

Responsible Finance

Regional Growth Fund

Impact Report

August 2020

Responsible Finance Economic Growth Co-Investment Wholesale Fund

Regional Growth Fund, Impact Report

Purpose and structure of this report

Since 2012, Responsible Finance has managed the RF Fund, a pioneering wholesale co-investment fund delivered by Community Development Finance Institutions (CDFIs).

An evaluation of the RF Fund has been carried out for BEIS' final review of the Fund under the current funding agreement, which runs until 31 March 2021. The review will determine the future of the Fund.

This report summarises the key impact findings of this evaluation and considers the RF Fund within the wider political, economic and social context. It assesses to what extent the RF Fund is a critical part of the ecosystem of finance and support for the CDFI sector itself, and makes the case for the further capitalisation of the CDFI sector to support the post-COVID-19 recovery.

All RF Fund figures quoted in the report are to 31 December 2019 unless otherwise stated.

This report was written by Rosalind Wynne, the RF Fund programme consultant, and edited and produced by Eleanor Pughe, Policy and Programmes Lead. All eleven active delivery partners contributed to this report.

About Responsible Finance

We are the voice of the responsible finance industry. We support a strong network of responsible finance providers – primarily CDFIs – that drive inclusive growth across the UK by lending to those excluded from mainstream lenders.

We ensure the growth and sustainability of the responsible finance industry through our high-quality member services and our work to advocate for a positive regulatory and policy environment.

We are the fund manager for the RF Fund, via RGF CIC, a wholly owned subsidiary.

About the delivery partners

The RF Fund delivery partners are CDFIs - professional social enterprises that re-invest any profits to help businesses and social enterprises to access finance. Many viable small businesses, particularly those in deprived areas, are unable to access mainstream finance to start-up, innovate and grow. The delivery partners are ethical entities with a knowledge of local markets and networks, and expertise in dealing with public funds. Annex 1 lists the eleven active delivery partners.

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"The Government values the role of CDFIs in creating a diverse landscape of finance suppliers. They will be important as economic activity ramps up again in supporting businesses, particularly as they often have the local expertise to support SMEs." [1]

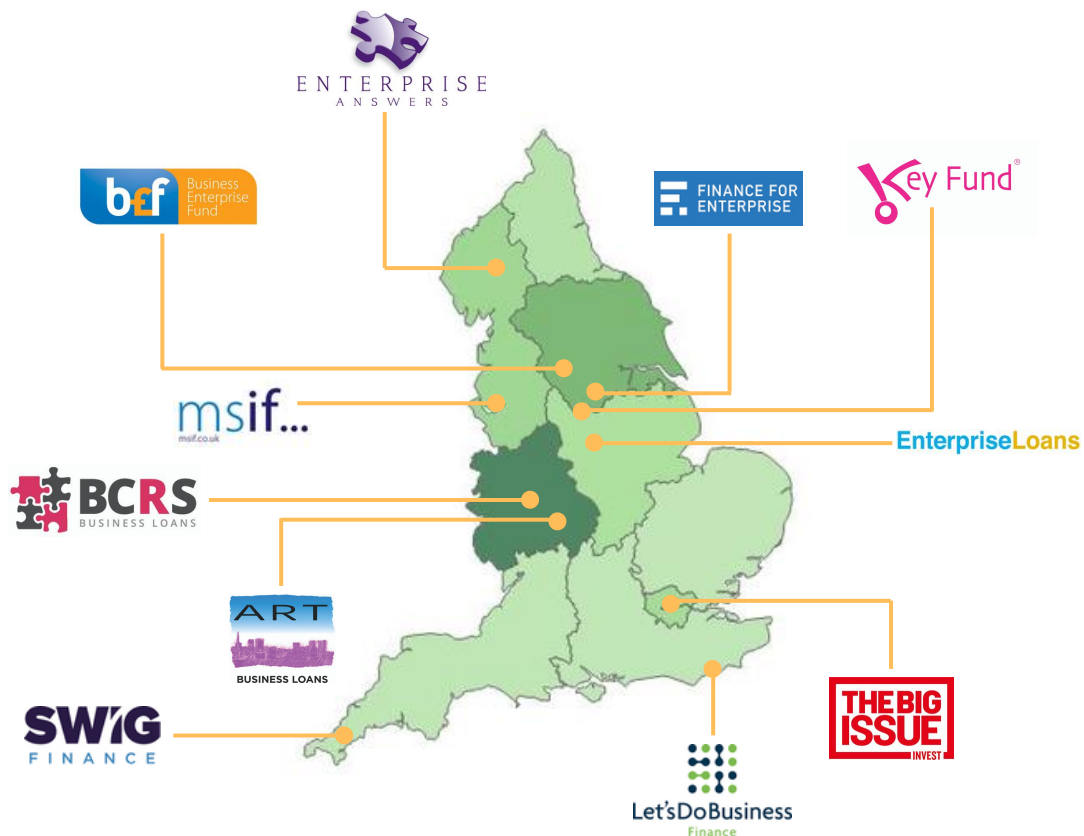
The Rt Hon Kwasi Kwarteng MP

Minister of State (Minister for Business, Energy and Clean Growth)

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Active delivery partners



1. Headline findings

Impact

£30m

government grant

£45m

of private capital unlocked to match government grant

£89m

of lending and recycling repaid capital into new loans, exceeding the £70.4m target to March 2021 set by BEIS[2]

11,771

jobs created or safeguarded, exceeding the 8,746 target to March 2021 set by BEIS[3]

£2,549

government cost per job

...and this will continue to fall as the Fund is recycled, exceeding our target set by BEIS* of £3,430 government cost per job, and RGF's overall expected average cost per job of £37,400[4]

2,726

loans made to 2,443 businesses and social enterprises.

87%

invested outside London and the South East

...compared to 62% of UK SME lending.

24%

of loans were made to female-led businesses

16%

of loans were made to BAME-led businesses

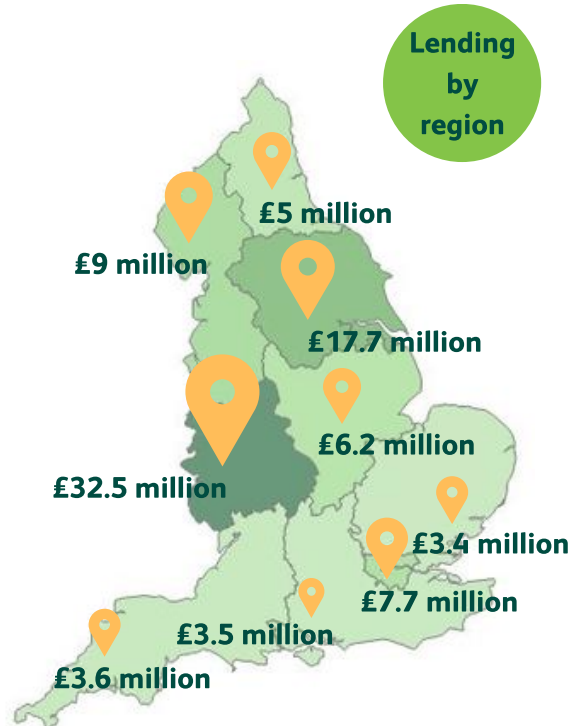
£36,000

average investment size





...the RF Fund is filling the access to finance gap with small loans under £5,000 up to £150,000.

The RF Fund is a place-based investment fund that seeks to address inequalities in access to finance and opportunities between different parts of the country and within economic geographies.

The RF Fund's flexible criteria, for example on loan size, trading history and geography, has allowed the delivery partners to support a wide variety of businesses at different stages of their development along a ladder of growth, creating and safeguarding jobs, the majority of which are in the more deprived communities of the UK.



Based on this track record, if the scheme continues to deliver impact as an evergreen fund, in total it could:

- make loans of... ● **£137 million to SMEs and social enterprises** 
- create and safeguard... ● **18,000 jobs** 
- add... ● **over £0.5 billion in direct economic value** 
- produce... ● **a government cost per job of £1,700** 

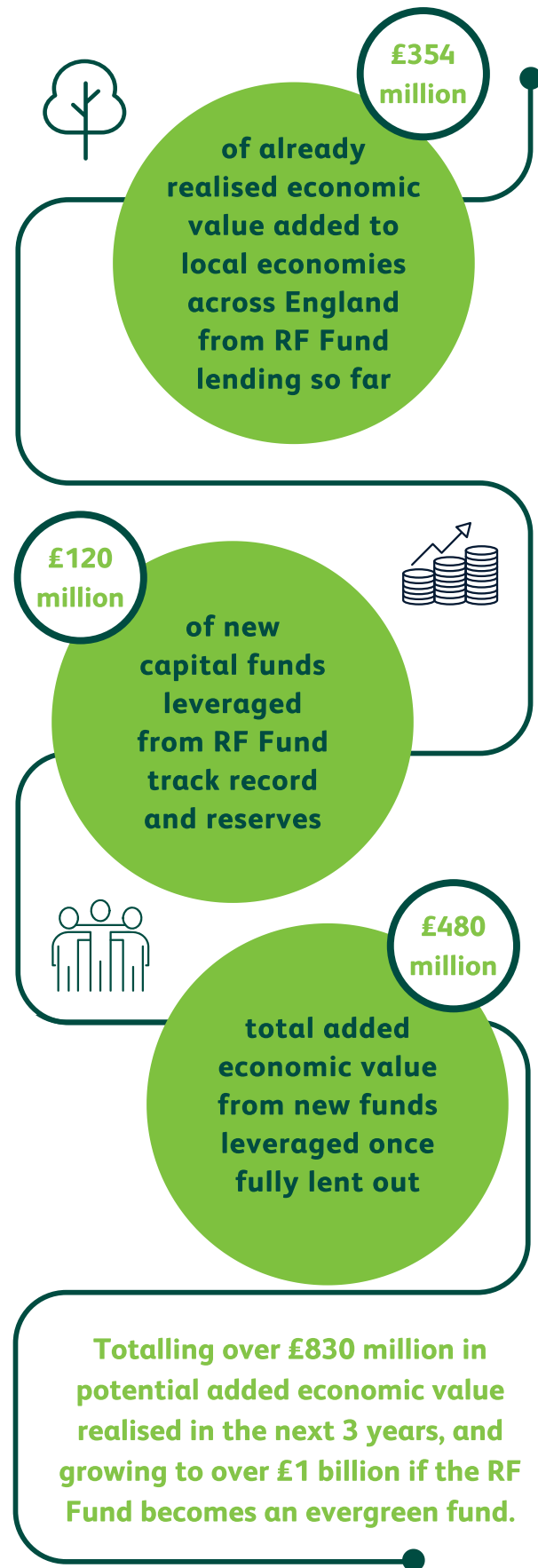
If the CDFI sector was capitalised further to support the COVID-19 recovery, this impact would be amplified.

The Regional Growth Fund sought solutions to the problem of how private enterprise and jobs could be stimulated in areas of deprivation and over-dependence on the public sector. CDFIs are recognised as one of the best routes to facilitate the flow of capital to small businesses in underserved communities, so the solution must start with supporting those CDFIs with the resources to be more effective.

The measure of economic value added to local communities illustrates why capitalising the CDFI sector makes good economic sense; even before one considers the other social impacts that cannot be financially quantified so easily, for example where supported enterprises invest in the social fabric of the local community or employ people from disadvantaged groups.

The RF Fund model has an eight year track record of supporting unbankable but viable businesses; the model should be embraced and built on as it offers a strong and continuing return on the government's investment.

Economic value added to the economy from the RF Fund including through leveraged funds:



2. The RF Fund Model

Responsible Finance was awarded a government grant of £30 million in Round II of the Regional Growth Fund to establish a pioneering wholesale fund in which Unity Trust Bank and the Co-operative Bank co-invested. Each loan made from the fund was made up of 50% of this leveraged private investment.

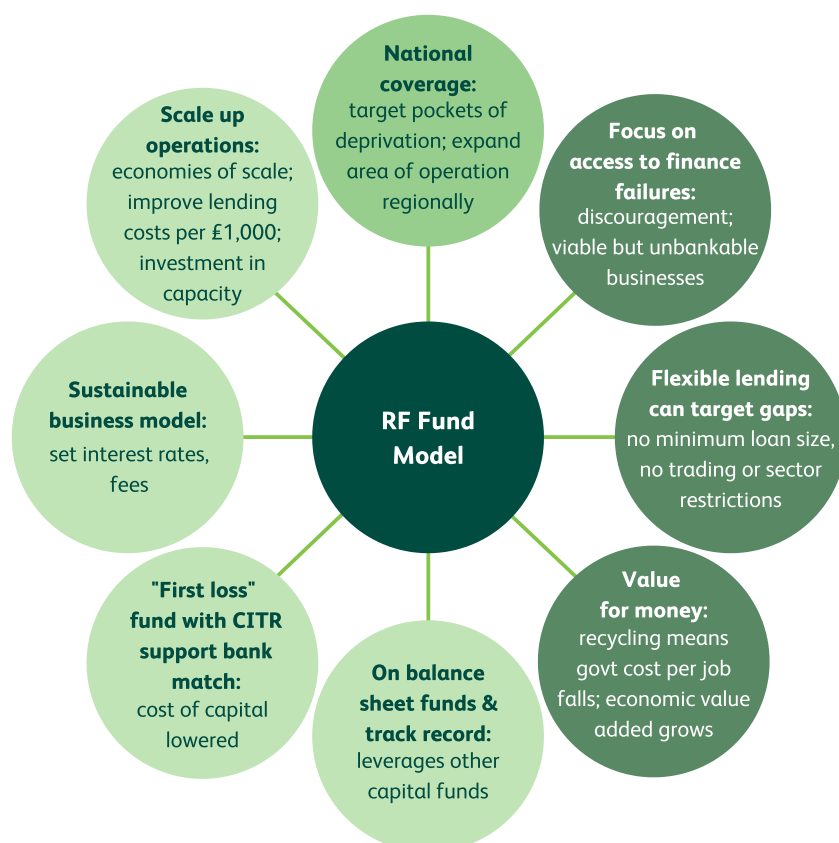
The RF Fund had two key objectives when it was established in 2012:

- **Capitalisation of the CDFI sector** to enable CDFIs to build their capacity and leverage further capital investment. These are not ends in themselves but the mechanism for CDFIs to scale up their social and economic impact, and deliver:
- **Jobs and economic growth** support to communities that are currently dependent on the public sector to make the transition to sustainable private sector-led growth and prosperity.

As the fund enters its 9th year, the strength of the RF Fund model has been proven. **Indeed the case is much stronger to further capitalise the CDFI sector rather than close the RF Fund** as funding from the European Regional Development Fund (ERDF) winds down, and calls grow to “build back better” from the COVID-19 emergency.

We recommend that the RF Fund is endowed as an evergreen fund perpetually recycled into underserved businesses and communities that have been turned down by mainstream lenders to support the “levelling-up” of the English economy and a more resilient and inclusive model of prosperity.

There is a strong case to further capitalise, rather than de-capitalise, the CDFI sector at a time of unprecedented economic crisis that is exacerbating existing inequalities in geography, gender and ethnicity. The CDFIs need additional capital to enable them to play their part in rebuilding the economies of their communities.



The RF Fund is currently operated by eleven delivery partners that are actively recycling.

The diagram on the left highlights the Fund’s key features: the darker green circles focus on the ultimate beneficiaries and lighter green circles focus on CDFIs.

The RF Fund increases entrepreneurship, supports businesses in underserved communities, supports levelling-up, boosts productivity and can invest in the net zero carbon emissions economy.

3. Market failure in and demand for access to finance

The RF Fund was set up to address the market failure in access to finance for viable micro businesses, SMEs and social enterprises, which has been longstanding on both the demand and supply sides.

The British Business Bank (BBB) notes in its annual report that many applications declined by mainstream banks are from viable businesses able to take on and repay finance. The RF Fund has been successful in selecting businesses that were unbankable but viable. The default rate on the RF Fund overall was 15 % at 31st December 2019.[5]

On the demand side, the information failure is also significant. It is estimated that around one in ten SMEs (9.3 %) across the UK can be classed as a “discouraged” borrower, where a viable firm that requires finance chooses not to apply. The key factors shaping borrower discouragement are aversion to risk, fear of rejection and concerns with the prevailing economic conditions.[6] Discouragement varies according to a range of factors: it is highest amongst micro businesses compared to larger SMEs; it is found across England but was highest in London (12.9 %) and geographical areas on the periphery – the North West (13.2 %) and the South West (9.5 %); and is substantially higher among growth oriented SMEs (12.4 %) than non-growth oriented SMEs (5.2 %); and differs between different ownership groups.[7]

The gap in access to finance

Given both latent and nascent demand for finance from SMEs, several studies have put the scale of the gap in access to finance as over £1 billion.[8]

Even if only a fraction of this theoretical demand is realised, there remains a big opportunity for the RF Fund to fill part of this gap in access to finance.

The impact of COVID-19 on banks’ attitudes towards SME lending

- Without incentives such as the government backed loan schemes (Bounce Back Loan Scheme (BBLs), Coronavirus Business Interruption Loan Scheme (CBILS)), banks and other lenders may retreat from the small business market, as happened after the 2008 financial crisis.
- Demand for RF Fund lending is expected to be strong in the medium to longer term once BBLs and CBILs come to an end. Businesses will need to invest, for example in digitisation, adapting business practices and developing new products for post COVID-19.

The RF Fund is well positioned to tackle the access to finance gap

RF Fund delivery partners are “committed to open, fair and relationship-based decision making that puts the small enterprise at the centre.”[9] This means they take a more flexible approach to determining the viability of a business.

Three-quarters of RF Fund delivery partners offer business mentoring and support alongside their lending services. Big Issue Invest uses its access to Reach fund grants to support potential borrowers with investment readiness support.

RF Fund delivery partners can address supply side information failure as they enable a client to build up their credit history so they can often move on to successfully accessing mainstream finance following their RF Fund loan.

Big Issue Invest has used this lending approach with the RF Fund, often linked to property-related projects. Once the project is completed and there is a track record of sustainable income generation, Big Issue Invest helps the social enterprise secure longer-term funding from a mainstream lender. Big Issue Invest can then recycle its capital into new projects that banks view as too risky.

As mission-driven social enterprises themselves, RF Fund delivery partners can take into account the full social returns of lending to a business, which may exceed the private returns to the finance provider.

For example, businesses in their early stages are at higher risk of failure but start ups are crucial to the economy - stimulating competition, spurring innovation and creating jobs.

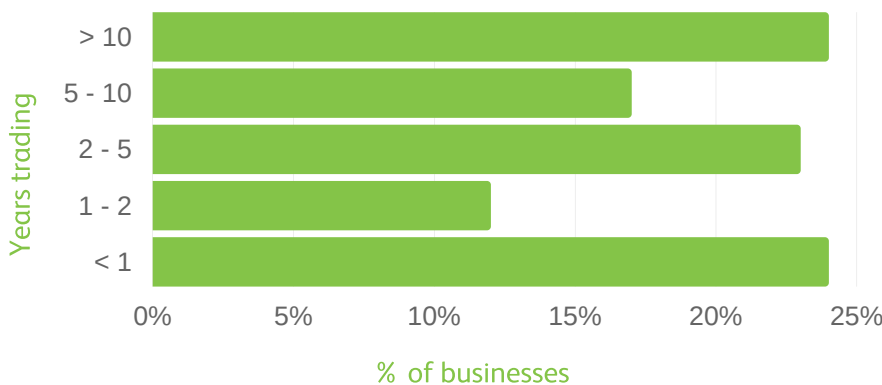


EnterpriseLoans

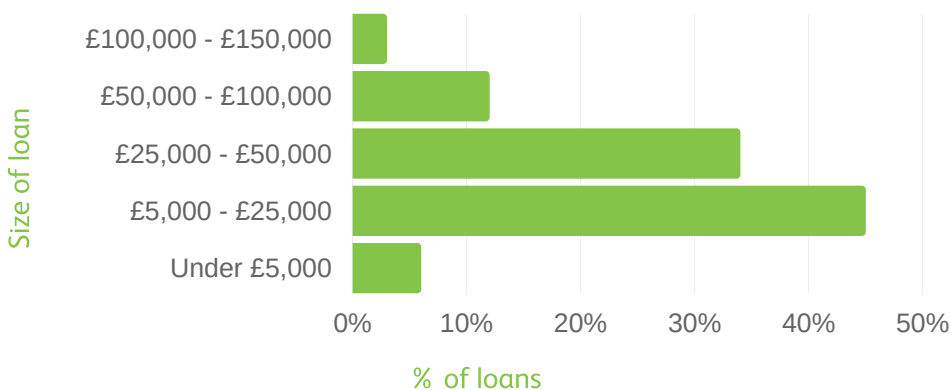
The Pudding Pantry, a specialist artisan bakery in Nottingham, received three loans from Enterprise Loans East Midlands (ELEM) - a £20,000 Start-Up loan in 2014 to get the business off the ground, followed up by two loans from the RF Fund for £35,000 to support the business' expansion into the outside catering market. The Pudding Pantry won Best East Midlands Start-Up in the Big Start-Up Loans Competition and has continued to exceed its predicted turnover year on year.

The RF Fund has lent to businesses at all stages of their lifecycle

Proportion of first RF Fund investment by years trading



The RF Fund makes loans of different sizes to suit the needs of micro and SME businesses.



4. Levelling-up the English regions

87% of the RF Fund’s investment takes place outside of London and the South East, compared to an average of 62% for UK SME lending.

The levelling up of the UK is a Government priority. The UK has a landscape of deep-rooted inequality built up over many decades, and is now one of the most regionally imbalanced countries in the industrialised world. If no action is taken the gap is expected to grow with 50 % of future jobs going to London and the South East. However, it is important to note that dividing the UK up into “north” and “south” does not take account of the nuances in location.

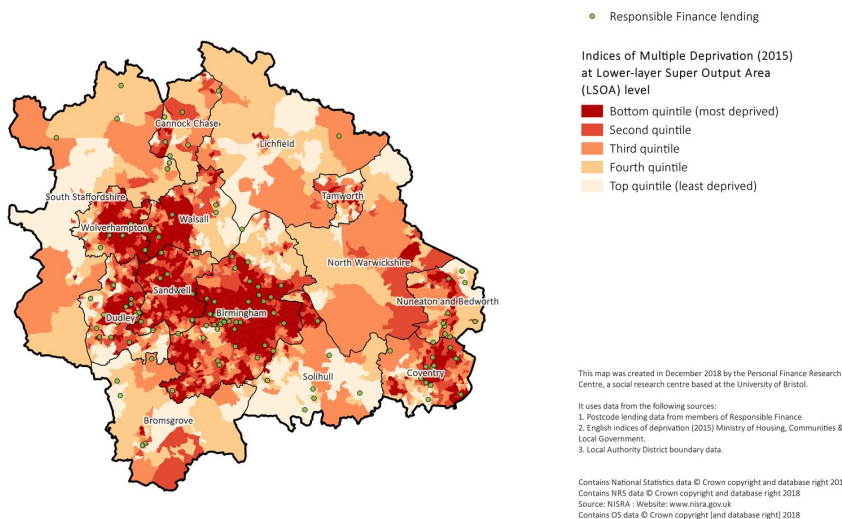
The English Indices of Deprivation 2019

The map shows the distribution of the Index of Multiple Deprivation (IMD) 2019 by local authority based on the proportion of their neighbourhoods in the most deprived decile nationally. The areas shaded darkest blue are those local authority districts that contain the largest proportion of highly deprived neighbourhoods.[10]

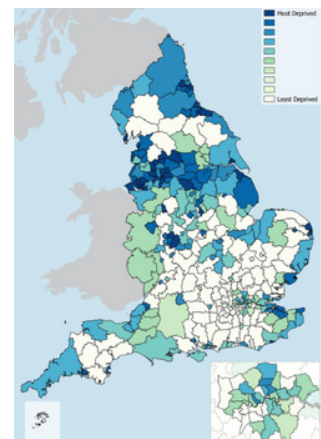
COVID-19 is amplifying existing inequalities and creating new inequalities. The Institute of Fiscal Studies has mapped how three different dimensions of the crisis, namely vulnerability in health, jobs and families, vary across England. The areas shaded black on the map are the local authorities that are in the top 20 % most vulnerable on all three indexes.

The RF Fund is a place-based investment fund; the delivery partners are locally based organisations spread across England so they are well positioned to target pockets of deprivation. The British Business Bank recognises the importance of smaller businesses being able to access finance wherever they are based. The delivery partners have a deep understanding of their local economies and can be valuable partners in building local entrepreneurial ecosystems.

Business lending by Responsible Finance providers in Birmingham 2017-18, by local area deprivation



Pockets of deprivation across England



Institute of Fiscal Studies COVID-19 Multiple Dimensions of Vulnerability[11]



The map on the left shows CDFI lending data (from delivery partners, BCRS and ART) mapped by local area deprivation in the Birmingham region. It shows that CDFIs target lending to the most deprived communities. These are the communities which need support and investment to help them level-up with the rest of the UK.

5. The RF Fund supports disadvantaged communities

CDFIs are more able to serve client groups that are traditionally underserved by mainstream providers, such as Black, Asian and Minority Ethnic (BAME) and women-owned businesses, because they are embedded in their local communities and offer relationship-based models.

BAME entrepreneurship

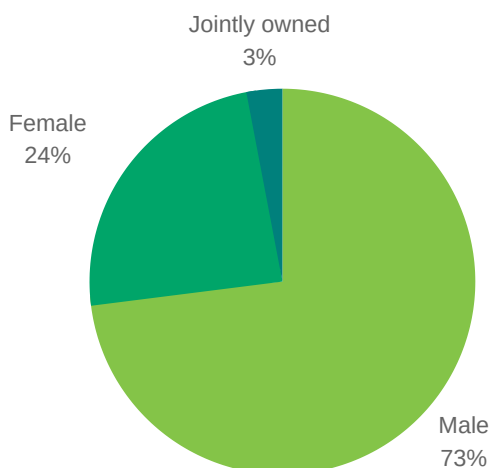
16 % of the owners of businesses lent to by the RF Fund were from the BAME community, whereas the BAME community makes up 14 % of the total population of England and Wales.[12] The populations of London and West Midlands regions have the highest proportion of people from the BAME community and this was reflected in RF Fund lending.

Region	% of population from BAME community	% of RGF lending to BAME community
London	40 %	44 %
West Midlands	17 %	23 %

ART Business Loans is based in Birmingham. 29 % of its RF Fund loans were made to businesses led by the BAME community.

Female entrepreneurship

17 % of SME employers in the UK were led by women in 2018.[13]



The chart shows that the RF Fund lends to more female entrepreneurs than the national average, but there is still plenty of scope to improve.

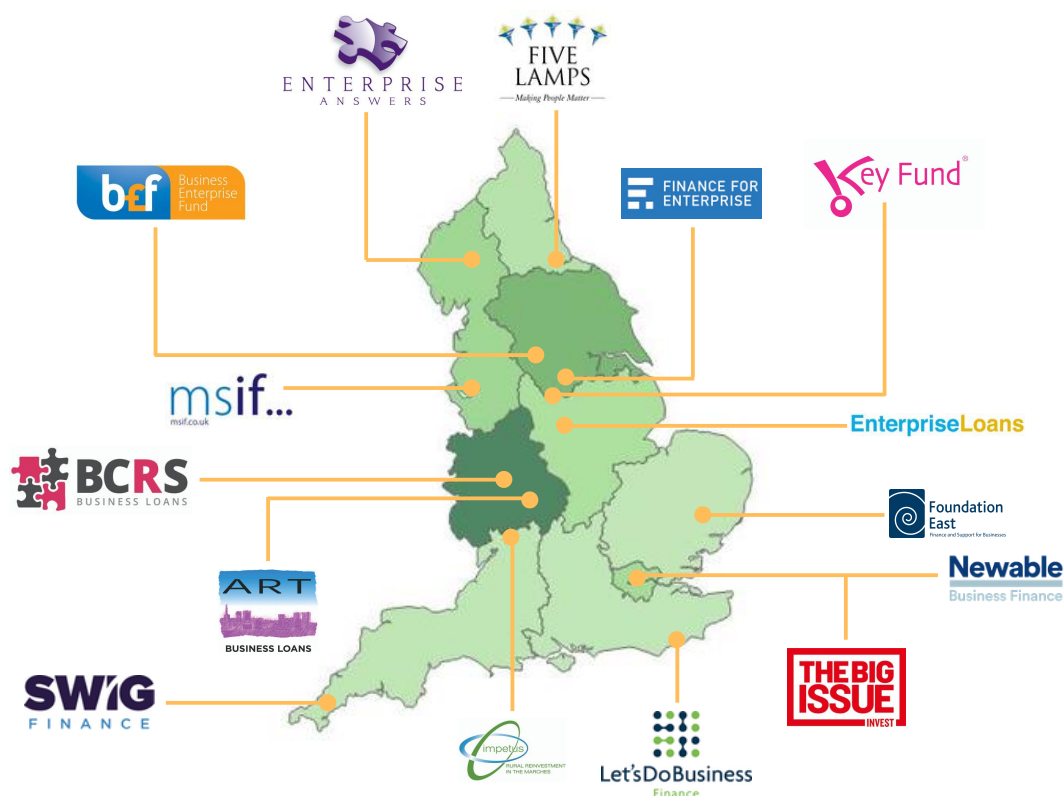
- LDBF made 29 % of its RF Fund loans to women-led businesses. LDBF offers business support, including Herbiz, a female entrepreneurship start-up programme.
- SWIG made 35 % of its RF Fund loans to women-led businesses. 50 % of SWIG’s business managers are women. Hiring from the communities the CDFI serves can build trust and understanding with clients.

Supporting access to finance among disadvantaged communities is central to CDFIs’ social mission but it can also play an important role in tackling the UK’s low productivity, a key focus of government policy.

The potential benefit to the UK economy from full representation of black and minority ethnic workers, through improved participation and progression, is put at £24 billion a year.[14]

If the UK were to achieve the same average share of women entrepreneurs as best-in-class peer countries, this would add £200 billion of new value to the UK economy.[15]

6. Delivery partners



The RF Fund is currently operated by eleven delivery partners that are actively recycling. Two delivery partners are managing their existing loanbook but have not been approved to recycle, and two delivery partners withdrew from the Fund (Annex 1).

The delivery partners reflect the diversity of the CDFI sector but they are united in their commitment to maximise the impact of the RF Fund, illustrated by their low level of claims for operating costs from repaid capital to date and the willingness to recycle capital at the earliest opportunity.

The next pages show the RF Fund in action across the English regions and highlights the impact of individual delivery partners on the businesses and communities that they serve.

Active delivery partners

- **Specialist CDFIs (deploying £0.5million p.a.):** serving a specific client group or narrower geographical area. Enterprise Answers (EA) falls into this category as it serves a rural area.
- **Established CDFIs (deploying over £2million p.a.):** ART Business Loans (ART), Let's Do Business Finance (LDBF), Enterprise Loans East Midlands (ELEM), SWIG Finance (SWIG). They are firmly established in their target areas and are deploying a sizeable level of capital each year. They have ambitions to grow their activities further and are building their organisational capacity to achieve this ambition.
- **Scaling CDFIs (deploying over £5 million p.a.):** BCRS Business Loans (BCRS), Business Enterprise Fund (BEF), Finance For Enterprise (FFE), Merseyside Special Investment Fund (MSIF). CDFIs that have scaled to deploy relatively high levels of capital per year with a broad reach in the geographies they serve, with unabated ambition to continue to further their social mission.
- **Social enterprise lenders:** Big Issue Invest (BII) and the Key Fund (KF) provide finance to charities, social enterprises and community groups, and operate in the space between charitable grants and mainstream banks. Usually they access different funds to the enterprise lenders.[16]

West Midlands

In the West Midlands, the RF Fund lent £32.5 million in 953 loans to 853 businesses and social enterprises.

Case study

Motiv Trailers, Shropshire



BCRS encourages SMEs to invest to scale up and improve productivity.

Manufacturer Motiv Trailers is a 30 year old family owned business which designs and manufactures trailers. The business secured a RF Fund loan from BCRS to invest in its export capacity and establish a presence in both European and US markets. Pivotal to its expansion is a new business strategy that will see the firm develop its internal manufacturing capacity – expanding its own range of trailers and unlocking profit margins currently restricted by selling other brands.

ART Business Loans, founded in 1997 by Sir Adrian Cadbury, originally lent to businesses based in inner city Birmingham.



The RF Fund has enabled it to expand its support to the wider West Midlands region and surrounding counties.

At least 75% of ART's loans support those who have traditionally been deprived of opportunities. It is particularly strong on lending to the BAME community (29% of RF Fund loans).

The RF Fund is a significant source of capital funds for ART. In 2017, its lending fell by more than 50% due to the delay in the agreement to recycle the RF Fund, indicating that the limitation on ART's lending is the supply of capital, not demand.

4,777 jobs created and protected



37%

of RF Fund loan value

1,220

jobs created

47% female, 53% male

3,557

jobs protected

37% female, 63% male

Case study
MyEd.com,
Birmingham



MyEd.com created an online research engine to help parents, young people and students to plan their pathway through education. The father and sons started the family business part time using their own funds but the business got to the stage where it needed to invest in additional expert assistance to take it to the next level.

After being turned down by the bank, ART Business Loans offered MyEd.com an RF Fund loan. This allowed it to hire web and database developers, and a PR company to raise its profile. From there the business has taken off with growing listings and reviews.

Yorkshire and the Humber

In Yorkshire and the Humber, the RF Fund lent **£17.7 million** in **477 loans** to **440 businesses and social enterprises**

Finance for Enterprise (FFE) has successfully scaled up its capacity over the lifetime of the RF Fund, exceeding £10 million in lending in 2019/20.

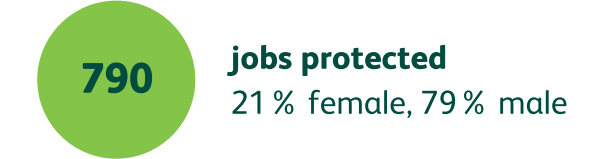
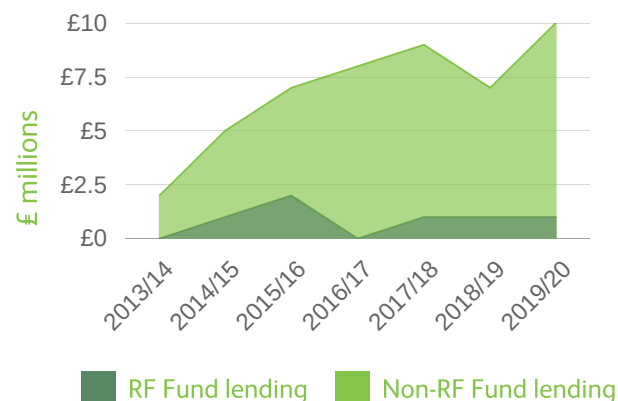


FFE relaunched its loan fund after the 2008 economic crash as it recognised that many viable businesses were facing uncertain futures because they couldn't access vital lending from mainstream banks.

The catalyst for FFE's growth was the Yorkshire & Humber ERDF fund followed shortly afterwards by the RF Fund. The RF Fund, with greater flexibility in terms of eligibility, including geography, allowed FFE to cover areas not served by other CDFIs, which had been outside the reach of the ERDF fund.

The capitalisation of FFE by the retention of these public funds for perpetual recycling has resulted in a sustainable CDFI which has become a regional rather than local source of funds for businesses, with 18 staff across 2

FFE growth over the life of RF Fund



offices, benefiting the local economies by adding over £50 million annual economic benefit (£5.23 of economic benefit for every £1 lent in 2019/20).

FFE has recycled rapidly the RF Fund capital repaid; 85% of the original grant value has already been recycled. FFE is also good at leveraging external funding for businesses to which it lends; it didn't collect the data for the RF Fund but FFE's NPIF loans achieved £4 external capital for every £1 lent.

FFE works collaboratively with other organisations to maximise its impact. It has forged an effective working partnership with BEF, the West Yorkshire based CDFI, with which it has successfully tendered and now manages the microfinance loan fund for NPIF.

North West England

In the North West the RF Fund lent £9 million in 245 loans to 220 businesses and social enterprises.

Case study Grilla, Liverpool



MSIF has used the flexibility of the RF Fund to support businesses like Grilla at different stages of their development.

A Greek grillhouse restaurant start up that is still thriving 5 years later.

Grilla, a restaurant venture in Liverpool, serves Greek-inspired dishes and specialises in freshly cooked meat on the spit. Grilla started trading in 2014, supported by an RF Fund loan from MSIF. In 2015, MSIF made a second RF Fund loan to support the restaurant's plans to fit out a function room in the basement for private events.

“Without the funding from MSIF we would not have been able to start the business let alone grow it. In addition to finance they have provided lots of support and advice.”
(Ktoris Ktori, the co-owner)

The RF Fund investment supported the creation of 7.5 new jobs.



1,328 jobs created and protected



10%

of RF Fund loan value

388

jobs created

49 % female, 51 % male

940

jobs protected

56 % female, 44 % male

Enterprise Answers (EA) is the only CDFI in Cumbria and rural CDFI in the North of England



The RF Fund allowed EA to scale up its lending and develop its business model as a specialist CDFI with expertise in supporting rural industry and farming. It has brought farming expertise onto its board and has just launched an innovative product, the Young Farmer Loan Scheme to run alongside a business support programme run by Farming Network to encourage young farmers to stay in farming and find new ways to diversify income. EA made a number of loans from the RF Fund to agricultural businesses.

Greater London

In Greater London, the RF Fund lent **£7.7 million in 222 loans to 207 businesses and social enterprises.**

Case study Connection Crew, London

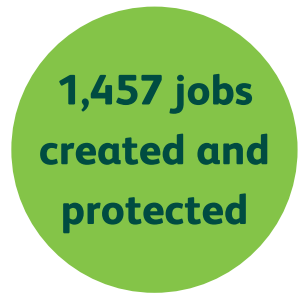


Employment boost for the ex-homeless

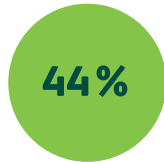
“Connection Crew is one of the greatest social investment stories. Charlie and Warren have grown revenues from £300,000 a year in 2011 to £2,400,000 in 2019 but the most impressive part is the social impact. Along the way they have provided 248 ex-homeless people with 136,017 hours of work and have now launched their academy to support people to move back into employment.”[17]

Connection Crew was set up in 2005 as an employment project of the homeless charity, Connection at St Martins. They provide manpower to the events industry, building stages and sets, installing lighting and sound facilities and moving heavy equipment. The social enterprise provides employment opportunities for individuals who have been homeless in the past, giving them work and helping them to develop purpose, confidence and independence.

Big Issue Invest provided two RGF loans for working capital that Connection Crew uses to either manage seasonal gaps in income or to fuel growth by funding weekly wage bills until the monthly invoicing from clients. The social enterprise was also able to found a work space facility in South London, which provides additional income to subsidise training and mentoring schemes for formerly homeless workers.



of RF Fund loan value



of loans made to BAME-led enterprises



jobs created
20 % female, 80 % male



jobs protected
49 % female, 51 % male

Social enterprise lenders, like Big Issue Invest (BII), support ventures that promote diversity, employing those who are disadvantaged. As a social enterprise itself, BII is aware of the unique funding and operational needs of non-profit organisations.



East Midlands

In the East Midlands the RF Fund lent **£6.2 million in 174 loans to 160 businesses and social enterprises.**

Case study **EnterpriseLoans**

Olberon Medical Innovation, Nottingham

Specialist medical devices launches by Nottingham doctor.

Dr Arash Bakhtyari, a practicing doctor for 25 years, founded Nottingham-based Olberon Medical Innovation in 2005. He spotted a gap in the healthcare market for specialist medical devices which will improve intravenous accessibility and help with ear and nose procedures.

Enterprise Loans has provided funding at different stages of Olberon's journey, including a loan from the RF Fund, to support the design and development of innovative medical device concepts that originate from direct experience of patient care. These devices aim to improve efficiency for the practitioner, provide a better experience for the patient and reduce costs to the NHS and other health care authorities.

Olberon is now in the commercialisation phase and is seeking to appoint European and International distributors for its growing portfolio of patented medical devices, such as the Vacuderm.



783 jobs created and protected



7%

of RF Fund loan value

119

jobs created

57 % female, 43 % male

664

jobs protected

33 % female, 67 % male

Enterprise Loans East Midlands offers a complete package of support for small businesses.

Enterprise Loans East Midlands (ELEM) and First Enterprise Business Agency work together to not only offer loan finance but a complete package of support for small businesses, including pre-start up advice, aftercare support, help to draw up a business plan, and offering PR/marketing support.

ELEM plays a strong role and has built positive partnerships in its local entrepreneurial ecosystem. For example, it operates on behalf of Nottingham Council the Creative Quarter Loan Fund to help boost the area's creative and digital businesses by providing finance to develop and grow.

North East England

In the North East the RF Fund lent **£5 million** in **207 loans** to **188 businesses and social enterprises**.

Case study

North East Dance CIC



Community dance expands across the North East.

North East Dance CIC grew out of the success of Sunderland Dance CIC, a social enterprise set up by Dolly Martin to make dance and fitness accessible to all. Five Lamps has worked with Dolly over several years to support the expansion of the business across the North East, including a loan from the RF Fund.

As well as creating jobs within the North East, the business delivers innovative programmes. 'Dance on Prescription' promotes the prescription of dance classes for patients as a replacement for medication to improve a person's health and well-being.

Business Enterprise Fund scales its lending



Business Enterprise Fund (BEF) was established in 2004 with a social mission to support businesses in Bradford, particularly those in deprived communities. The RF Fund enabled BEF to scale up its lending to cover Yorkshire and the North East and to build up its organisational capacity. BEF established new offices in Leeds and York, and set up a separate subsidiary, BEF (North East) to ring fence lending in that region.

835 jobs
created and
protected



6%

of RF Fund loan value

412

jobs created

80% female, 20% male

423

jobs protected

42% female, 58% male



The RF Fund allowed BEF to employ more specialist staff, including its first marketing manager, which enabled it to develop its online presence and raise its profile with brokers and referrers. The building of its organisational capacity and the expansion of its offices were an important factor in BEF's success in winning the NPIF contract, followed by the CIEF contract.

South West England

In the South West the RF Fund lent **£3.6 million in 83 loans to 77 businesses and social enterprises.**

Case study

Rocket Gardens, Helston



Rocket boost for Helston organic plant firm

Launched in 2006, Rocket Gardens has grown from a 2-acre smallholding into a 125-acre purpose-built growing facility. The online and mail-order business grows and sells organic seedlings in 100% plastic free “instant veg packs” ready for planting. The founder, Mike Kitchen, is passionate about building a sustainable business that educates and encourages healthy lifestyles. The firm now sells more than 1 million organic plants per year.

Rocket Gardens’ success story has been supported by three loans from SWIG Finance over the last two years, one being from the RF Fund. The capital helped accelerate the growth and profitability of the business through a planned programme of investment in automated machinery, increased production capacity and digital e-commerce capability. SWIG’s investment has so far helped to realise a 50% increase in turnover and the RF Fund has supported the creation of two new jobs.



**478 jobs
created and
protected**



4%

of RF Fund loan value

154

jobs created

43% female, 57% male

324

jobs protected

47% female, 53% male

SWIG Finance has built a strong track record delivering the RF Fund.

Learning from its experience delivering the RF Fund, which required it to secure matched bank funding, SWIG Finance has taken a more commercial approach to raising funds than previously. It launched its first loan fund using the Enterprise Finance Guarantee (EFG) and Community Investment Tax Relief (CITR) with investment from Triodos Bank. The initial loan fund was worth £1.5 million.

The RF Fund provides valuable reserves to the balance sheet which can be used to leverage in more private capital. As SWIG builds its track record of delivering the RF Fund and follow on funds then it can negotiate better leverage terms with the bank.

South East England

In the South East the RF Fund lent £3.5 million in 176 loans to 146 businesses and social enterprises.

Case study



Californian Classics, Hastings

Bringing a taste of California to East Sussex with the classic Karmann Ghia specialists.

Hastings-based Californian Classics combines a lifelong passion for classic cars with a wealth of expertise to help clients find the finest parts, accessories and engines to restore or improve their classic Karmann Ghia. The owner, Pete Morely, had restored cars as a hobby over the last 25-30 years and saw a gap in the market for a company catering to specialist classic cars. Californian Classics was formed in 2015 and has gained an excellent reputation for its restorations alongside a worldwide e-commerce customer base.

Let's Do Business Finance used the RF Fund to support the business' expansion. The loan was used to refurbish its premises, to build an additional 'dust blast' room with extraction and to purchase bespoke machinery to improve service quality and productivity. The funding allowed the business to employ two new staff members and safeguard nine jobs.



613 jobs created and protected



4%

of RF Fund loan value

180

jobs created

51 % female, 49 % male

433

jobs protected

54 % female, 46 % male

Let's Do Business Finance (LDBF) has a strong track record as delivery partner for the RF Fund and is in the NatWest SE100 Index 2020, the annual list of the UK's leading 100 social enterprises.

LDBF is based in Hastings, which is the 14th most deprived local authority in England and Wales. The South East as a region is viewed as one of the most affluent in England, but if you drill down to a more local level, there are pockets of real deprivation.

Coastal towns have been identified as at risk of significant impact from COVID-19, both from an economic and a health perspective, due to their elderly populations and their reliance on the tourism and hospitality industries.

East England

In East England the RF Fund lent **£3.4 million** in **188 loans** to **151 businesses** and social enterprises

Case study

BeeBee Wraps, Cambridge



BeeBee Wraps has saved more than 3 million single uses of plastic

BeeBee Wraps are a plastic-free alternative to cling film, made from organic cotton and beeswax beautifully designed with contemporary prints. The venture began life at Kath Austin's home in a domestic kitchen and has now grown into a brand with more than 100 stockists in the UK.

BeeBee Wraps' success story is supported by the Cambridge Social Ventures (CSV) incubation programme and responsible finance provider, Foundation East. The fledgling business needed finance to scale up but its choices were limited as it had no trading history or assets. Foundation East provided unsecured start up and growth funding, including a loan from the RF Fund to meet working capital needs and to invest in manufacturing capacity. BeeBee Wraps now has ten staff, working full or part time, in larger premises with a production process that aims to produce zero-waste.



278 jobs created and protected



4%

of RF Fund loan value

126

jobs created

57 % female, 43 % male

152

jobs protected

33 % female, 67 % male

Let's Do Business Finance expands its operations into Essex & Thames Gateway area



LDBF concluded the transfer of Foundation East's loanbook and repaid capital in February 2020 so it could expand its operations into Essex & the Thames Gateway area. COVID-19 has made it difficult for LDBF to start lending in its new patch. If the RF Fund closed that would be very damaging for LDBF and would jeopardise the future of that satellite office and its two business managers, leaving the East of England with no dedicated CDFI to replace Foundation East.

7. The transition to net-zero emissions and CDFIs

As the country moves from confronting the immediate health emergency there is a once in a generation opportunity for the government, business and society to create a new more resilient model of prosperity: to “build back better”.[18]

The challenge of a just transition to net-zero emissions is to deliver climate action that generates positive social impact. Research into how banking can support a just transition, has focused on three priorities, all of which support the relevance of CDFIs and the RF Fund to the transition.[19]

- **Inclusive:** the need to consider different socioeconomic groups and how their particular needs should be addressed e.g. gender, class and racial inequalities.
- **Place-based:** the need to respond to different requirements in different places; the need to decentralise and democratise the investment process.
- **Sector-specific:** SMEs in aggregate contribute a large proportion of the UK’s greenhouse gas emissions (53 % of environmental impact).

Banks will play a central role in providing the external finance, but alternative and non-bank finance reaches parts of the economy that banks cannot, according to the Grantham Research Institute’s report on financing climate action with positive social impact. It explicitly references CDFIs: not all needs in the transition will be commercially viable, and it recommends that banks, the government, impact investors and CDFIs should collaborate and experiment “to create blended financing models for use in areas of market failure.” **The RF Fund is a working and successful model of this collaboration.**

CDFIs are committed to creating a net-zero carbon emissions economy and funding businesses using innovative and sustainable new technologies.



York-based Novalux LED helps companies to save money, save energy and save carbon by changing old inefficient lighting for the latest LED lighting technology.

In 2014, Novalux approached Business Enterprise Fund (BEF) with their carbon saving start up, needing finance to enable growth. They received a start-up loan which took the business to its next level. To meet the demands of an expanding business Novalux acquired further funding from BEF’s RF Fund to support the company’s growth needs.

Nearly five years on and Novalux have launched their new division, Novaloo Ltd which distributes innovative low water toilets. The company has used the RF Fund finance to invest in stock and to acquire larger premises. BEF’s three investments have enabled Novalux to create a carbon footprint reduction of 1.450 tonnes of CO₂ as well as creating three jobs.



United Nations Sustainable Development Goals (SDGs)

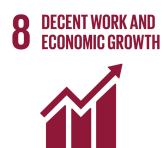
The outcomes from RF Fund lending contribute to a number of the UN SDGs, which are the blueprint for a better and more sustainable future for all. In particular, the RF Fund contributes to these SDGs:



10 REDUCED INEQUALITIES Reduce inequality within & among countries. By lending to underserved small businesses, often located in disadvantaged areas, and supporting them to thrive, the RF Fund delivery partners work to reduce inequality across England.



11 SUSTAINABLE CITIES AND COMMUNITIES Make cities & human settlements inclusive, safe, resilient & sustainable. The RF Fund invests in the social fabric of places, helping to transform communities to become inclusive and socially sustainable. Delivery partners support diversity in their lending, to reflect the communities which they serve. The delivery partners are part of their local entrepreneurial eco-systems.



8 DECENT WORK AND ECONOMIC GROWTH Promote sustained, inclusive & sustainable economic growth, full & productive employment & decent work for all. The delivery partners provide finance to micro, small and medium businesses and social enterprises in disadvantaged and underinvested communities. They promote job creation and safeguarding; and create work and income which circulates in local economies.



5 GENDER EQUALITY Achieve gender equality & empower all women & girls. The delivery partners monitor and report on their lending demographics. They offer finance to female-led businesses and social enterprises. Research continues to demonstrate that female business owners continue to be underrepresented or disproportionately excluded by mainstream lenders.



3 GOOD HEALTH AND WELL-BEING Ensure healthy lives & promote well-being for all at all ages. ONS data has highlighted health inequalities in the UK; those living in the most deprived areas of the UK are more than twice as likely to die of COVID-19 as those in the least deprived areas.[20] It suggests that building economically prosperous and inclusive communities should also contribute to an improvement in the health and well-being of people in that community.



Saddleworth Community Hydro, Yorkshire supported by The Key Fund



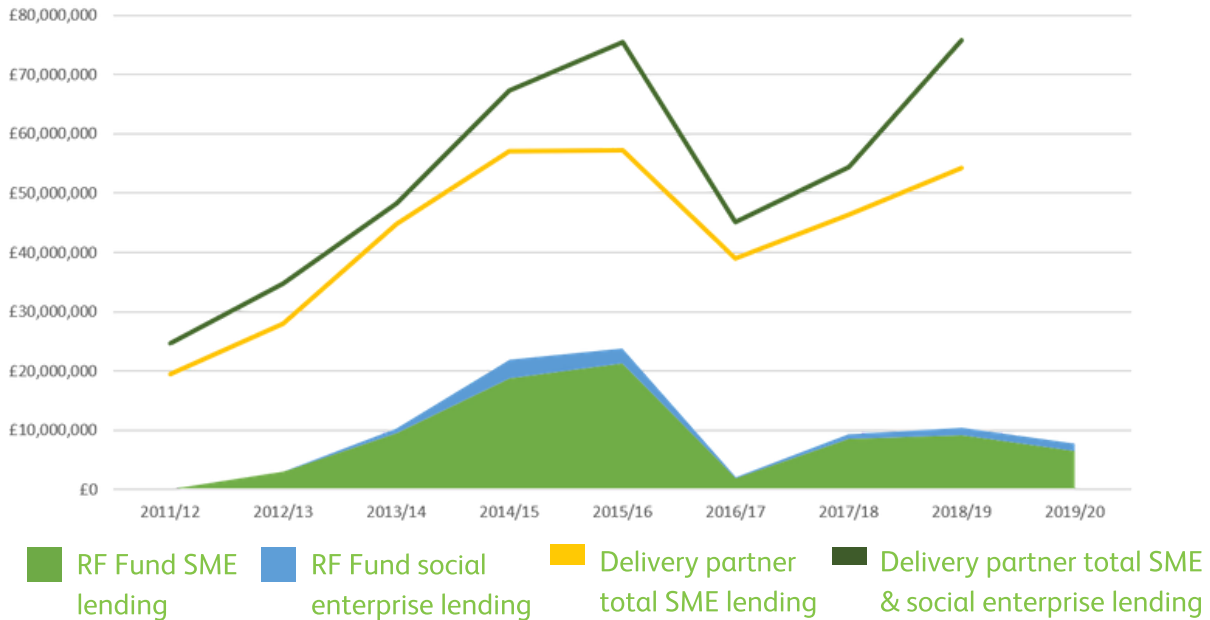
The Key Fund provided a bridging loan of £70,000 during the construction phase of this project to bring on stream the first community-owned high head – using the height of the water drop - hydro scheme in England, at Dove Stones reservoir in Saddleworth.

The aim was to reconfigure the existing outflow from the reservoir from an industrial use to a community-based asset. Key Fund provided a loan until other capital could be raised through DEFRA and 160 local shareholders. The scheme generates enough green electricity for 75 houses, using water which would otherwise have gone to waste, and about £20,000 revenue a year from the sale of surplus energy, which is recirculated into community projects. The project primarily supports the UNSDG 11 Sustainable Communities and UNSDG 7 Affordable and Clean Energy.

8. Capitalisation of the CDFI sector

The RF Fund was and is a long-term funding model for the sector that provides the foundation for CDFIs to build their capacity and leverage further capital investment. These are not ends in themselves but the mechanism for CDFIs to address the access to finance gap for underserved businesses and communities.

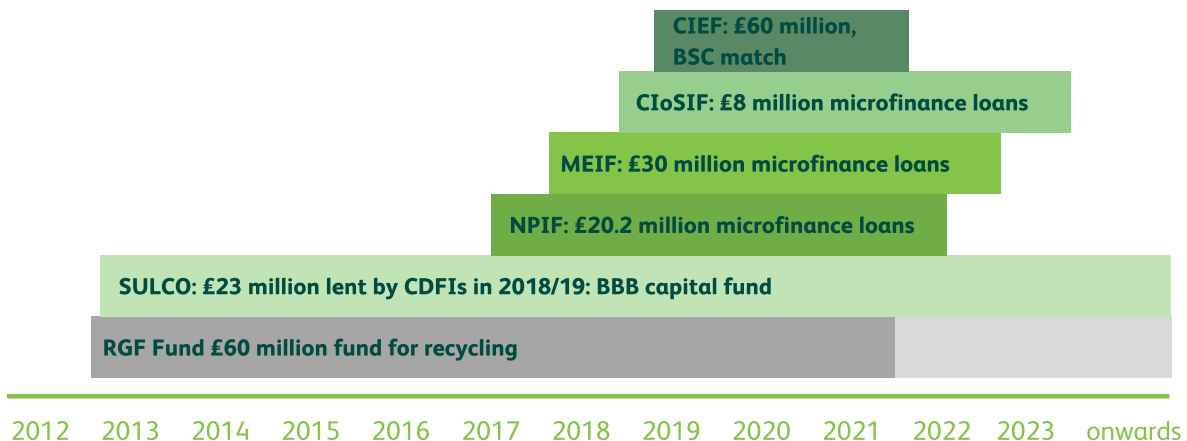
RF Fund lending



The graph shows how total lending increased steeply from 2012/13 as the RF Fund started. The dip in 2016/17 was due to BEIS delaying the start of the RF Fund recycling. It illustrates how overall lending has been leveraged by the RF Fund but is also constrained when the RF Fund was not available to lend. Overall lending has grown again as the RF Fund recycling commenced in 2017.

Leverage of funds

The RF Fund has leveraged £45 million of private bank match and £120 million of other funds. The RF Fund enabled delivery partners to build their capacity and track record to lend at scale, using this experience to win tenders and pass the due diligence to deliver other funds.



The chart shows that the leveraged funds have a limited lifespan: their lending cycle is due to end in the next few years. The RF Fund as an evergreen fund would offer a baseline of certainty, allowing longer term planning.

Loan funds and relationship with the RF Fund

The **Start Up Loans Scheme and New Enterprise Allowance** started in 2012. They are operated by BBB through the Start Up Loans Company (SULCO). The CDFIs delivering the schemes receive fee income and are not responsible for administering the fund. It is limited to start up businesses.

Regional funds: six RF Fund delivery partners have been selected to deliver the microfinance elements (loans between £25,000—£100,000/ £150,000, upper limit varies between funds) of the three regional funds that are a collaboration between BBB, Local Enterprise Partnerships and are supported financially by the UK government (BEIS), the European Investment Bank and the European Regional Development Fund (ERDF). They have a “managed fund” model so are off balance sheet funds.

- Northern Powerhouse Investment Fund (NPIF)
- Midlands Engine Investment Fund (MEIF)
- Cornwall and the Isles of Scilly Investment Fund (CIoSIF)

Community Investment Enterprise Facility (CIEF): established by Big Society Capital (BSC) and managed by Social Investment Scotland (SIS). The fund is designed to be a proof of concept and is based on 100% debt funding of the loan capital. The fund utilises government support in the form of Community Investment Tax Relief (CITR) and the Enterprise Finance Guarantee (EFG). It relies on the CDFI being sufficiently capitalised to take on liability to repay the debt funding.

Local authority funds tend to be smaller in size and more geographically or sector targeted so are additional rather than core sources of capital.

These other funds are not a replacement for the RF Fund but rather are complementary to and often dependent on the RF Fund continuing, for example if they require CDFIs to have balance sheet reserves.

- Some funds are primarily available to Scaling CDFIs because of the fund restrictions e.g. geography, scale of delivery or other terms such as security.
- The leveraged funds are primarily “managed” funds unlike the RF Fund. It is desirable for CDFIs to have a blend of capital sources as they bring different advantages and disadvantages.
- ERDF and other EU funding has been a significant source of funds for CDFIs. Since 1999, seven of the RF Fund delivery partners received £63.5 million of EU funding. These schemes have either closed or are being phased out in the next couple of years as the UK has left the EU.

Government support is critical to leveraging direct private investment into CDFIs

- Banks and other investors are not willing to lend without “first loss” or a similar level of risk mitigation. Even then it is the most socially minded banks that have stepped up.
- The RF Fund uses the “first loss” government grant and CITR to achieve a lower weighted average cost of capital.
- The RF Fund is a balance sheet fund. The strength of the balance sheet is one of the key measures in any lending or investment assessment by prospective funders of CDFIs.

The retention of grant capital on CDFI balance sheets has enabled growth in deal flow to be sustained as the enhanced balance sheets have facilitated additional capital raising from funders and investors.

CDFIs are crucial delivery partners for the government and other investors to get capital to underserved businesses and communities. CDFIs must be adequately capitalised to support them as they rebuild and level-up through the COVID-19 recovery.

9. Conclusion

The RF Fund achieved a step change in the CDFI sector's lending capability, but access to finance for underserved communities is a long-term, deep-rooted problem that requires a long-term response. This review demonstrates the strong case to not only continue the RF Fund, but to further capitalise the CDFI sector as a key part of the UK's inclusive recovery from the COVID-19 pandemic.

This report has demonstrated that:

- The RF Fund has achieved and exceeded the key KPIs for the scheme and has achieved social and economic impact for underserved communities across England;
- There is a continuing market failure, both on the demand and supply sides, in access to finance for a significant group of micro businesses, SMEs and social enterprises, which RF Fund delivery partners are uniquely positioned to tackle;
- There is evidence of continuing demand for RF Fund lending, once the government's emergency COVID-19 response loan schemes (CBILS, BBLs) end later this year;
- The active RF Fund delivery partners have developed their capacity to lend at a larger scale and built more sustainable business models as social enterprises themselves;
- The RF Fund model has been proven to be effective in bringing in matched private bank investment and the delivery partners have used their track record delivering the RF Fund to leverage further capital funds;
- The RF Fund objectives and outcomes continue to be aligned with government policy, even as it has evolved over the years since the Fund was launched in 2012/13;
- The government has recognised that CDFIs provide a route to achieving measurable impact in access to finance, particularly in more disadvantaged communities. CDFIs are key accredited partners delivering the BBB's flagship programme for microfinance and small business, namely Start Up Loans, EFG, CBILS and its regional funds (NPIF, MEIF, CIOsIF).
- The RF Fund is aligned with BEIS, MHCLG and BBB policies on "levelling up" economic and social prospects across the country and the just transition to a successful net-zero-emission economy.

The RF Fund provided the solid foundations upon which delivery partners were able to scale up their social impact over the last eight years. This meant that when the COVID-19 pandemic hit, they were prepared and able to deploy coronavirus business interruption loan scheme funding at an unprecedented volume.

This review demonstrates the strong case not only to continue the RF Fund but to further capitalise the CDFI sector. A UK-wide £100 million CDFI fund would build on the RF Fund foundations, to support an inclusive recovery as the Coronavirus Business Interruption Loan Scheme (CBILS) and Bounce Back Loan Scheme (BBLs) come to an end.

Annex 1: Active delivery partners

Name	Acronym	Head office/geography	Website
ART Business Loans	ART	West Midlands	www.artbusinessloans.co.uk
BCRS Business Loans	BCRS	West Midlands	www.bcrs.org.uk
Big Issue Invest	BII	National	www.bigissueinvest.com
Business Enterprise Fund	BEF	West and North Yorkshire; North East	www.befund.org
Enterprise Answers	EA	Cumbria	www.enterpriseanswers.co.uk
Finance for Enterprise	FFE	South & East Yorkshire; Humber; Lincolnshire; North Midlands	www.finance-for-enterprise.co.uk
Enterprise Loans East Midlands	ELEM	East Midlands	www.first-enterprise.co.uk
The Key Fund	KF	North	www.thekeyfund.co.uk
Let's Do Business Finance	LDBF	South East; East of England	www.letsdobusinessfinance.co.uk
Merseyside Special Investment Fund	MSIF	North West	www.msif.co.uk
SWIG Finance	SWIG	South West	www.swigfinance.co.uk

Delivery partners (not recycling)

Five Lamps	FL	North East	www.fivelamps.org.uk
Impetus	IMP	South West West Midlands	www.impetus-marches.co.uk

Delivery partners (withdrawn from RF Fund)

Foundation East	FE	East of England	www.foundationeast.org
Newable	NEW	Greater London	www.newable.co.uk

References

- [1] Letter from RT Hon Kwasi Kwarteng MP to Philip Davis MP, 15th July 2020
- [2] The programme targets are set out in the funding agreement with BEIS (Department for Business, Energy and Industrial Strategy)
- [3] The programme targets are set out in the funding agreement with BEIS (Department for Business, Energy and Industrial Strategy)
- [4] As set out in the 2014 National Audit Office Progress Report
- [5] Defined as loans written off or in default for 90 days or more
- [6] An empirical examination of discouraged borrowers in the UK, ERC Research Paper 69. May 2018
- [7] Longitudinal Small Business Survey 2016
- [8] The 2015 Regeneris study on behalf of the European Investment Bank suggested theoretical demand from underserved SMEs stood at around £1.6 billion a year.
- [9] Big Society Capital report, "Scaling up Community Investment in the UK. The case for investing", November 2019.
- [10] The English Indices of Deprivation 2019, MHCLG, September 2019
- [11] The Institute of Fiscal Studies (IFS) report, "The geography of the COVID-19 crisis in England", June 2020
- [12] ONS: 2011 National Census
- [13] BEIS, Small business survey (employers) 2019
- [14] Race in the workplace: the McGregor-Smith Review
- [15] Alison Rose Review of Female Entrepreneurship, 2019
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- [17] Daniel Wilson-Dodd, ex-Deputy Chief Executive of BII
- [18] Grantham Research Institute, LSE, Financing climate action with positive social impact: how banking can support a just transition in the UK, July 2020
- [19] As above
- [20] ONS, Deaths involving COVID-19 by local area and deprivation (between 1 March and 17 April 2020)