Loans that Change Lives.

2022
IMPACT
REPORT

Responsible Finance

Contents

ABOUT THIS PUBLICATION

This report is based on data supplied by 34 responsible finance providers and compiled by Responsible Finance. The reporting period was 1st January 2021 to 31st December 2021. The survey has been conducted annually since 2003.

Responsible Finance is the industry body for the UK's Community Development Finance Institutions (CDFIs) – community lenders driven by their purpose. We want the UK to have a truly diverse financial system where investment flows into communities to create positive social, environmental and economic impact. To enable this we lead a strong network of community lenders which offer affordable finance to people, businesses and social enterprises who can't access appropriate and fair finance elsewhere.

Our members are united by their common goal of increasing access to fair and responsible finance, particularly for those excluded from mainstream services. Our aspiration is that no viable business is left unsupported; no person is forced into unnecessary hardship; and no social enterprise is prevented from realising its goal to make the world a better place. And if we can support the CDFI sector to scale we can make this aspiration a reality.

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CEO's MESSAGE

2021 saw the start of the Covid-19 recovery, but also the start of the cost-of-living crisis. Throughout, CDFIs were a key channel to supporting under-served and left-behind communities. They were also a reason why thousands of people, small businesses and social enterprises have remained so resilient and even thrived despite the continued economic uncertainty.

We believe this significant impact is still flying under the radar, which is something we are trying to change. So this year we have mapped the CDFI sector's impact in an Environmental, Social and Governance (ESG) framework. We hope this gives a very clear picture of the real, tangible impact that CDFIs have on individuals, entrepreneurs, and communities every day. Our work on impact reporting continues to evolve and we welcome your feedback on how we can continue to develop our approach to effectively and transparently measure and report on CDFIs' impact.

We know there is so much to do to close the gap in access to finance and scale-up our impact, so we need your help. If you would like to get involved in our work – whether you're an investor, a policymaker or work in a related field – get in touch today. You can find our specific calls to action on p.31 onwards of this report. We are excited to see so much engagement from our stakeholders and momentum building to scale up the CDFI sector. We hope you will join us.

Theodora Hadjimichael, Chief Executive of Responsible Finance

"Topics around ESG and sustainability are getting very fashionable now amongst all providers of finance; CDFIs have been working on these topics since you first started out so I feel like the rest of the market is catching up with you."

Shanika Amarasekara, Chief Impact Officer, British Business Bank[1].

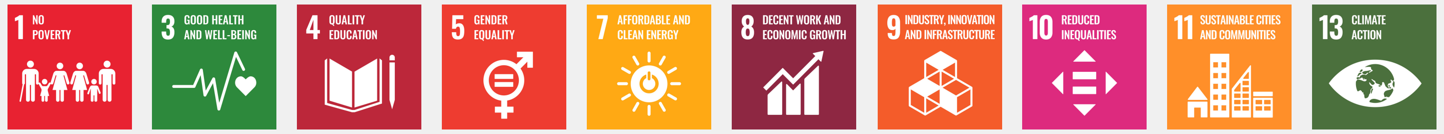
ENVIRONMENTAL, SOCIAL AND GOVERNANCE

Money "makes the world go around" and finance is a powerful tool to meet many of the United Nations Sustainable Development Goals. Community Development Finance Institutions (CDFIs) can turn a "no" from a bank into into a "yes", addressing market failures by providing credit to those who are financially excluded. Communities develop because of their finance: creating and nurturing jobs, businesses and households.

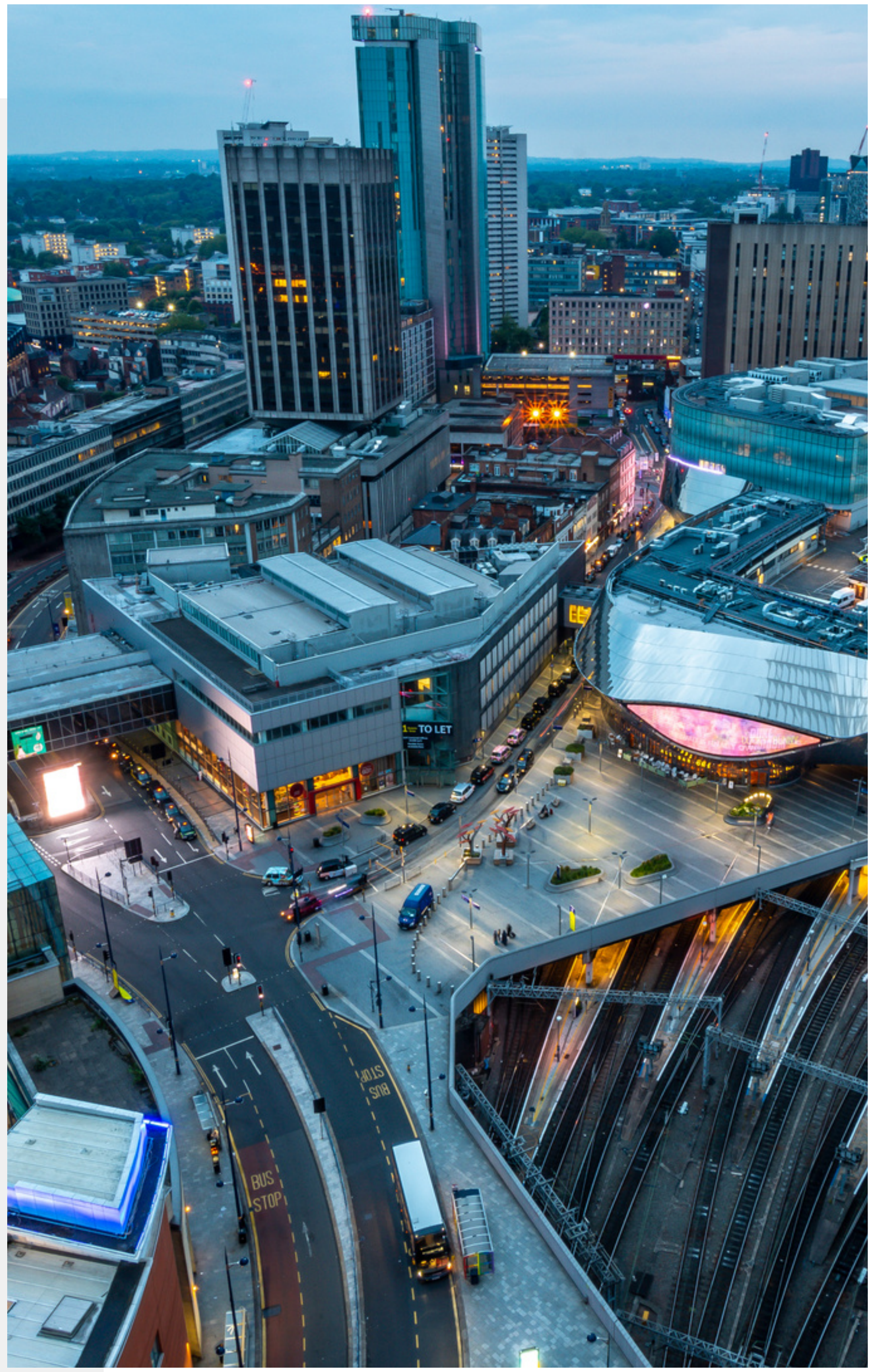
When people, businesses and social enterprises are financially included, they can fully participate in our society and reach their true potential. For CDFIs, Environmental, Social and Governance (ESG) activities are embedded in our everyday work and have been since day one. In the following pages we map out CDFIs' ESG approach, activities, impact over the past year, and aspirations. Alongside this we map the sector's contribution to the United Nations Sustainable Development Goals.

The United Nations General Assembly launched the 17 Sustainable Development Goals as part of the 2030 Agenda for Sustainable Development. They are a blueprint to achieve a better and more sustainable future for all.

Responsible Finance providers contribute to achieving 10 of the 17 Goals. In this report we set out how.



It's often said that CDFIs "put the 'S' in ESG" so we begin with their Social impact, then move to Environmental, and finally Governance.



Loans that Change Lives.

THE SOCIAL IMPACT
Of Business and Social Enterprise Lending CDFIs

Fuelling Growth

Unlocking Access to Finance for Enterprises

8 DECENT WORK AND ECONOMIC GROWTH

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

A million (20 %) of Small and Medium Sized Enterprises (SMEs) cite access to finance as a major obstacle to growth [2].

Lenders are increasingly risk averse and loan approvals are at a record low – 43 % of business loan applications are not successful[3].

Business investment, a key driver of economic growth, is down over 10 % from 2019[4].

Only 40 % of SMEs feel confident they could get a bank loan[5].

Why is access to finance important?

Finance enables businesses and social enterprises to start-up, grow and respond to opportunities. As they recover from the pandemic and tackle new challenges such as transitioning to a net-zero economy, access to the right finance is vital.

Many small businesses struggle to get the finance they need. Banks' risk appetite is set by regulatory capital rules, funding priorities and shareholder objectives. Online loan decision-making systems and lenders' limited knowledge of applicants' specific business prospects remove nuance. Often, viable SMEs lack the track record, credit history or security required by traditional lenders to get finance, meaning they are forced to give up on investment and growth.

What do CDFIs do differently?

CDFIs help to narrow the finance gap for SMEs. Using a relationship-based approach, they marry financial and other data to take a holistic view of a business. They:

- Speak with owners and management teams to understand and assess their plans.
- Analyse trading history and decide whether any dip in revenue is temporary.
- Have deep knowledge of their local economies and help customers understand market conditions.
- Do not place unfair limits on lending in certain sectors.

CDFIs focus on businesses excluded or declined by mainstream lenders, including challenger banks and Fintechs. They do not compete with other lenders – their lending is additional, creates future bank customers, and contributes to economic growth through sustainable business growth and innovation that would otherwise have been lost.

CDFIs lent £65 million to 890 businesses in 2021

CDFIs lend to the smallest, most financially excluded businesses. 2/3 of borrowers had 9 or less employees.

94% had been declined by another lender

£73,200 is the average loan size, filling the gap in smaller value business loans

"When we initially approached our high street bank for a CBILS loan, they immediately said no without even speaking with us. It is great that SWIG takes the time to understand the business. I was impressed with the process, as it matched the entrepreneurial culture we have at Bay's Kitchen. Our business manager Nicola was a delight to deal with, she really took the time to understand our journey and why we needed finance."

Ben Haynes, Commercial Director at Bay's Kitchen. Supported by SWIG Finance.

FINANCE FOR ENTERPRISE

Laser focus helps Doncaster manufacturer secure six-figure backing

A Doncaster-based engineer and entrepreneur, who secured a significant contract to deliver ground-breaking research into laser technology in the energy industry, secured a six-figure cash injection from CDFI Finance For Enterprise to help realise his plans and employ new staff.

Laser Additive Solutions specialises in delivering a wide range of projects on behalf of the aerospace, energy and transport sectors. It was appointed as the lead member of a research and development consortium to investigate how innovative laser technology could be harnessed during the construction of nuclear power stations. The new project required significant investment in raw materials including the need to build a special facility within the company's headquarters.

The sector is a relatively new one so this presented challenges for fundraising, and the firm struggled to secure finance from traditional high street lenders before turning to CDFI Finance For Enterprise for help.

Since securing the £105,000 loan, Laser Additive Solutions has successfully built a new laser process cell and welcomed two new staff members. It is confident the support from Finance For Enterprise will not only help to continue delivering its unique research but lay the foundations to explore new market possibilities for the technology.

Today the company employs five full-time members of staff and counts Siemens, Rolls Royce and Strathclyde University amongst its growing client base.

The SonicSMR project is a 12-month collaborative R&D project funded by the Department for Business Energy and Industrial Strategy and aims to address the challenges posed by using metal additive manufacturing in the nuclear industry. Consortium partners include the University of Sheffield's Nuclear AMRC, Brunel Innovation Centre, IVY-TECH and Taraz Metrology.

"Our business is built around helping businesses to embrace 3D metal additive manufacturing, which allows components to be built using lasers to shape metals by building in layers. We're working at the cutting edge in an emerging industry that presents some very exciting opportunities.

"However, as the sector we're working in is a relatively new one, historically, this presented its own challenges when it came to raising the vital funds we needed to purchase the necessary equipment.

"When I launched the business, like many new business owners, I struggled to secure finance from traditional high street lenders, but Finance For Enterprise listened to my plans and were able to help. When the business needed additional financial support, due to the combined impact of Covid-19 and the need to purchase vital raw materials, I approached them again, and they helped us to secure the funds our business needed.

"As a result of the investment we've received, we've been able to install a new facility in our workshop to support the demands of our research project as well as recruit additional members of staff to help us manage our workload more effectively."

Peter Brown, Managing Director, Laser Additive Solutions.

Connecting Capital with Communities

Investing in Social Enterprise Success

Social enterprises are worth at least £60bn to the economy and this is growing: 47 % of social enterprises are under five years old compared to 10 % of SMEs[6].

95 % of social enterprises took specific actions to grow or diversify in 2021[7].

Only 44 % of social enterprises feel the amount of external finance available to them is sufficient[8].

15 % of social enterprises cite that they did not make an application for finance because they expected to be rejected[9].

Why is access to finance important?

Social enterprises are addressing societal and environmental challenges. They are driven by purpose: to do what is in the interests of people and planet, and they are growing. They showed resilience and flexibility through the pandemic.

Many lenders don't understand social enterprises well and consider their business models more complex. This misperception extends to some commissioners in public authorities who (despite evidence to the contrary) believe contracting with social enterprises is riskier than with large outsourcing firms. Because of this, and contracts in which social enterprises are only paid after incurring delivery costs, they can struggle to access the finance they need to grow and remain resilient.

What do CDFIs do differently?

As social enterprises themselves, CDFIs understand the needs and business models of social enterprises and consider the 'triple bottom line' when making lending decisions. They account for positive social and environmental impacts and provide tailored, flexible loan and grant products.

Specialist social enterprise lending CDFIs champion impact-first investing and drive social equality across the UK, transforming communities to become inclusive and socially sustainable. They don't just invest in social enterprises but support them to start-up, grow and increase resilience.

Social enterprise lending CDFIs positively impact millions of people. Their investees contribute directly to most of the UN Sustainable Development Goals, but especially:

- Good health and wellbeing
- Quality education
- Sustainable cities and communities
- Reduced inequalities[10]

CDFIs lent £73 million to 380 social enterprises in 2021

Interest rates range from 0%-12%

£191,000 is the average loan size for CDFI social enterprise loans

"Key Fund had a chat and sat me down and did the paperwork and it was amazing. I thought it would be like going to a bank, but it was nothing like that. It was a real person sat in front of me listening...who said, actually that's a really good idea. The Key Fund money was critical. Considering the position we were in then, and now, it's down to Key Fund."

Natelie Lek, The Launch Project. Supported by Key Fund.

The social enterprise giving shelter to thousands

Having a roof over your head is a fundamental human right but, for many social housing tenants in the UK, the conditions are unacceptable. 13 % of social housing properties fail to meet the decent homes standard. This makes it all the more urgent for companies like Cromwood Housing Group, a social enterprise supported by CDFI Big Issue Invest, which is helping to safeguard tenants by increasing the number of liveable social housing properties.

In the 20 years since Cromwood was founded in 2002 it has housed and supported nearly 35,000 people across London and Greater Manchester. Cromwood provides housing for people experiencing homelessness, rough sleepers, domestic abuse victims, and asylum seekers.

Ethically sourced seafood from boat to plate

Having worked in the restaurant business for 20 years, Caroline Bennett set up ‘Sole of Discretion’ to deliver ethically sourced fish and seafood whose journey could be traced from boat to plate. Its mission is to provide high quality, sustainably sourced and traceable fish for consumers, but Caroline’s focus is also on securing a future for smaller, local fishers. As a Community Interest Company, it is owned by the fishers who are paid an agreed price rather than market price. By working exclusively with small boats using sustainable practices, Sole of Discretion is working to counteract the long-term damage caused by industrial fishing and ensure that traditional skills and local livelihoods are protected.

Regular supplier, Graeme, recognises the importance of this for the local fishing industry and for a sustainable future: “Caroline meets us in the middle. She sets a price that’s usually above fair, but for that she expects absolute top quality fish. She only wants to buy fish from sustainable boats with a low carbon footprint, which is what our entire business is.”

Sole of Discretion began working with CDFI NatWest Social & Community Capital (S&CC) having previously approached a number of Green investors who expected unfeasible equity returns, but with additional green criteria:

“I came across Social & Community Capital and I think from within less than two months of first approaching them, I got a decision and the money was pledged.”

S&CC were able to provide consistent support when suppliers dropped out, offering a capital repayment holiday and rescheduled loan to help Sole of Discretion while they found other partners. Sole of Discretion have since built a network of online organic retailers and local customers who seek out their high quality sustainable products.

Caroline hopes that the business model of Sole of Discretion will provide a blueprint for other organisations around the UK, and is currently working with other groups to set up their own local ventures.

Social & Community Capital
S&CC
Supporting Social Enterprise

Start-Up Nation

Giving Entrepreneurs the Tools to Start New Businesses

1 NO POVERTY

8 DECENT WORK AND ECONOMIC GROWTH

Analysts observed a "startup boom" in the UK in 2020 due to the pandemic[11]: over 700,000 companies were registered in each of 2020 and 2021[12].

Three million people employed by other organisations want to start their own business in 2022, and a third will need external finance[13].

Why is access to finance important?

Investing in start-ups with small amounts of appropriate finance enables them to flourish, contribute to economic growth and create jobs.

Mainstream lenders often can't lend to start-ups due to their lack of collateral, credit and trading history, and the low margins on small start-up loans[14]. Without specialist finance many vibrant, innovative businesses would never take off or would stall in the critical early years of trading.

"The start-up loan was instrumental in helping me to develop and expand the studio. The robust application process and my dedicated business adviser helped me to fully consider how the studio would perform financially, who my target market is and how the studio would provide a valuable service. Throughout my degree, I studied how to be an artist. However, the support from First Enterprise – Enterprise Loans helped me to see my entrepreneurial skills and gave me the confidence to expand."

Katie Hinder, Glass Artist. Supported by First Enterprise – Enterprise Loans.

What do CDFIs do differently?

CDFIs provide entrepreneurs with more than finance: their mentoring and business support nurtures new and early-stage businesses. These tools and resources also support pathways out of poverty for entrepreneurs in disadvantaged areas who were previously reliant on benefits for their income.

Ten CDFIs are accredited delivery partners for the British Business Bank's Start Up Loans programme (SULCO). This programme specifically provides funding to businesses which have been operating for less than three years with the aim of filling the gap in access to finance for start-ups.

Tribal Milk founders appointed British Business Bank Start-Up Loan Ambassadors

FINANCING SHARIA ENTERPRISE

Rahma Ahmed Ali and Nura Nur secured a loan of £10,000 from CDFI and Start Up Loans Company delivery partner Financing Sharia Enterprise to start alternative dairy brand Tribal Milk, which uses camels' milk in place of cows' milk. Camels' milk is a staple product in Africa and has many health benefits compared to cow's milk.

The loan was used to cover start-up costs, product development, marketing, and inventory. Rahma and Nura launched their products to market in 2022 and continue to develop innovative products with a dairy twist[15].

CDFIs lent £28 million to 2,370 start-ups through SULCO in 2021

2,520 new businesses and social enterprises were created through CDFI lending in 2021

£11,140 is the average start-up loan size, at a 6% interest rate

Unique optician eyes funding for expansion after paying off business loan

A performing arts optician from Yorkshire has a clear vision for growth, after paying off its first business loan to CDFI the Business Enterprise Fund (BEF) and more than doubling in size.

Allegro Optical provides bespoke optical examinations and lenses for musicians, who often experience specialist eye problems due to their craft.

The family business - the only opticians accredited by British Association of Performing Arts Medicine - was founded in Meltham by Sheryl Doe and her husband Stephen Tighe, with the help of a £40,000 Start-Up loan from CDFI BEF. Now, with over 6,000 clients and a turnover of almost £600,000 a year, it is looking to expand again.

Sheryl and her conductor, composer and brass band player husband employ 20 staff - all musicians themselves - and will be recruiting more people over the coming months.

“We are already in discussions around further funding with BEF, as there is a real need for musicians to have the right kind of optical care,” says Stephen. “We are unique in that we can provide that care, and that is why there is such a growing demand for our service.”

The company works with the Royal Society of Musicians of Great Britain as well as the Royal College of Music and has been recognised with awards from the Federation of Small Businesses, as well as being named Dispensing Optician of the year in 2019 and 2021 and Arts and Entertainment Business of the Year in 2019.

“We have already identified a site for a third practice, having opened our first two with the initial help of BEF”

“Word of mouth has certainly spread - we have clients from as far afield as New Zealand and Japan, who have their consultations online, although most of our customers are face to face.”

Sheryl Doe, Founder of Allegro Optical and Optician, Cornet, Cello and Double Bass Player.

bef Business Enterprise Fund

Good Jobs

Promoting Employment Creation in Businesses and Social Enterprises

8 DECENT WORK AND ECONOMIC GROWTH

Both employment and economic activity rates vary significantly by region across the UK[16].

The UK has larger geographical differences than many other developed countries on multiple measures, including productivity and pay[17].

Why is access to finance important?

As the Levelling Up White Paper made clear, "not everyone shares equally in the UK's success. While talent is spread equally across our country, opportunity is not." It says levelling up "requires us to end the geographical inequality which is such a striking feature of the UK" and should "begin by improving economic dynamism and innovation to drive growth across the whole country, unleashing the power of the private sector to unlock jobs and opportunity for all." And it says economic growth and higher productivity have been over-concentrated in specific areas.

What do CDFIs do?

CDFIs lend to new and existing businesses and social enterprises. They empower leaders to take on new staff; creating decent work and opportunities across the UK.

CDFI lending is a very cost-effective mechanism of creating jobs. Under the Government's Regional Growth Fund programme the cost per job created by a CDFI was £2,549, compared to the overall programme expected cost per job of £37,400, and CDFIs exceeded targets for businesses and jobs created[18].

4,280 new jobs created in 2021

5,850 jobs sustained

"In the craft beer industry, it is very difficult to grow without working capital. This funding means that as we grow, we can work to improve our operational process as a whole, rather than working on specific components, which often results in a disjointed process. We chose to work with SWIG Finance because we knew that they would take the time to understand where our business is now and where we want it to be."

Nick Palfrey, Founder of Steel Brew Co. Supported by SWIG Finance. Steel Brew currently employs 10 people and is looking to triple its headcount over the next 3 years.

Empowering Leaders

Advice and Support

Nearly two thirds of SMEs do not have a business plan[19]. Micro businesses are least likely to have one, followed by small and then medium-sized businesses.

Just 24 % of businesses sought external information or advice in the past year – a big drop since 2010[20].

Why is support important?

Help to Grow, the flagship Government programme to provide support, mentoring and discounted business software, is only available to businesses with five or more employees. Many micro SMEs which could benefit from such support and increase headcount, turnover, productivity and profitability, are excluded.

What do CDFIs do?

CDFIs offer their customers business support, advice and information. They challenge business plans and help leaders to refine and adapt them to reflect realistic goals. Many also have dedicated programmes designed to empower entrepreneurs. This is particularly important at the current moment as businesses and social enterprises need support and confidence to help them rebuild, grow and navigate the many challenges they are facing.

16,550 hours of investment readiness support to businesses and social enterprises

16,100 hours of post-loan support to businesses and social enterprises

Levelling Up In Action

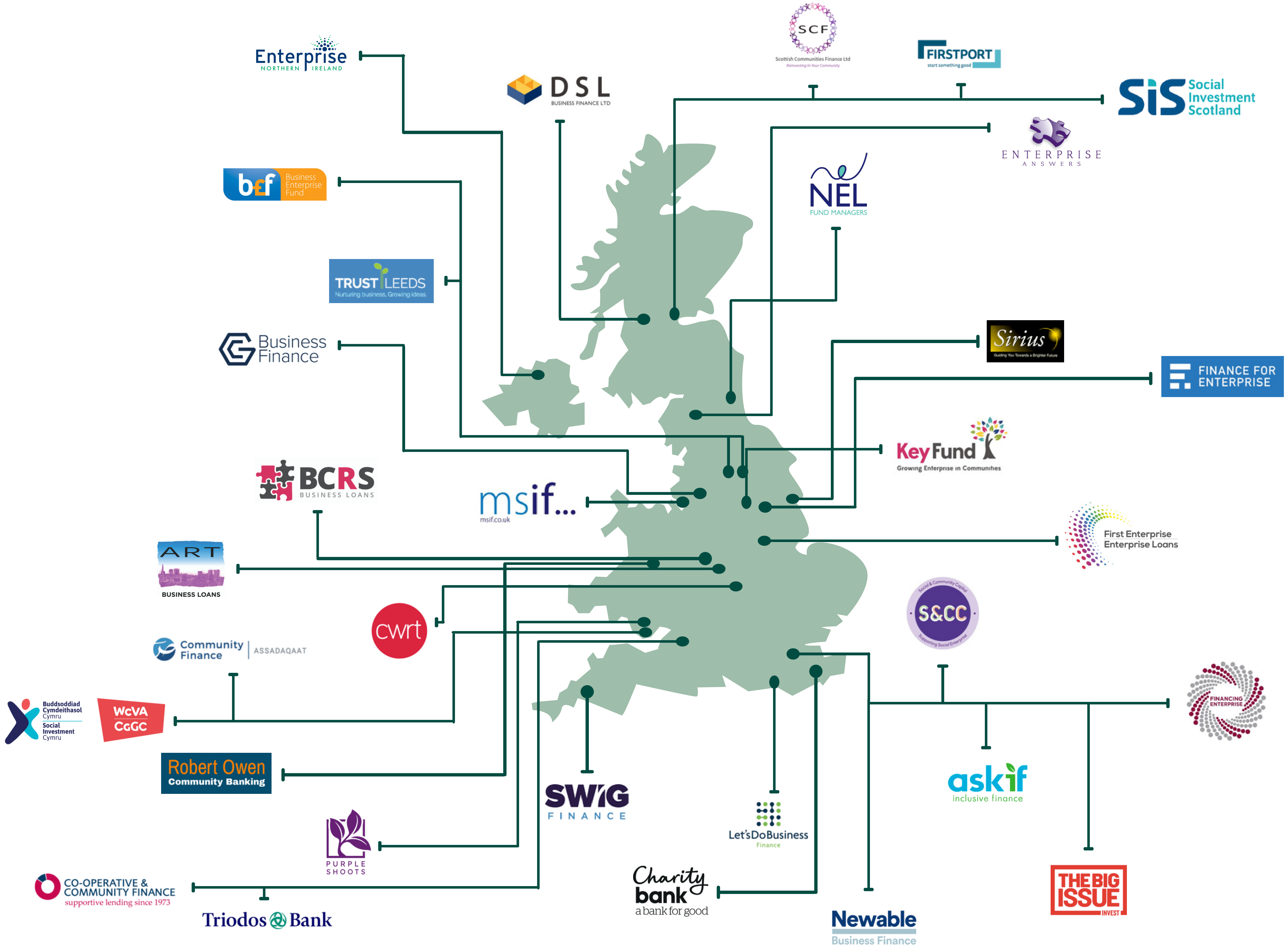
Investing into Under-served and Deprived Regions to Create Local Wealth and Employment

10 REDUCED INEQUALITIES

32 % of SME loans and overdrafts are approved for businesses in London and the South East, compared to 68 % for the rest of the UK[21].

22 % of social enterprises operate in the most deprived areas of the UK[22].

Social enterprises in the North of England and in the most deprived areas have higher turnovers than average, and are more resilient to economic change and deindustrialisation[23].



93% of CDFI SME loans & 79% of CDFI social enterprise loans are outside London and the South East

46% of CDFI SME lending is in the UK's 35% most deprived areas

Why is access to finance important?

In many areas of the UK businesses find it more difficult to access finance (or have fewer options) to invest and grow. Gaps in finance waste economic potential. Some areas attract more growth finance than others but their share of high growth businesses is unremarkable; business quality is not driving imbalances in growth finance[24].

A business borrowing from a mainstream lender will often need collateral. For businesses without valuable assets, a director's personal property may be the only suitable security. If enterprises in regions with lower property values can't provide sufficient collateral they can be excluded from finance.

What do CDFIs do differently?

CDFIs are active participants in their communities throughout the UK, with a strong presence in the West Midlands, Yorkshire and the Humber and the North West. They support enterprise activity and job creation in disadvantaged communities, unlocking opportunities for businesses to create and circulate local wealth, and reducing inequalities between areas.

CDFIs are key delivery partners for the British Business Bank's regional funds:

- Northern Powerhouse Investment Fund
- Midlands Engine Investment Fund
- Cornwall and Isles of Scilly Investment Fund

Evidence shows that finance obtained through the funds enables businesses to innovate, improve their processes and upskill staff. Longer term evidence on the Northern Powerhouse Investment Fund (NPIF) has shown that beneficiaries grew employment and turnover notably faster than comparable companies which did not utilise NPIF Finance[25].

"In recent years, Gold Crown Bakeries has been on a considerable growth journey. Turnover has risen from £800,000 in 2015 to more than £2.25 million during our last financial year, however we realised our factory was working close to capacity, with members of staff working around the clock in order to meet demand.

"We approached Andrew Craggs, a specialist finance broker at ECS Group and during our discussions they referred us to Finance For Enterprise. The support we received from the Northern Powerhouse Investment Fund & Finance For Enterprise was excellent.

"The additional capacity in our new premises has meant we are able to increase the volumes of products created as well as investing time introducing new product ranges. As a direct result of the support we've received from Finance For Enterprise, I'm confident that we're on course to enjoy a record year of growth, enabling us to double our workforce and create 14 new jobs in the business."

Jonathan Battersby, Bakery Director, Hull-Based Gold Crown Bakeries. Supported by Finance For Enterprise.

CDFI regional lending to SMEs in 2021

Building Resilience

Supporting Businesses and Social Enterprises to Withstand and Recover from the Covid-19 Pandemic, the UK's Exit from the European Union and the Cost of Living Crisis

400,000 UK companies closed in 2020[26], 89,000 more than the previous 5 year average[27].

Micro-businesses with 0-9 employees have the lowest level of cash reserves[28].

1/3 of SMEs report a negative impact due to new trading arrangements with the EU[29].

Nearly half (47 %) of UK businesses reported increases in costs of materials, goods or services bought in March 2022, up from 39 % in February and the largest ever rise of this measure[30].

Why is access to finance important?

Smaller businesses were particularly impacted by the pandemic. Many experienced significant drops in revenue.

Credit played an important role supporting businesses. Borrowers are now well underway with repayments and less concerned about being able to keep up. But some businesses are over indebted.

Businesses with debt can be seen as more risky and priced out of the finance they need to manage everyday trading, even if they can afford to borrow. This may push them into distress. A domino effect could harm other businesses, such as those who rely on indebted firms in their supply chains. Financing needs must be addressed so viable businesses can recover and invest in growth.

"Our relationship with NEL has been a crucial factor in the business' success over more than a quarter of a century and it made clear sense to talk to them once again about this latest stage of our development."

Geoff Hodgson, Managing Director at Formula Plastics.

NEL FUND MANAGERS

What do CDFIs do?

CDFIs are countercyclical lenders. They step in during more challenging economic times to stimulate the economy. When the Covid-19 pandemic hit CDFIs stepped up immediately to support SMEs: one of the first loans made under the Government's Coronavirus Business Interruption Loan Scheme (CBILS) was by a CDFI. They have been active delivery partners of CBILS and the Recovery Loan Scheme (RLS) since 2020.

Going forward, CDFIs can look beyond business debt, turbulent trading histories caused by lockdowns and pivoting operations to really understand whether a business can afford to borrow and grow, giving them the tools to take on new challenges, digitise, adapt and transition to net zero.

CDFIs have lent £114 million to date through CBILS and RLS

5,850 jobs safeguarded in 2021

County Durham injection moulding firm to regain ground lost during the pandemic and double its turnover by the end of next year

Formula Plastics manufactures high tolerance precision components which are used by companies in a growing range of sectors, including automotive, engineering and electronics. It received a £100,000 investment from CDFI NEL Fund Managers to enable it to regain ground lost during the pandemic. Having diversified its customer base and enhanced its business development resources, Formula Plastics is aiming to double its £2m turnover by the end of next year and create up to 20 new jobs.

Its relationship with NEL goes back to 1996, when it provided start-up funding to get the business going. This latest investment is the seventh time that the two organisations have worked together.

John Suggate, chairman at Formula Plastics, said: "In common with many companies, the last few years have proved challenging for us, but we're now seeing signs of improvement across all the sectors in which we're active and want to capitalise on the opportunities this provides."

Financing Diverse Entrepreneurs

*Lending more to Ethnic Minority-Led Businesses**

Businesses led by ethnic-minority entrepreneurs face significantly higher rejection rates when they apply for finance: 52 % compared to just 22 % of businesses led by white entrepreneurs[31].

Businesses led by ethnic-minority entrepreneurs also experience higher rates of discouragement[32] and difficulty in accessing finance[33].

Social enterprises led by ethnic-minorities were more likely to have applied for finance, but only secured 50 % of the median amount sought compared to an average of 80 % for social enterprises as a whole[34].

Why is access to finance important?

Regardless of someone's ethnic background, businesses should have equal opportunity and access to finance.

Ethnic-minority led businesses are more open to using finance and have stronger growth ambitions than white-led firms[35], and social enterprises led by ethnic minorities are more likely to be planning to innovate[36], but their unequal access to finance hampers their growth and deprives the UK of economic output.

Business leaders from ethnic-minority backgrounds are more likely to be discouraged from applying due to:

- fear of rejection
- being unsure where to find finance
- concerns about the process being too much hassle.

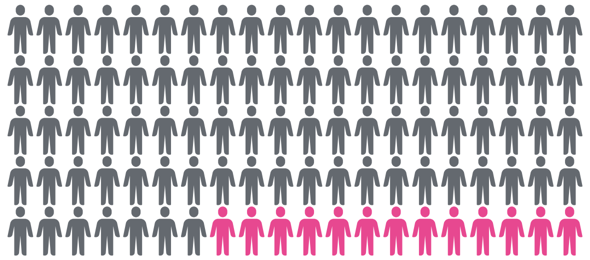
What do CDFIs do?

Serving the under-served and under-represented traces back to the roots of the CDFI movement. In the US, the emergence of the CDFI sector was sparked by the 1977 introduction of the Community Reinvestment Act. The Act came in response to racial discrimination in financial services. Prior to its introduction, banks in the US under-served low-income and minority communities due to their perceived higher risk, a practice known as 'redlining'.

In the UK one of the first CDFIs (ART Business Loans, still a member of Responsible Finance) was established in the 1990s in Birmingham and modelled on the US approach of using local non-profit lenders to increase access to funding for under-served communities.

Today, CDFIs in the UK lend disproportionately more to ethnic minority-led businesses. The sector has a unique ability to reach excluded communities through its relationship and place-based approach and deep local knowledge and presence, helping to reduce inequalities within the UK.

CDFI lending to SMEs in 2021



13% of loans to ethnic minority-led Businesses.

Only 6 % of SMEs in the UK are ethnic minority-led[37]. The proportion is much lower outside of London and the West Midlands[38].

CDFI lending to Start-Ups in 2021

26% of loans to ethnic minority-led Start-Ups.

Only 6 % of SMEs in the UK are ethnic minority-led. The proportion is much lower outside of London and the West Midlands.

*We recognise grouping together diverse entrepreneurs in this way misses the nuance however much of the data we used grouped businesses in this way. Where possible the CDFI lending data we collect is broken down by ethnic background and available in the report Appendix.

Women in Business

Lending more to Women-led Enterprises

5 GENDER EQUALITY

Women-led social enterprises are more likely than their male-led counterparts to be profitable and are more likely to have introduced a new product or service[39].

Women-led businesses suffer double the bank loan decline rate of other SMEs[40].

Women-led businesses are more likely to be discouraged from applying for finance than male-led businesses[41].

cwrt

100%
of participants stated an increase in confidence after engaging with the programme

Why is access to finance important?

According to the Alison Rose Review, access to funding is the number one issue for women entrepreneurs across their entrepreneurial journeys[42]. Their greater reliance on personal funds can contribute to business and personal difficulties, particularly where they have low income or wealth[43].

£250 billion in value could be added to the UK economy if women started and scaled new businesses at the same rate as men[44]. Ensuring women entrepreneurs can access the finance they need to scale their businesses is key to the UK's recovery and growth in productivity.

The Financial Fit

Coventry-based CDFI CWRT runs a free project designed to educate and empower local women-owned businesses.

The programme involves a series of masterclasses delivered by industry experts and business influencers to enable women-owned businesses to develop new financial skills, understand the power of negotiating, make a cashflow forecast work for them and discover new ways to revolutionise their business.

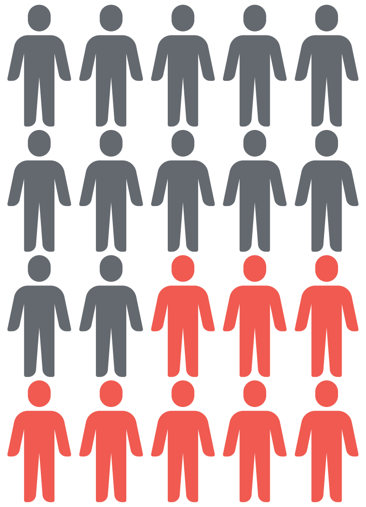
It has empowered local businesswomen to gain confidence and opened opportunities to apply for finance and become a resilient business. Examples of the direct impact of the programme include businesswomen:

- securing a £100k contract
- opening two new franchises and hiring new staff
- negotiating rent costs resulting in a 25 % cost saving

What do CDFIs do?

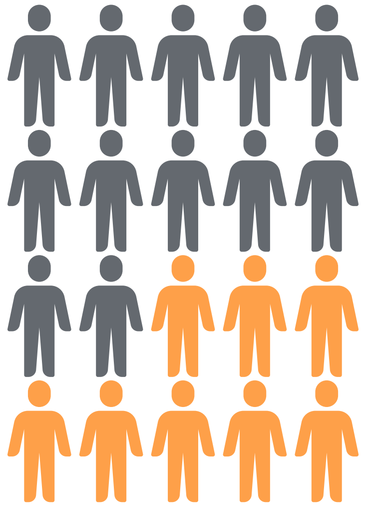
CDFIs lend disproportionately more to women-led businesses, promoting gender equality within the UK. Many also run specific programmes to support women entrepreneurs.

CDFI lending to SMEs in 2021



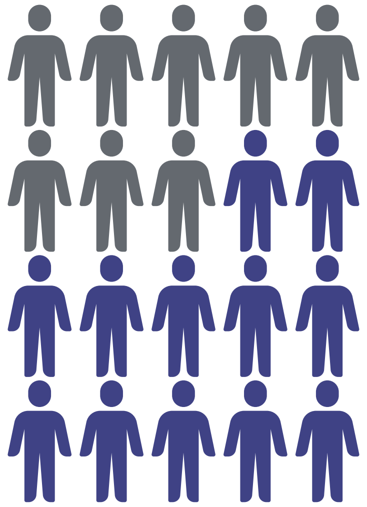
35% of loans to women-led SMEs.
Only 16% of SME employers and 21% of SMEs with no employees are led by women[45].

CDFI lending to Start-Ups in 2021



40% of loans to women-led Start-Ups.
Only 20% of new businesses in the UK are led by women[46].

CDFI lending to Social Enterprises in 2021



60% of loans to women-led Social Enterprises.
47% of social enterprises in the UK are led by women[47].

"I am really pleased with the help and support from Purple Shoots. I wouldn't have been able to make any of this a reality, not just from a funding point of view. But having someone hear your idea and read your business plan and them not laughing cos the idea is unobtainable. It is reassuring to know someone else believed in you and your idea enough to help you get started and that helps you keep on carrying on."

Laura Evans, Founder of Sew Smocking Lush. Supported by Purple Shoots.

Loans that Change Lives.

1 NO POVERTY

3 GOOD HEALTH AND WELL-BEING

10 REDUCED INEQUALITIES

THE SOCIAL IMPACT
Of Personal Lending CDFIs

Financially Resilient

Building Resilience and Transforming Lives Through Personal Finance

1 NO POVERTY

3 GOOD HEALTH AND WELL-BEING

22 % of adults have less than £100 in savings, leaving them vulnerable to financial shocks[48].

At least 11 million people are unable to access affordable credit [49].

Over 1/4 of people have low financial resilience[50].

Over 1/3rd of low-income households took on new borrowing or increased existing borrowing during the pandemic[51].

Over 1 million people are estimated to be borrowing from loan sharks[52].

Informal borrowing from friends and family jumped in 2020[53].

Why is access to affordable credit important?

Credit is essential for many households, but millions can't access a loan at a fair cost even though they can afford to borrow. People with low credit scores, on low or unpredictable incomes and without savings are viewed as "high-risk" by mainstream lenders.

When they need credit they face poor choices or are forced to go without, pushing them into unacceptable hardship.

Low financial resilience combined with the cost of living crisis will cause serious problems. Without fair credit products, people will turn to the remaining high-cost and even illegal lenders. The impact of this on health and wellbeing can be devastating.

If households are forced, through a lack of alternatives, to take on high-cost debt it will depress incomes and create a drag on the economy.

What do CDFIs do?

10 specialist personal lending responsible finance providers lend to low-income households all over the UK making small loans to people who are increasingly unable to access other forms of legal credit.

They contribute to alleviating the effects of poverty by reducing reliance on high interest loans, saving customers money in interest repayments, and building financial resilience.

CDFIs are cautious and diligent. They know their customers, and focus on good outcomes for them. Having a reliable and trustworthy credit provider has a positive long-term impacts on health and wellbeing[54]. Access to affordable credit saves the NHS millions of pounds due to the positive health benefits of essential appliances, improved sleep, leading to improved mood and reduced anxiety and depression[55].

Why do people borrow from CDFIs?

- Purchasing appliances and white goods
- Buying furniture and electricals
- Paying for bills and expenses, including unexpected bills
- Paying for special occasions, such as Christmas

£59 million lent to 138,000 customers in 157,000 loans in 2021

of this, **£34 million** lent to 67,000 customers by traditional non-profit and asset-locked lenders

£374 is the average loan size

£190 saved on average per loan in interest compared to a high-cost lender

Increasing Financial Inclusion

Serving the Under-served

Since 2018 at least 6 high-cost commercial lenders have left the market and stopped serving low-income, financially excluded customers. One of these – The Provident – lent to over 300,000 customers alone.

“My kids' birthdays are all around Christmas. It might sound ridiculous [to use credit to buy presents] because it could be deemed non-essential, but when it’s your kids you can’t really say that getting a birthday present is non-essential.

“If Fair for You wasn’t available I’d have to try to save up or go to another company [eg high-cost one like BrightHouse] which would probably be too expensive.”

Why is access to affordable credit important?

We have long criticised high-cost credit providers for not lending fairly or affordably, but they are part of a shrinking market serving low-income customers. The growth and supply of alternatives including CDFIs is not keeping pace with the exit of these lenders from the market.

Where will customers who previously relied on high-cost providers go when they next need credit? They will be highly vulnerable if their car breaks down or their boiler fails and may be forced to turn to illegal or other high-cost lenders, or to hard pressed friends and family who can ill afford to lend themselves.

What do CDFIs do differently?

CDFIs serve customers excluded by the mainstream by taking a different approach. Instead of relying only on credit scores CDFIs take a more holistic assessment of affordability, using tools such as Open Banking to get a fuller picture of their customers’ financial situation and whether they can afford to borrow. They also understand that just because someone has had credit issues in the past it shouldn’t necessarily impact their ability to borrow if they are on a more stable financial footing.

CDFIs lend to the most financially fragile households in the UK. Their customer demographics mirror those of people using illegal loan sharks according to the 2022 Centre for Social Justice Report[56].

Christine

Christine first used Fair for You after finding out about it on Google following a car crash in 2016. Her three kids (the youngest was nine months old at the time) had all been in her car when it was written off by a lorry going into the side of it, on the way to a family visit to Chester Christmas Market. She needed to buy new car seats for the kids, and quickly – Fair for You made it happen.

“I had previously used BrightHouse but I wouldn’t again – it was so expensive, you can end up paying £1,000 for a TV that you can get at Tesco for £180,” Christine says.

Christine has since bought a range of other household items through Fair for You including beds, a dishwasher, cooker, washing machine and microwave. She has now joined its Good Payers Club, for customers with a proven track record of repaying loans – she has been able to save up Good Payers Club shopping card vouchers to enable her to buy Christmas and birthday presents from Argos.

FAIR FOR YOU

Customer snapshot:

- **77% women**
- **52% social housing tenants**
- **67% in receipt of benefits**
- **56% a couple or a lone parent living with a child/children under 18**
- **20% living with a disability**
- **51% with an annual income below £18,600**
- **41% unemployed**
- **31% private rental tenants**

Supporting Financial Wellbeing

Building Capability and Confidence

1 NO POVERTY

20 % of people have low financial capability, meaning they have low knowledge of financial matters or low confidence in managing money[57].

47 % of UK adults do not feel confident making decisions about financial products and services[58].

63 % of adults feel they cannot determine what happens in their lives when it comes to money[59].

What do CDFIs do?

CDFIs design products and services by putting themselves in customers' shoes. Recent technological advances mean they have been able to go further to boost customers' financial health and in some cases transform their lives.

"For me, [CDFI] Moneyline is leading the way in using what they know about their customers to create greater flexibility and tailoring of products, payments, and customer experiences that fit with how real people on low incomes live their lives."

Actor and Activist Michael Sheen[60].

- **All CDFIs refer customers to debt advice when appropriate.**
- **2/3 give general finance advice**
- **2/9 give access to savings accounts**
- **4/9 provide budgeting advice**
- **4/9 provide benefits checkers and income maximisation support**

CDFIs find £90m lifeline for low income households

Almost eight out of ten people on low-incomes are not claiming the full amount of benefits they could because they are unaware of what they are entitled to, or assume they are not eligible. But detective work by two CDFIs Salad Money and Scotcash, has already helped over 18,200 people identify over £7.5 million in benefits they can claim each month to top up their incomes. The staggering sum works out at £414 per person every month, with the impact even bigger for households with children, who can claim additional benefits of £558 per month they currently don't.

This has been uncovered through an automatic, online benefits calculator which compares the actual benefits people receive with the benefits they are entitled to, based on their specific circumstances and financial situation. CDFIs have integrated the calculator into their websites since October 2021. Anyone applying to them for a loan can use it – whether or not they borrow from the firms.

The calculator, powered by award-winning fintech Inbest, has helped Salad and Scotcash applicants top-up their salaries with their benefits entitlement, reduce their bills, apply for smaller amounts of credit than they thought they needed and build savings. This has the knock on impact of helping to reduce poverty.

SALAD MONEY

Scotcash approachable finance

£3.8 million put into savings by CDFI Moneyline's customers between 2018 and 2020[61]

£414 uncovered per person per month in unclaimed benefits

Spotlight on: the cost of credit for low income households

The 11 million people who have little or no access to affordable credit in the UK will likely pay a 'poverty premium' to access high-cost credit, which can trap them in a cycle of unmanageable debt.

Research by CDFI Salad Money into the financial lives of NHS workers shows 93 % are using one or more type of credit from more than 100 lenders, many of whom are high-cost where APRs can be as high as 1,333 % [62].

CDFIs are 'mid-cost lenders'. They price the loan at what it costs to deliver so they can remain sustainable and be around to support customers for the long-term. They are purpose, not profit driven and asset locked, so are not seeking to maximise shareholder returns.

Each CDFI loan saves the customer hundreds of pounds in interest compared to high-cost alternative providers available to them.

£30 million
saved in interest repayments compared to high-cost lenders[63]

A £350 saving in interest on a loan can be the difference between a person being able to cook their children healthy, nutritious meals, or keep their heating on in the winter.

Based on a £500 loan taken out over a term of 6 months, the total interest paid by a customer to a CDFI compared to two typical high-cost lenders is:

Typical CDFI | **Typical High-Cost Credit Providers***

£128 | £494 | £500

*Based on loan calculators on lender websites. Accessed 16/03/2022.

Inclusive Lending

Ethnic Minority Communities and Access to Credit

Individuals from Black African and Black Caribbean groups are 4x and 3.5x more likely to be denied a loan compared to White groups[64].

Fewer Black, Asian and Minority Ethnic consumers have any savings product (67 % compared with 79 % for White consumers)[65].

15 % of ethnic minority consumers own their house outright, compared with 35 % of white consumers[66].

The FCA found Black adults are among those least able to cope with a financial shock[67].

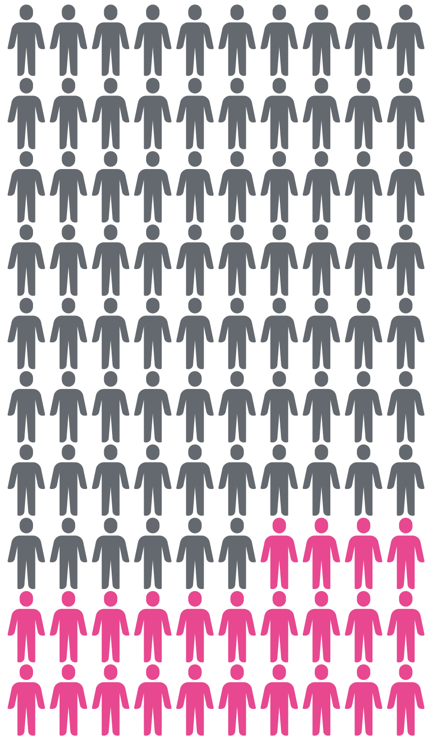
Why is access to affordable credit important?

Financial exclusion for ethnic-minority communities remains a significant challenge. The most recent comprehensive research found significant evidence that Black, Asian and minority ethnic groups' experience of disadvantage is impacting their access to financial services[68]. This means that their lack of savings and home ownership may be impacting on their ability to access affordable credit.

Minority ethnic groups have been heavily impacted by the Covid-19 pandemic. Higher proportions of people from these groups have left employment and experienced sharper falls in income compared to the White population[69]. This means it is likely they will be seen as "higher risk" by lenders and excluded from mainstream, cheaper forms of credit.

What do CDFIs do?

CDFIs focus on more disadvantaged groups and serve disproportionately more customers from ethnic minority groups compared to the overall population. They give their customers a cheaper and fairer form of credit than would be available elsewhere, alongside offering other services to improve financial wellbeing and resilience[70].



24% of CDFI personal loans are to ethnic minority customers.

It is estimated that 15% of the population of England and Wales belong to a Black, Asian, Mixed or Other ethnic group[71].

Decent Living

Supporting People with Nowhere Else to Turn to Repair and Upgrade their Homes

1 NO POVERTY

At least 1 in 10 households in the UK are in fuel poverty[72] and this is rising.

1 in 5 households are living in a non-decent home.[73]

"I am very grateful that I was able to get a loan from Lendology. I wouldn't have been able to get one from anywhere else and it made it possible for me to be warm this winter. It is so important for organisations like this one to exist and be funded."

Lendology Customer.

Why is access to affordable credit important?

Sadly, statistics about fuel poverty are already out of date. Because of the extraordinary increase in energy prices, the number of English households in fuel poverty doubled to 5 million from April 1 2022, according to The Resolution Foundation, it is predicted to rise further.

What do CDFIs do?

Credit is not the answer to poverty, the energy crisis or fuel poverty, but it can enable low-income householders to make energy saving improvements to their homes.

Some personal lending CDFIs specialise in working with local authorities to provide access to low cost, responsible finance for homeowners. This enables people to make emergency repairs to their homes and bring them up to a decent living standard, thereby combatting fuel poverty.

£2.7 million lent to 300 homeowners

- **190 households enabled to make essential repairs**
- **15 empty properties converted**
- **7 homes adapted to the needs of those living there**

Supporting a retired couple to be safe and warm in their home

When retired couple Mr and Mrs B were told that their broken oil-fired boiler could not be repaired, they were worried that because they were in their seventies with very few savings, they would struggle to find the funds. Both suffer from health issues so replacing the boiler was essential to keeping them both safe and warm in their own home.

When the couple applied to CDFI Lendology, they were approved for a home improvement loan funded via Torridge District Council. Installing the new top of the range boiler means they now heat their home much more efficiently, saving the couple much needed money on their energy bills.

Mrs B said, "We were so lucky to be told about this company. Their understanding and expertise relieved us of a great worry and has greatly eased our finances. With regard to my current health condition, I can now rely on hot water and heating during the night."

lendology·cic

Loans that Change Lives.

THE ENVIRONMENTAL IMPACT
Of Business, Social Enterprise, and Personal Lending CDFIs

“CDFIs can make the difference in translating net-zero goals from something that is talked about at COP26 to something that happens in our businesses and communities.”

James Vaccaro, CEO, RePattern. Speaking at 10xRF[74].

Sustainable Business

Investing in Innovative, Sustainable Business Models and Products

A quarter of SMEs report that offering solutions to environmental problems is of high importance to them[75].

20 % of social enterprises are directly addressing the climate emergency as part of their core mission[76].

Why is access to finance important?

Many businesses and communities have good net zero ideas but are struggling to source finance[77].

Creating new products and services, particularly in untested markets, can be risky. Loan applications from businesses exploring or providing new innovations can require extensive due diligence that might not be seen as worthwhile by profit driven banks and investors.

Yet it is essential that no potentially viable technology, product or process that can have a positive impact on the environment is unexplored due to a business being unable to access finance.

What do CDFIs do differently?

CDFIs’ local, relationship-based approach, their size and knowledge of the opportunities, needs and capabilities where they operate means they effectively respond to the needs of early-stage, innovative enterprises and deploy finance to combat climate change and its impacts.

If a CDFI believes a business has potential and the entrepreneur has the drive, they may be flexible, especially where the potential payoffs to the transition to net zero could be high. The sector is eager to partner with local authorities and mainstream finance providers to increase the pipeline of sustainable businesses they can support.

The CDFI sector aspires to empower clients to mitigate their risk on the environment, and create positive environmental impact, such as through financing new SMEs specifically working in the sustainability arena.

“This latest investment from SIS will help Locavore towards its ambitions of becoming a leader on many new fronts, putting us in a position from where we can easily scale further and faster than we have ever done before.

“Within Scotland we’ll be one of the biggest retailers, wholesalers and veg box schemes of our kind with an important position to play in the development of the organic market. We’ll also be a model for how to do business properly, a leading social enterprise and a more prominent and influential voice calling for a fairer and more sustainable society.”

Reuben Chesters, Managing Director, Locavore - Scotland's first social enterprise supermarket. Supported by Social Investment Scotland (SIS).

"Offshore wind turbines are entering deeper and deeper waters, while the structures to support the turbines are also having to get bigger to both support the larger scale modern turbines and sustain the larger loadings they are encountering in the new harsher environments.

"A new environmentally and structurally sustainable solution was required to protect the submerged structures, and in response, we have developed an Impressed Current Cathodic Protection (ICCP) system for installation on an anode cage which allows complete corrosion protection of the submerged structure.

"The system further offers a 95% carbon footprint reduction in comparison to the traditional methods of aluminium anodes which release significant amounts of material into the ocean to offer its protection.

"The NEL team took a practical approach to assessing where we are now and where we want to be, and really dived into the business plan to find out how this investment would help us get there."

Rob Forsyth, Managing Director, OES Group.

OES Group lays deep foundations for sustainable growth

A specialist North East manufacturer with unique sustainable offshore industry technology is aiming to make a global impact, create 10 new jobs in the North East and double annual turnover, with the help of a six-figure investment from the North East Small Loan Fund, delivered by CDFI NEL Fund Managers and supported by The European Regional Development Fund.

OES Group designs, manufactures and supplies cathodic protection and anti-fouling systems for use in the offshore wind, maritime and harbour industries, and has developed a world first anti-corrosion system for offshore wind farms which not only offers a lower carbon footprint than existing solutions, but is also technically superior and more cost effective.

OES has just won two major contracts for work on new offshore wind farms in the Baltic Sea and is already starting pre-work on two further large-scale projects in the same area, along with other emerging schemes in the UK, US, Netherlands and Asia.

Its management team has now worked with NEL to bring in the £100,000 Small Loan Fund investment, which will help to provide the resources it needs to use its new system on more and bigger projects.

Decarbonisation

Supporting SMEs and Social Enterprises to Transition to Net Zero

11 SUSTAINABLE CITIES AND COMMUNITIES

13 CLIMATE ACTION

SMEs are responsible for half of UK business greenhouse gas emissions[78].

Half of SMEs report reducing their environmental impact as a business priority[79].

Costs are the biggest barrier to adopting net zero practices[80].

Only 11 % of SMEs have accessed finance to help them to transition, whilst in future 22 % would consider taking on finance to do so[81].

Why is access to finance important?

All businesses need to reduce their carbon emissions but most are in the early stages[82].

The transition to net zero will require local, place based finance to overcome regional inequalities[83]. The UK's economically weaker regions have the highest per capita carbon emissions reflecting their industrial mix. They will need more adaption[84].

Positive environmental outcomes often improve a businesses' bottom line. External finance can help businesses combat climate change whilst contributing to economic growth.

As mainstream lenders seek to decarbonise their portfolios and invest in line with ESG strategies, certain businesses may miss out on the finance necessary to transform their operations. And new tools to rate an SME's 'ESG value,' based on estimations and generic sector-wide analytics, may compound the financial exclusion already felt by many.

"Small and medium-sized enterprises (SMEs) are at the heart of local economies, and innovative approaches from across the financial system are needed to support them in the transition, involving public, commercial and social finance – not least from financial institutions rooted in particular communities, such as Community Development Finance Institutions (CDFIs)."

Financing A Just Transition Alliance[86].

What do CDFIs do differently?

A Just Transition to net zero means ensuring that it supports an inclusive economy, with a focus on workers and building sustainable communities. CDFIs are place-based investors. This means they are a core part of engaging communities as drivers rather than passengers in the transition.

Finance needs in the coming decades will be diverse and geographically sensitive. CDFIs have a strong presence in the areas identified as having the highest per capita carbon emissions. Given their unique model of in-depth analysis, flexible finance and advice, CDFIs can be harnessed in the coming years to ensure the UK has a successful and Just Transition.

57%

of CDFI loans are in the Midlands, Yorkshire and the Humber and Scotland; areas identified by the LSE as being particularly vulnerable to negative impacts of transitioning to net zero[85]

Specialised support for net zero

Edinburgh-based CDFI Social Investment Scotland has developed a Social Enterprise Net Zero Fund in partnership with Zero Waste Scotland to support social enterprises and the wider third sector to make the transition to net zero and develop the circular economy. The fund provides loans from £10,000 to £1.5m. Examples of eligible activities include:

- Improving energy efficiency
- Transitioning to sustainable transport options
- Scaling local food production and supply
- Developing circular economy products, services, processes and practices.

SIS Social Investment Scotland

Powering Communities

Investing in Community Renewable Energy

There are 424 active community energy organisations across the UK[87].

In 2020 community energy organisations created over 80 new jobs[88].

Community owned wind farms bring long term benefits to local communities. They provide 34 x more benefit payments to communities than the standard for privately owned windfarms[89].

Why is access to finance important?

Community energy is well placed to help the UK meet its net zero targets whilst handing power to communities to drive their own net zero futures. It allows them to generate and own their own renewable energy, and channel any profits into local projects and causes. Community energy helps to create jobs as well as reduce carbon emissions and empower communities.

What do CDFIs do?

Several CDFIs lend to early-stage community energy projects, directly investing in affordable and clean energy. This enables them to get through the planning and building stages before they can generate income, supporting the creation of sustainable cities and communities.

Community solar energy for social sector organisations

Wolverton Community Energy is a registered community benefit society which generates and provides affordable and clean energy to businesses and the community in Wolverton and Milton Keynes. Its vision is to enable the area to generate and control its own energy resources. CDFI Big Issue Invest provided a £240,000 investment to help it kick off its first community fundraiser.

The organisation has multiple solar sites located on social enterprise buildings and provides low cost energy to social sector organisations. It leverages this income to deliver additional community energy programmes that increase access to affordable and clean energy. Of profits:

- 50 % go to supporting local businesses to increase energy efficiency, cut carbon and contribute to the local economy
- 50 % go to local community projects to alleviate fuel poverty, including improving energy efficiency in local homes

The organisation has already generated the equivalent solar energy to saving over 600 tonnes of carbon emissions. This is equal to the total CO_2 emissions for 150 homes in England every year.

Yorkshire's first community hydro-electric scheme

Finance through CDFI the Key Fund enabled Yorkshire's first community-owned hydroelectric scheme, Settle Hydro, to be built 10 years ago. The scheme uses the energy generated to power 50 homes. Any surplus revenue from selling the hydroelectricity is invested in regenerating the local economy. Settle Hydro went on to advise over 400 communities globally, multiplying its impact.

Energy Efficient
Empowering Homeowners

Energy use in our homes accounts for 14 % of the UK's total carbon emissions[90].

Why is access to finance important?

Greenhouse gas emission reductions from UK housing have stalled[91]. Yet making the UK's 29 million homes energy efficient and resilient to a changing climate is essential to achieving net zero by 2050. As well as reducing our impact on the environment this has the potential to reduce heating bills and save people money, drawing people out of fuel poverty.

But many people on low-incomes do not have the funds to make these changes themselves, or good enough credit scores to borrow money.

What do CDFIs do?

CDFIs are well placed to get funding for net zero into harder to reach households and communities. Some specialist personal lending home improvement lenders partner with their local councils to enable residents, regardless of their income or personal situation, to make energy efficient adaptations to their homes, combatting climate change, supporting the creation of sustainable cities and communities and making their energy more affordable and clean. They also offer top-up loans to cover shortfalls from retrofit grant schemes.

Powering domestic retrofit

CDFI Lendology CIC partnered with community-led organisation Green Wedmore to provide homeowners with access to energy efficiency loans to spread the cost of installing solar panels. Green Wedmore had already installed solar panels on all community buildings and wanted to empower more people within the community to make the changes needed to reduce their use of fossil fuels (as well as their bills).

Before applying, 58 % of Lendology's clients felt they had little or no alternative finance options open to them. Lendology has a range of loan schemes and products to serve a broad range of applicants. They welcome customers who are retired, employed, those in receipt of state benefits as their sole income, or with poor credit histories. Everyone receives the same interest rate, regardless of the amount borrowed or their individual circumstances.

GOVERNANCE
Of Business, Social Enterprise, and Personal Lending CDFIs

Responsible Finance Providers

The term 'responsible' is more than a slogan. Responsible finance providers are industry leaders in their ethical approach to customers. They have a clearly defined social purpose and are almost all non-profit or asset locked. This means they are not driven by increasing profits for private shareholders and can focus solely on their mission and sustainability.

All Responsible Finance members must commit to complying with Responsible Finance's Code of Conduct. Many are also authorised and regulated by the Financial Conduct Authority (FCA), accredited by the Government under its Community Investment Tax Relief scheme, and adhere to Fair4All Finance's Affordable Credit Code of Good Practice.

Transparency
Building Trust with Customers

Responsible finance providers are recognised as trusted and transparent lenders and must provide clarity in respect of loan interest rates, repayments, default and cancellation arrangements. Campaigners are calling for financial regulators to consider and boost financial inclusion. We'd love to see this happen across the finance industry since it's at the heart of why and how responsible finance providers operate.

Social Impact Reporting

Most responsible finance providers measure, evaluate and report on their impact. Examples of recent impact reports include:

- Scotcash
- Business Enterprise Fund
- Social Investment Scotland

Partnerships

17 PARTNERSHIPS FOR THE GOALS

We couldn't do it all on our own. As well as actively working with one another through Responsible Finance's CDFI networks, CDFIs work in partnership with stakeholders across the UK and internationally. Some of our partners include:

British Business Bank
impact investing institute
BIG SOCIETY CAPITAL
fair4all finance
Triodos Bank
unity trust bank
THE FINANCE INNOVATION LAB

CALLS TO ACTION

If you're a bank or an investor...

Talk to us about investing in our members.

CDFIs have measurable, tangible impact to help you reach your investment goals. In the US, not only banks but corporates have already woken up to the impact that investing in CDFIs can unlock for them. Companies such as Netflix, Twitter, PayPal and Square have invested in CDFIs as a way of combating racial injustice and poverty.

CDFIs receive most of their funding from social investors and banks. In 2021 the sector raised £17.5 million through the Community Investment Tax Relief (CITR), a Government relief for investors into accredited CDFIs. This gives investors 25% tax relief on the value of their investment, spread over 5 years.

“Investing in CDFIs puts capital into the heart of communities that need capital - whilst getting a return.”

Jamie Broderick, Board member, Impact Investing Institute.

“Unity Trust Bank has had a long and proud association with Community Development Finance Institutions (CDFIs) in England and Scotland. As a socially determined commercial bank, Unity only lends to businesses and organisations that share its values in wanting to create a better society and help deliver positive economic, social and environmental benefits to local communities. As such, Unity provides accessible and affordable finance to social enterprises and small businesses which struggle to access funding from mainstream banks, through its strong relationship with purpose-driven responsible finance providers.

“The important role CDFIs play in the UK’s finance system - helping businesses survive, stabilise and prosper - has been witnessed first-hand by Unity. Driven by a strong mission and place-based lending, their ultimate goal is to build stronger, more inclusive economies and to create employment opportunities and wider socio-economic benefits.”

Unity Trust Bank.

If you're a policymaker or a regulator...

Explore the following asks designed to support the sustainability and scale of the sector:

- Retain a SME Loan Guarantee Scheme as a crucial tool for long-term economic development.
- Allocate additional Dormant Assets to community finance providers through Big Society Capital, Access Foundation and Fair4All Finance. This will allow CDFIs to extend access to credit to more financially excluded people, businesses and social enterprises and ensure the funding is made available across the UK.
- Increase the share of microfinance provided through the regional funds and extend access to small business finance in Scotland and Wales by ensuring the new regional funds engage CDFIs based there as delivery partners.
- Bring the Community Investment Tax Relief (CITR) up to date. CITR is a vital tool for supporting CDFIs to raise investment to lend more to small businesses but it has not been updated since 2002.
- Show international leadership by introducing a statutory duty for UK regulators to promote financial inclusion. At a minimum this could happen by introducing a 'must have regard to' financial inclusion to the Financial Conduct Authority's remit.

If you're a Credit Reference Agency...

- Explore providing free access to credit data for CDFIs to support lower income households to build their financial resilience and boost their credit profiles.

If you're a housing association or local authority...

- **Explore partnerships with CDFIs that will support your tenants' financial resilience and reroute them away from exploitative lenders.**

"We want to support and encourage referrals to providers of alternatives when consumers need credit. We consider that in this area social landlords can play a key role in assisting tenants to find alternatives to high-cost credit when looking to get essential household goods."

The Financial Conduct Authority, 2018

"Consumers cannot benefit from greater availability of alternatives to high-cost credit if they are not aware of them. Many consumers use forms of credit which they see others around them using and steps will be needed to effectively raise awareness of alternative products."

Financial Conduct Authority: The Woolard Review

If you're the Financial Ombudsman Service...

- **Align the treatment of community finance organisations with the Financial Conduct Authority by exempting them from all payment of case fees.**

If you're a tech firm...

- **The CDFI sector is constantly looking to digitise and streamline to improve its operations. Help it to become more sustainable and give further support to its customers. Please get in touch with us to discuss our live and upcoming projects.**

THANK YOU

Financing Enterprise – Financing Sharia Enterprise
Fair For You
S&CC – Social & Community Capital – Supporting Social Enterprise
BCRS Business Loans
ART Business Loans
Purple Shoots
lendology·cic
Key Fund – Growing Enterprise in Communities
msif...
Finance For Enterprise
Let'sDoBusiness Finance
Scotcash – approachable finance
First Enterprise – Enterprise Loans
The Big Issue Invest
Charity bank – a bank for good
bef – Business Enterprise Fund
Salad Money
Sirius – Guiding You Towards a Brighter Future
Moneyline
creditspring
SWIG Finance
DSL Business Finance Ltd – Established 1993
Enterprise Answers
Co-operative & Community Finance – supportive lending since 1973
fair Finance
cwrt
SIS – Social Investment Scotland
Firstport – start something good
WCVA CGGC
Buddsoddiad Cymdeithasol Cymru – Social Investment Cymru
streetUK – the affordable finance company
Lancashire community finance
NEL Fund Managers
Conduit – Lending Fairly. Changing Lives.
Auden

APPENDIX - Impact Data and the Sustainable Development Goals

Metric	SDG(s)	Sector	Data - 2021	
Total lending			**Number of loans**	160,995
			Value of loans	£228,049,750
			2020 (Pro Rata)	
			Number of loans	*27,695 (+481%*)*
			Value of loans	*£172,483,580 (+32%)*

Business lending

Metric	SDG(s)	Sector	Data - 2021	
Business lending			Number of loans	891
			Value of loans	£65,232,430
			Average loan size	£73,213
			Average term (months)	55 months
			Interest rate range	7.15% - 25.9%
			Median interest rate	13.25%
			New businesses created	143
			Businesses safeguarded	358
			Businesses rejected for external finance previously	94%
			Age of business	
			Less than 1 year old	21%
			1 - 4 years old	31%
			5 - 9 years old	24%
			10 - 50 years old	23%
			50+ years old	1%
			Number of employees	
			0-9 employees	64%
			10-49 employees	32%
			50 - 249 employees	4%
			250+ employees	0%
			Business sector	
			Human Health & Social Work Activities	8%
			Accommodation & Food Service Activities	10%
			Admin & Support Service Activities	5%
			Professional, Scientific & Technical Activities	4%
			Other Service Activities	15%
			Construction	12%
			Manufacturing	14%
			Wholesale & Retail Trade And Repair	17%
			Other	15%

Metric	SDG(s)	Sector	Data - 2021	
Start-up lending			Number of loans	2,371
			Value of loans	£28,101,105
			Average loan size	£11,138
			Average term	57 months
			Interest rate range	6%
			New businesses created	2,371
Business and Start-Up Jobs			Jobs created	4,096
			Jobs sustained	5,667
Business lending by region			East Midlands	9%
			East of England	2%
			London	2%
			North East	10%
			North West	7%
			South East	5%
			South West	6%
			West Midlands	22%
			Yorkshire and the Humber	12%
			Scotland	13%
			Wales	12%
			Northern Ireland	0%
			35% Most Disadvantaged Areas in the UK According to the Indices of Multiple Deprivation	36%
Start-up lending by region			East Midlands	16%
			East of England	4%
			London	3%
			North East	1%
			North West	7%
			South East	18%
			South West	31%
			West Midlands	2%
			Yorkshire and the Humber	14%
			Scotland	5%
			Wales	0%
			Northern Ireland	0%

**Some of this increase can be accounted for by a new personal lending member of Responsible Finance which makes smaller value loans to a higher number of customers.*

Metric	SDG(s)	Sector	Data - 2021	
Business advice and support			Hours of investment readiness support Hours of post-loan business support	2,922 4,983
Start-up advice and support			Hours of investment readiness support Hours of post-loan business support	8,331 9,974
Gender identity of business loan recipients			Male Female	65 % 35 %
Gender identity of start-up loan recipients			Male Female	59 % 41 %
Gender identity of social enterprise loan recipients			Male Female Other	38 % 58 % 4 %
Ethnicity of business loan recipients			White Mixed/Multiple Ethnic Groups Asian/Asian British Black/Afridcan/Caribbean/Black British Any other ethnic group Ethnic Minority Business (non granular data)	87 % 1 % 7 % 2 % 0 % 2 %
Ethnicity of start-up loan recipients			White Mixed/Multiple Ethnic Groups Asian/Asian British Black/Afridcan/Caribbean/Black British Any other ethnic group Ethnic Minority Business (non granular data)	74 % 3 % 7 % 12 % 3 % 1 %

Social enterprise lending

Metric	SDG(s)	Sector	Data - 2021	
Social enterprise lending			Number of loans Value of loans Average loan size Average term (months) Interest rate range	383 £73,220,318 £191,176 99 months 0 % - 12 %
			New social enterprises created Social enterprises safeguarded	3 75
			Age of social enterprise Less than 1 year old 1 - 4 years old 5 - 9 years old 10 - 50 years old 50+ years old	 7 % 42 % 27 % 24 % 0 %
			Number of employees 0-9 employees 10-49 employees 50 - 249 employees 250+ employees	 75 % 25 % 2 % 0 %
			Social enterprise sector Community Energy Projects Environment and recycling Agriculture, horticulture and environmental management Advisory Services Physical Health Leisure, tourism and sport Arts, creative and digital services Employment, education and training Health, care and social care Community services Housing and accommodation Other	 1 % 1 % 1 % 2 % 3 % 6 % 8 % 9 % 10 % 17 % 27 % 16 %
Jobs			Jobs created Jobs sustained	187 184
Social enterprise advice and support			Hours of investment readiness support Hours of post-loan business support	5,300 1,140

Metric	SDG(s)	Sector	Data - 2021

Personal lending

Personal lending

Number of loans	157,052
Number of unique customers	137,722
Value of loans	£58,809,818
Average loan size	£374
Total number of new loans with a value <£1,000	98 %
Total number of new loans with a term <1 year	96 %
Annual Percentage Rate (APR) range	43 % - 266 %
Median APR	169 %

Reason for borrowing

Consolidating debts, paying a rental deposit or moving house, related to a baby or child, paying for a training course	1 %
Paying for transportation (eg. car, car repairs)	3 %
Paying for home improvements	8 %
Paying for special occasions (eg. Christmas, birthdays, wedding, holidays)	9 %
Paying essential bills and expenses, including unexpected bills and employment related expenses (eg. electric and gas, groceries)	10 %
Paying for furniture and electricals (eg. TV, sofa)	22 %
Paying for an appliance/white goods (eg. washing machine, cooker)	27 %
Other	20 %

Home improvement lending

Number of loans	298
Value of loans	£2,686,080
Representative APR	4 %

Customer demographic data

Ethnicity

White	76 %
Ethnic minority	24 %

Gender identity

Female	77 %
Male	23 %

Metric	SDG(s)	Sector	Data - 2021

Age

18 - 24	4 %
25 - 44	63 %
45 - 64	30 %
65 - 75	2 %
75+	0 %

Residency status

Social housing tenants	52 %
Private rental tenants	31 %
Owner occupiers	3 %
Living with friends/family	12 %
Other	2 %

Employment status

Unemployed	41 %
Self-employed	1 %
Employed	54 %
Part time	*21 %*
Full time	*79 %*
Retired	2 %
Student	0 %
Other	2 %

Individual gross annual income

< £13,900	24 %
£13,901 - £16,200	14 %
£16,201 - £18,600	14 %
£18,601 - £21,300	13 %
£21,301+	36 %

Lone parent with a child/children under the age of 18	41 %
Couple with a child/children under the age of 18	15 %
Living with a disability	20 %
Benefits recipients	67 %

Personal lending by region

East Midlands	9 %
East of England	5 %
London	8 %
North East	12 %
North West	20 %
South East	8 %
South West	6 %
West Midlands	10 %
Yorkshire and the Humber	1 %
Scotland	9 %
Wales	11 %
Northern Ireland	2 %

APPENDIX - References

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