew my attention to the challenges involved in handling spreadsheets to provide accurate and timely management information just at the time that I was looking to set up a new venture.”

Having explored the issues, Brian's solution was to establish Synapse, offering a cloud-based tool, Cloud CFO, that allows staff to update spreadsheets remotely and simultaneously.

But rapid growth led to a squeeze on cashflow. *“I had sunk all of my own capital in the business, was up to the maximum in loans from the bank and then discovered ART Business Loans,”* Brian recalls. *“They listened, understood and made a decision.”*

He was declined by his bank, but a first and second loan from responsible finance provider ART Business Loans enabled Brian to stabilise the business.

With ART's support, Synapse has grown from a standing start to a £1.5m turnover enterprise and growing to 32 staff in just over three years.

“ART was a life-saver. It was like talking to a bank manager, as you could 20 years ago,” adds Brian.

He sees huge potential for Synapse and is looking forward to further growth and international expansion in the years ahead.

“Access to finance can be a real challenge for small firms. Responsible finance providers are able to take the time to understand the needs of a small business and provide fair and affordable finance to those with ambitions to grow.”

**Mike Cherry, Policy Director,
Federation of Small Businesses**

----> Responsible finance in action

“OUTSTANDING MICRO ENTREPRENEUR” DOUBLES INCOME, STAFF AND TRAINEES AT SOCIAL BUSINESS – ALL WITH RESPONSIBLE FINANCE SUPPORT



What are the characteristics of a serial social entrepreneur? Look no further than Damian Hindsliip, the energetic leader of Paperworks, a social enterprise (and charity) which was founded in 1994 and provides print, post and packing services while offering work skills training, work experience and job seeking support to vulnerable adults.

Paperworks have received national recognition for the “*focused, strategic business growth and competitive advantage in the marketplace*” demonstrated by Hindsliip. And – just like many businesses – Paperworks needed to enable this growth with working capital.

Key Fund Investments Ltd, a responsible finance provider based in Sheffield and operating throughout the Midlands and the North of England, lends money to enterprises that have been turned down by a mainstream provider of finance. In 2015 Key Fund lent £30,000 to Paperworks which enabled the company to increase the number of trainees and grow the commercial side of the business; this growth will be sustained beyond 2016 from increased income generated through expansion.

With this funding Hindsliip steered the 22-year-old business through expansion, development into new premises, and significant growth, doubling its income, creating 7 new jobs whilst increasing the support it provides to disadvantaged people: increasing the number of training sessions it delivers from 45 to over 100 per week. And it has doubled trainees too: from 30 to 60 and now has a waiting list.

Paperworks’ and Hindsliip’s story is an example of a solvent, creditworthy and well established social enterprise that needed to access the type of finance that mainstream providers can’t provide – but responsible finance providers like Key Fund can.

Jane Austin, Operations Manager at Key Fund, says:

“As a social enterprise we seek to remove barriers to finance for other community and social enterprises. We believe in the power of people to find solutions to the challenges facing their communities and specifically operate in the gap where there is a huge cost to doing nothing.”

“It’s wonderful to see how our investments into fantastic social enterprises and organisations such as Paperworks create and sustain jobs in disadvantaged areas.”

----> The next 10 years of responsible finance

“Responsible finance providers in the U.S. are uniquely positioned to deliver capital where it can have the most impact. Yet, poverty rates in 44 states are still at recession levels, so our work continues. In the United Kingdom, responsible finance providers have proved they can, and do, deliver social impact and financial returns. They play a vital part in helping small businesses and consumers and so advance social and economic inclusion.”

Mark Pinsky, President & CEO,
Opportunity Finance Network



Over the past 10 years the responsible finance sector has grown tremendously, from lending £77 million to lending over £250 million annually. Yet in this same period, many creditworthy businesses – especially those with under 50 employees – have found finance virtually unattainable through banks, and high cost lenders have been preying on vulnerable customers with unaffordable debt.

Banks withdrew £25 billion from small and medium sized enterprises after the banking crisis. The responsible finance sector in the meantime injected £300 million into SMEs, and helped 200,000 people avoid predatory payday lenders. **Does this close the gap? No, but it’s been a vital lifeline.** Without it, over 100,000 jobs would not exist, and over 200,000 people would have been trapped with huge repayments, totalling £20 million, to high cost lenders. The responsible finance sector plays a crucial role in supporting Britain’s businesses and people, and fuelling the economy so it remains competitive.

This role is as vital today as it was 10 years ago. Despite the economic recovery, the scale



of under-investment remains a significant drag on the economy – and this is something that responsible finance providers can and do tackle. Banks are still not lending enough; peer to peer lenders are leaving behind the same customers that the banks do. For an inclusive and productive economy, we need a diverse financial services sector that can fill these gaps. Responsible finance offers a personal and customer-focused service that wants its customers to thrive and contribute to strong local economies.

As government revenues and spending devolves, responsible finance providers offer localities a real opportunity to realise long-term economic growth, particularly in areas that face generational under-investment.

This can create cost savings too. By enabling unemployed people to start a business, gaining the skills to do so, government is saved from the costs of long-term unemployment. And for people facing high levels of debt, often leading to a spiral of over-indebtedness with negative



health and productivity effects, responsible finance providers help them take control of their financial stability, thus contributing to the local economy. These direct savings combined with the additional income localities can harness through new business rates offer a high return from investing in responsible finance providers.

The responsible finance industry is well positioned to continue growing. Building from the impressive foundations and growth rate of the last 10 years, responsible finance providers could lend £6 billion to 1.4 million businesses and people in the next 10. This would unlock over £2 billion in finance for new and growing businesses, generating at least £16 billion in GDP. This also means that more than 1 million more people will have access to affordable credit and the advice and services that will help relieve debt levels and gain financial management and literacy skills.

But this promising future is uncertain as challenges remain with matching demand for finance with supply.



→ Call to action

Responsible finance providers need access to stable sources of capital to scale, and currently the future of those funds is uncertain. To make the progress needed for the responsible finance sector to continue playing a critical role in fuelling the economy and productivity, the following recommendations need to be taken up by supporters and friends of the sector.

Access to capital

Responsible finance providers need access to stable sources of capital to continue growing their lending. Innovative policy guarantee schemes can be instrumental in leveraging in new private investment. Existing schemes such as the Enterprise Finance Guarantee and similar European guarantees and the industry tax relief (Community Investment Tax Relief) should be revised so that they are fit for purpose for the responsible finance industry. Improving these policy tools would be catalytic in stimulating new investment into the sector to on-lend.

Local integration

The “devolution revolution” is an exciting opportunity for local governments across the country to take control of their localities. Every Local Authority and LEP should be working closely with their responsible finance provider as the delivery mechanism for reaching underserved populations of people, businesses, and social enterprises, thus creating inclusive local economies.

Harness new technology

New “Fintech” is changing how people and businesses access, use, and manage their finances. To broaden its reach and improve efficiency, the responsible finance sector must use new tech such as common operating systems, investor platforms, and standardised social impact reporting. Exciting tech initiatives are already underway which are transforming how ethical finance is delivered.

The opportunity for the sector to build on its strengths lies in part with public and private sector partners who can provide the tools and environment for the sector to continue acting as a leader in the financial services sector for providing access to opportunity to people, businesses, and social enterprises.

“Our local responsible finance provider has been at the heart of our community for many years now and has adapted and grown throughout that time, whilst always sticking true to its underlying aims. I know it makes a huge difference in Thornaby and more widely and their work is highly valued by all those who engage with what is a top class organisation.”

**James Wharton MP, Under-Secretary of State DCLG:
Northern Powerhouse**

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