

Tender for an Evaluation of First Loss Funding to CDFIs **Posted 23 October 2023 • Deadline to respond: 10 November 2023**

About Responsible Finance and the CDFI sector

Responsible Finance is the trade body for Community Development Finance Institutions (CDFIs). CDFIs are not-for-profit lenders whose goal is to improve access to finance for underserved individuals and businesses. There are approximately 50 CDFIs serving areas across the UK.

Consumer lending CDFIs provide a vital alternative to high-cost credit and illegal loan sharks for individuals with low incomes and/or no or poor credit score who need short-term loans to cover essential items and unexpected costs. Their average loan size is £500 over five months. CDFIs reduce the poverty premium and potential debt spiral faced by millions in the current cost-of living crisis. Personal lending CDFIs have lent £167 million during the last five years.

Business lending CDFIs have lent about £1 billion to small businesses and social enterprises turned down by mainstream banks over the last five years. Lending has been focussed on deprived areas and disproportionately to demographics which face high barriers when trying to access finance. Around 90% of CDFI enterprise borrowers go on to successfully repay their loans and grow their businesses.

Project background

Personal lending CDFIs catalyse good outcomes for their customers (and provide vital signposting and other support to applicants, even if they cannot lend to them) but currently they lend at a small scale (£46 million to 90,000 people per year). There is a small pool of social and commercial investors who currently invest into and fund CDFIs.

Governments have long recognised the value of CDFIs that lend where banks are increasingly unable to. Successive governments have provided support for CDFIs in a variety of ways: provision of capital for lending and capacity building; provision of investment capital; targeted tax reliefs and loan guarantees. Programme reviews have consistently demonstrated the high economic additionality and excellent benefit-cost ratios generated by these schemes.

Recently Dormant Assets have been channelled into the personal lending CDFI sector through Fair4All Finance. This impactful funding provides equity, capital to lend and to scale up systems to be able to lend at greater scale.

Funding to cover the risk of lending to potentially vulnerable individuals as an alternative to high-cost credit is scarce. This scarcity leads to two things: 1) it holds more funders back from investing into CDFIs as they are concerned about the riskiness of the investment or 2) investors charge higher interest rates to price for the riskiness.

About this project

Responsible Finance has received funding from City Bridge Foundation to pilot a London-based risk cover or “first loss” fund pilot with three consumer-lending CDFIs.

“First loss” will be in the form of a grant. The pilot will test the use of the grant to lend and to provide risk cover and absorb the losses for any loans that customers cannot repay. As such, first loss funding plays a catalytic role, and it permanently increases the capacity of CDFIs to serve more customers with affordable credit.

From the loans that are repaid, the grant will be “recycled” into new loans. As it is recycled it can continue to attract new external investment in. This evergreen nature of the funding means that the impact will keep multiplying with each cycle of loans.

Three participating CDFIs (Fair Finance, Fair for You, Salad Money) will each receive a “first loss” grant allocation and use it to secure further investment from private investors.

Alongside the programme, Responsible Finance is commissioning an evaluation to measure the impact of the first loss grant.

Summary of evaluation specification

The **goal** of the evaluation is to demonstrate how the first loss funding works and the value that it adds.

The **output** of the evaluation will be an easy to read and compelling report with the findings, and key assets and data that Responsible Finance can use.

The evaluation output will be used to engage with government bodies and other grant funders to call for a permanent supply of this funding to increase investment into CDFIs.

As such, we expect the evaluation to include the following:

- The impact of the grant on:
 - Investment raising
 - CDFI lending
 - Individuals (loan recipients)
- A logic model showing the flow, how it works, and impact of the first loss grant.
- An assessment of what effective permanent first loss coverage would look like, based on leverage, loan loss rates within the programme and what would enable the growth of CDFIs.
- An assessment of the process and learnings of how the City Bridge Foundation First Loss Pilot was delivered so future programmes can build on those learnings.
- A benefit cost ratio showing the direct benefit of CDFI lending including Green Book analysis of wider social and economic impacts of CDFI lending, to the extent possible.

- Case studies from tracking impact on borrowers over time.
- Reference to wider benefits/spillover effects not captured in the benefit cost ratio that could be evaluated if the programme is expanded or taken on for a larger scale pilot.

The successful individual/organisation will work alongside Responsible Finance and the participating CDFIs to collect the data and information needed for the evaluation.

It is important for us that the individual/organisation has experience creating clear and compelling output that is easily understandable. This will help amplify the impact of the findings.

We will also be looking for the selected individual/organisation to demonstrate a solid understanding of CDFIs and their role in the consumer credit sector, and an appreciation for the role of affordable credit.

Budget and timescales

A maximum budget of £80,000 + VAT is available to cover this evaluation including any travel and other expenses you require.

The individual/organisation chosen to evaluate the programme will work with us over the two-year project duration, which will commence in late 2023.

How we'll assess bids

We will consider and weight the following factors when reviewing bids:

1. Approach and methodology – 40%
2. Relevant experience on similar evaluations – 20%
3. Understanding of CDFIs and wider policy context/willingness to learn – 20%
4. Budget and value for money – 20%

Submitting your bid

Please submit a proposal (maximum seven A4 pages) by 6pm on Friday 10th November 2023 to Theodora Hadjimichael, Responsible Finance CEO:

t.hadjimichael@responsiblefinance.org.uk

Your proposal should include:

- Your approach to the evaluation elements outlined above – what will you do and how? Please include timescales.
- Why you think this project is important?
- What will you bring/why are you the right evaluation partner?
- Relevant experience on evaluations and targeting a public policy / funding audience?
- Budget breakdown.
- Team and roles.

Selection process

A committee at Responsible Finance will assess the bids and invite a shortlist of organisations for a call to discuss their bids. We aim to appoint a successful evaluator by mid-December.

Equality and fairness are at the core of our organisation and we are committed to creating an inclusive workplace where everyone can be their best.

If you would like to have an informal call about the project and evaluation, please get in touch with Theodora Hadjimichael (t.hadjimichael@responsiblefinance.org.uk).