Responsible Finance

THE INDUSTRY IN 2015

About Responsible Finance
We are the voice of the responsible finance industry. We support a strong network of responsible finance providers who are increasing access to fair finance across the UK. At our heart is the idea of bringing social and economic benefits to people, places and businesses.

Our members provide finance to customers not supported by other lenders. They offer a supportive service and treat people fairly. They are professional social enterprises that re-invest profits to help more people and businesses access finance.

www.responsiblefinance.org.uk

Responsible Finance

About this publication
Responsible Finance 2015 is based on a survey conducted by Responsible Finance, which was completed by 51 responsible finance providers. The reporting period is 1st April 2014 to 31st March 2015. The survey has been conducted annually since 2003, and was previously known as *Inside Community Finance*.

This report was written by Theodora Hadjimichael with contributions from Ben Hughes, Sam Collin, Paul Langlois, Geoff Watson and Callum Anderson.

Acknowledgements
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Treasury Select Committee

The alternative finance sector is an important new area of credit growth for a wide range of people. With banks being ever forced, through legislation, to be mindful of perceived risk to their balance sheets, alternative finance has never been more important and has perhaps rarely had such an opportunity.

A crucial part of this nascent sector is the opportunities provided by responsible finance. 2015 has seen strong growth with record levels of funding not just to businesses, but also to social enterprises and people who would otherwise have been unable to gain access to finance. Crucially, this finance is finding its way to businesses outside the economic hotspots of London, 83% of which is to these regions. Of the 11,440 SMEs who secured between them £98 million, the vast majority were businesses either created or saved from closure, securing 20,000 jobs. This has translated into nearly £600 million of economic activity to SMEs.

The wider economic benefit of the responsible finance sector is no less important. 454 social enterprises have secured £126 million, again the vast majority of which have been created or saved, with 5,500 jobs secured. In the private sector 45,000 consumers have benefited from £22 million of loans and 677 homeowners have borrowed £5.3 million against their properties.

These numbers, when compared to the British economy as a whole, may be small, but the trajectory is one of strong growth. The responsible finance sector is not just important to those businesses and enterprises it helps now: it is becoming increasingly important to a new generation of entrepreneurs seeking finance to germinate their ideas and to play their part in our economic recovery.

Competition in a market place is important, but all too frequently we refer to competition amongst banks. But when it comes to the alternative finance sector and responsible finance, it is important to see this sector as potentially competitors to banks. Whilst we want to see challenger banks start up, we need to see challengers to banks and responsible finance has its role to play.

Responsible finance is an area of interest to me and to the market in general. It is an area that I hope to see flourish and an area that I know will provide important finance where it is needed.

Mark Garnier MP

Foreword

PwC

Over the past four years it has been my pleasure to work in advisory capacity for Responsible Finance. While responsible finance providers over this period have experienced significant increases in funding they will face various challenges in maintaining such growth in the future.

Crucially there is unlikely to be as much central government grant support, new platforms and competitors are emerging and, while commercial funding sources are more interested in 'social' or 'impact' investing than in the past, they are not in a position to cover any first losses.

The fundamental question for responsible finance providers will become the balance between commercial sustainability and social objectives. There are probably three routes that should now be considered. Firstly the sector while diverse could implement operating efficiencies – in consortia or sector wide – that might generate economies of scale and consistent lending practices and related performance outcomes.

Secondly the interest of commercial banks could be realised if the issue of 'first loss' were resolved. The attraction of substituting grant for private sector investment might be of interest to UK public sector (in all of its forms) as has already been demonstrated by RGF.

Thirdly there are various other forms of intervention than grant funding that government could consider or enhance such as the type of legislation adopted in the US and India or the ease at which CITR/SITR can be implemented and promoted for and by responsible finance providers.

There are no doubt other options that could be considered. In all cases Responsible Finance has a strong role to play not only in convening support and representing the sector to external stakeholders but also in addressing the operational improvements and partnerships with new funding sources.

Finally my hope is that one or more of these opportunities for change are realised and that the sector continues to meet the needs of those with little or no access to affordable sources of finance.

Mark Graham
Director, PwC

Introduction

Recognising the impact of responsible finance

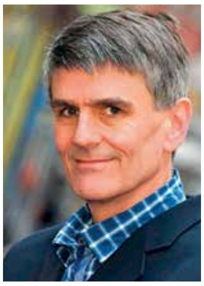
In introducing the first report as Responsible Finance it's important to start by reflecting on why the CDFA decided to rebrand. Yes, there was ongoing confusion around acronyms – both for us and our members – that challenged even the most accomplished of elevator pitches. But there was another dimension too: the growing uncertainty around where financial inclusion sits within public policy, and so the need for a new discourse. It is this combination, of creating a simple, clear and compelling message able to drive a new economic narrative that is what Responsible Finance is really about.

As "the voice of the responsible finance industry working to increase access to fair finance" it is incumbent on us to find ways of building momentum – and of really making the public policy case. Whilst I think there's little doubting Responsible Finance is fresh, clear and compelling, time will be the judge of the lasting impact we hope to achieve.

In meantime though, we build from a strong base. 2015 proved a record year for the responsible lending market, with a 45% surge to £251million, in lending to small businesses, social enterprises and local communities. That this created 10,000 new businesses and 25,000 jobs, and ensured over 45,000 people had access to ethical loans as an alternative to high interest payday loans is testament to the remarkable economic impact – not to mention social benefit – our members achieve daily, in every city, region and nation of the UK.

Yet impressive as these results are, set against the backdrop of a 33% drop in capital available to on-lend is a stark reminder of the supply/demand imbalance our sector faces. Continuation of the impressive current growth trajectory would result in a further £1.9 billion being lent by 2020, supporting 75,000 more businesses and helping 360,000 more people avoid high interest lenders. Put another way, this equates to £14 billion of economic value added during this time.

Whilst this is certainly achievable, based on recent performance, it requires urgent political backing for the only dedicated gap filling part of the financial services industry.



Ben Hughes

Ben Hughes
Chief Executive of Responsible Finance

Chapter 1

Key Findings

Responsible finance in 2015

£251m to 57,800 customers

Lending to Businesses

- **£98m** to **11,440** businesses
- Creating **10,000** new businesses
- Creating and protecting **20,000** jobs
- Adding **£0.6bn** to the UK Economy

Lending to Social Enterprises

- **£126m** to **454** social enterprises
- Creating and protecting **5,433** jobs
- Adding **£12m** to the UK economy

Lending to Individuals

- **£22m** to **45,200** individuals
- Helped **28,000** cover unexpected costs
- Saving people **£4m** in interest repayments

Lending to Homeowners

- **£5.3m** to **680** homeowners
- Adding **£6.2m** to the UK economy through enabling people to stay in their homes
- Adding **£3.8m** to the UK economy through bringing homes up to Decent Homes Standard

Chapter 2
The need for responsible finance

Access to opportunity

Access to finance is central to unlocking economic opportunity. The flow of money is part of daily life for individuals, businesses, and places, and when that flow is disrupted, the social and economic wellbeing of these individuals, businesses, and places is also disrupted. In particular, access – to both credit and a broader set of tools that enable financial capability – empowers individuals, microbusinesses,[1] small and medium sized enterprises (SMEs)[2] and social enterprises to fully participate in the economy and society through realising their potential. Without access, this opportunity is limited.

Despite economic recovery, the gap in access to finance is still significant; over the past 4 years banks have withdrawn £26 billion from the SME market, and 10% of the population is excluded or on the edge of banking.

For every user of finance – individual, business, or social enterprise, the cost of missing this opportunity can be measured by the economic output and consumer spending forgone, and the ripples that these outcomes would have had on the overall economy. Social mobility is stifled if individuals and enterprises do not have the opportunity to invest, grow, innovate, and contribute to the economy.

The gap

Despite the economic recovery and a wave of new entrants such as challenger banks and alternative lenders, there is still a large minority of businesses and people that cannot access the finance they need to achieve their goals. Since 2011, high street banks have withdrawn £26 billion from the SME sector,[3] and nearly half of all SMEs are now choosing not to borrow at all.[4] For consumers, 6 million people, or 10% of the population either do not have or struggle to use their bank account.[5] These indicators point to a persistently significant gap in access to appropriate finance, and the fragile nature of improvements in financial inclusion to date.

Unequal access to finance for different segments of the market is attributable to market failures such as lack of competition, information mismatches, as well as regulatory and operational externalities. And recently, trends such as the proliferation of high cost credit firms mistreating consumers, and the adoption of risk averse policies that exclude millions of small businesses from accessing finance, have pushed the issue of fairness and transparency to the forefront of the access to finance agenda.

The need for a more responsible financial system

Legislators and regulators have reacted with measures intended to make the market-place more accessible, diverse, and competitive. Examples include the Financial Conduct Authority's (FCA) consumer credit regime, mandatory referrals of declined bank customers to alternative finance providers, and numerous enquiries into the high street banks' lending behaviour.

These steps are a start to rebuilding trust in the financial services system, and transforming the industry into one that works for every user of finance.

And so, growing and stimulating the economy through access to finance is no longer only about quantity (stimulated by schemes such as Funding for Lending), but the quality of delivery as well. A responsible, and therefore trusted industry is instrumental to enabling opportunity: investing and reinvesting locally, empowering cities, towns, and regions across the UK – particularly those that have historically received little inward investment to grow and prosper. Policy initiatives such as the Northern Powerhouse and giving individual cities more ownership through devolution can only truly succeed if there is a mechanism to deliver investment into the businesses and people in these places.

Driving this transformation is the existing network of responsible finance providers.

What is responsible finance?

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

Their mission and approach has always been responsible, but given the broad call for a more just financial system, now more than ever is the time to demonstrate that responsibility within the sector's identity. The responsible finance model means:

Responsible Purpose

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

Responsible Products

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

Responsible Approach

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

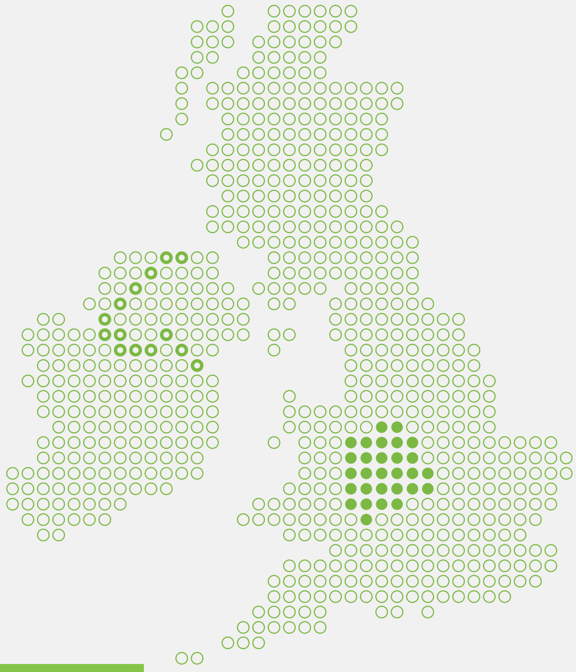
Responsible Organisations

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

How responsible finance is working across the country:

West Midlands

Responsible finance providers across the country are lending to businesses, social enterprises, and individuals who are unable to access finance from other sources. The maps in this section demonstrate how responsible finance providers are lending to viable businesses, such as Lordswood Architectural, that are generally located in postcode areas that have higher levels of deprivation and lower levels of bank lending. In the West Midlands, responsible finance providers lent nearly £11 million to 423 businesses in 2015, creating and saving over 2,000 jobs, fuelling one of the fastest growing local economies in the country.



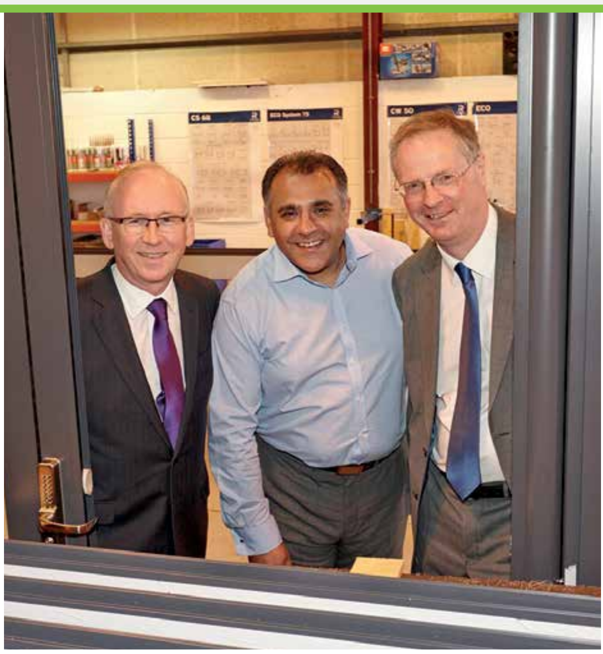
£10.9m lent to **423** businesses in the West Midlands

770 jobs created and a further **1,324** saved

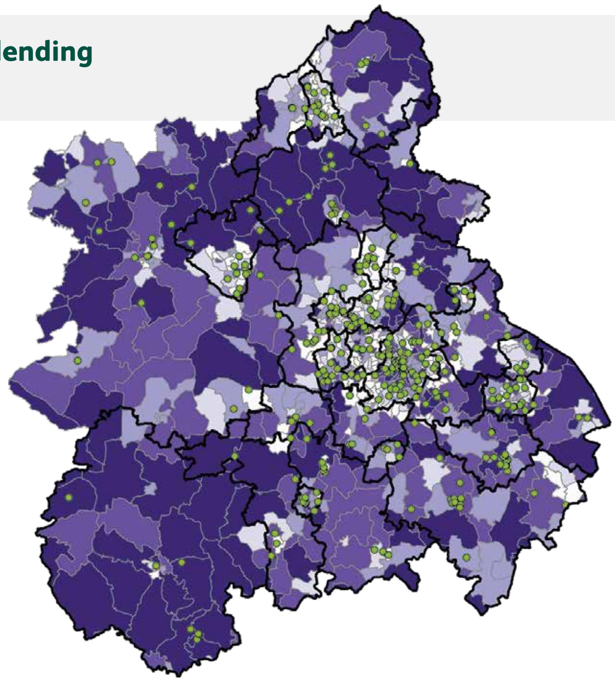
Adding **£79.4m** back into the economy

Case study

After being made redundant at the height of the recession, Dee Benning saw an opportunity to establish a façade engineering business to seize a chance to employ a number of highly skilled engineers who had also been made redundant. Although Dee had a vast amount of experience along with an excellent business plan, he still found it impossible to secure funding from mainstream banks. His applications for finance were refused because banks perceived businesses that operate in the construction industry to be high risk. However, BCRS Business Loans, a West Midlands based responsible finance provider, supplied **Lordswood Architectural** with an initial loan to establish operations and a second loan to ease cash flow issues caused by 60 day payment terms in many contracts. Almost three years later, the company has a turnover in excess of £3 million and has employed a number of local people. In total, 25 new jobs have been created and 11 jobs have been safeguarded. According to Dee, Lordswood Architectural would not be where it is today without the help and belief from BCRS Business Loans.

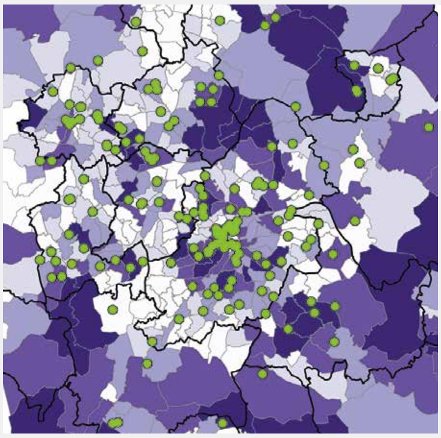


Responsible lending to SMEs and bank lending to SMEs; 2014 Q1–Q4, West Midlands



Total value of bank SME lending

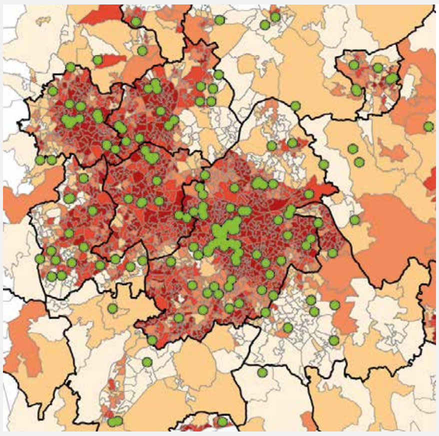
- £0-£14.6m
- £14.6m-£27.2m
- £27.2m-£44.1m
- £44.1m-£68.5m
- £68.5m-£259.2m
- Location of responsible lending to SMEs



Responsible lending to SMEs and bank lending to SMEs; Birmingham

Total value of bank SME lending

- £0-£14.6m
- £14.6m-£27.2m
- £27.2m-£44.1m
- £44.1m-£68.5m
- £68.5m-£259.2m
- Location of responsible lending to SMEs



Responsible lending to SMEs and indices of multiple deprivation; Birmingham

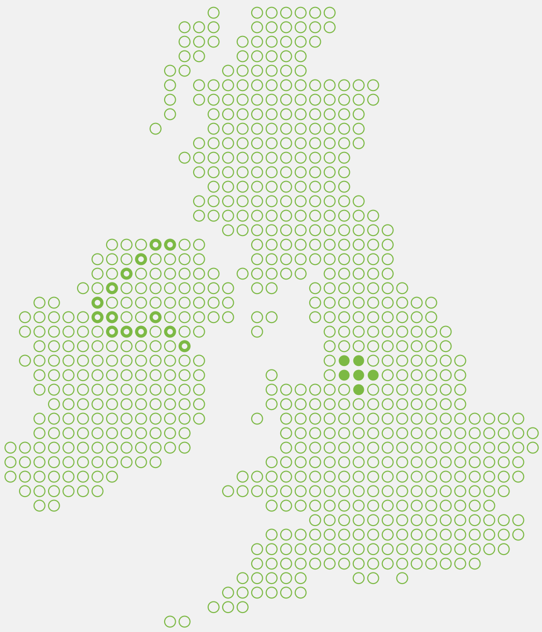
Indices of Multiple Deprivation 2010 (Percentiles)

- 0-20% (most deprived)
- 20-40%
- 40-60%
- 60-80%
- 80-100% (least deprived)
- Location of responsible lending to SMEs

How responsible finance is working across the country:

Greater Manchester

In Greater Manchester, which was granted devolved powers in 2014, responsible finance providers are empowering local residents and businesses through increased access to finance. In 2015, responsible finance providers lent £5.5 million to over 900 businesses who could not secure finance elsewhere, and £8.7 million to over 19,000 people who may have otherwise sought out high cost alternatives. As the maps in this section demonstrate, these customers were located in more deprived postcode areas and where levels of bank lending were lower. Responsible lending helped to create and save over 1,600 jobs, and save consumers at least £2 million in interest repayments, both of which will contribute to a stronger local economy.



£5.5m lent to **918** new and existing businesses in Greater Manchester

1,260 jobs created and a further **1,360** saved

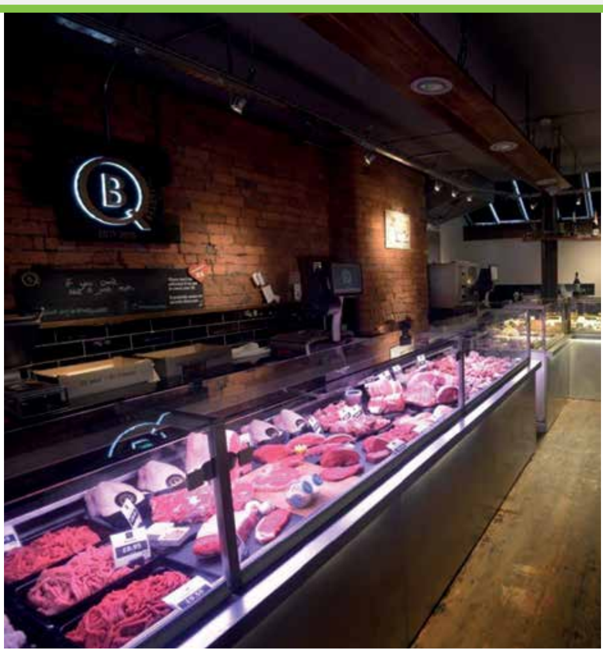
Adding **£46.8m** back into the economy

£9m to **19,300** individuals

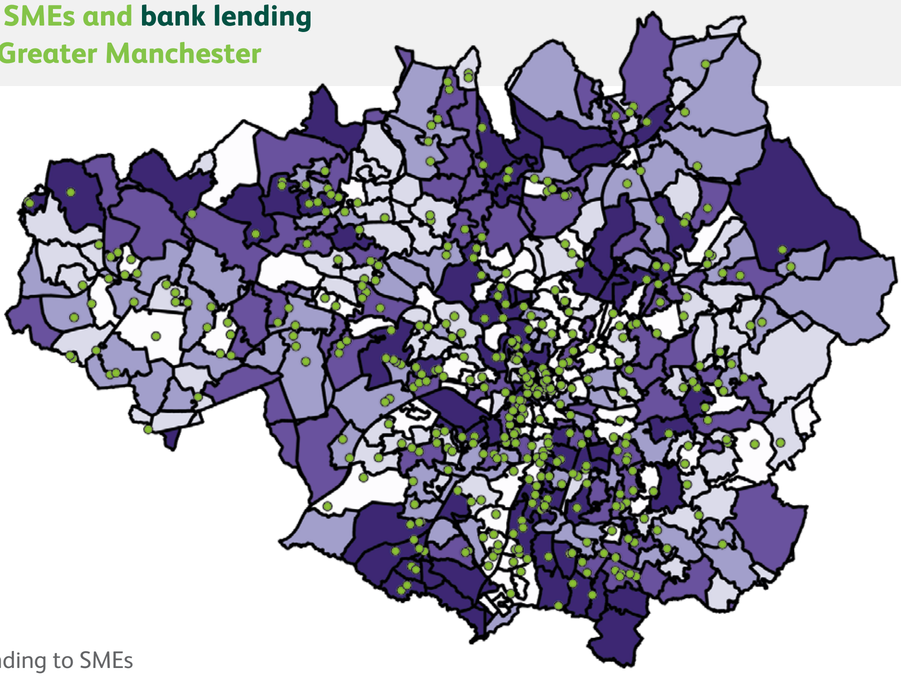
Saved consumers **£2m** in repayments to high cost providers

Case study

Steven Pilkington, a former banker, has always wanted to start his own business. The last butcher shop in Manchester's city centre closed in 2007, and Steven saw an opportunity. His grandparents and great grandparents owned butcher's shops and his business partners are fourth generation butchers. After being declined by his bank, Steven's local finance provider, Business Finance Solutions (BFS), provided him with a £50,000 loan which helped him secure the site – a former butcher's shop that closed in 1975, to launch **The Butcher's Quarter**. The shop brings a much needed resource back to the city centre, and sells a range of premium and locally sourced meats. Steven said: "For years Manchester city centre has been missing a traditional butcher's shop where people can buy fresh quality meat, get advice on different cuts and how best to cook and serve it. With the help of the BFS we have been able to bring this age old skill back into the city centre where we know there is a real demand for good quality food. Thanks to the loan we've been able to bring what was a great butcher's shop back to life and resurrect it at the heart of the community."



Responsible lending to SMEs and bank lending to SMEs; 2014 Q1–Q4, Greater Manchester



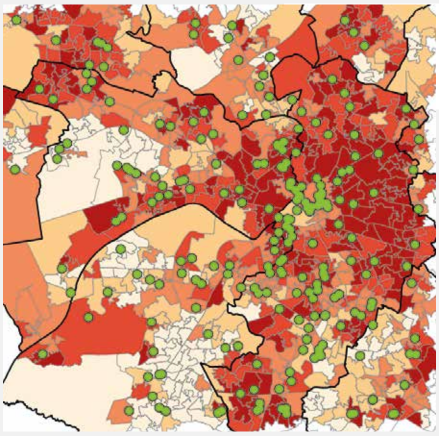
Total value of bank SME lending

- £0-£9.3m
- £9.3m-£18.8m
- £18.8m-£28.2m
- £28.2m-£48.7m
- £48.7m-£69.6m
- Location of responsible lending to SMEs

Responsible lending to SMEs and bank lending to SMEs; Manchester

Total value of bank SME lending

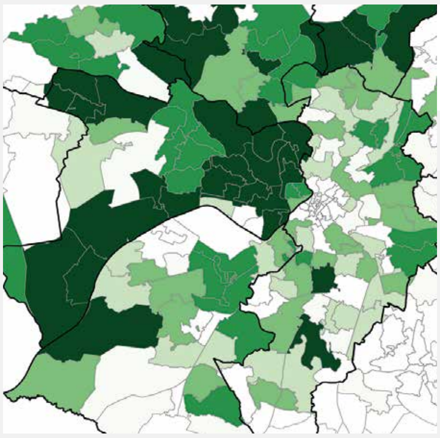
- £0-£9.3m
- £9.3m-£18.8m
- £18.8m-£28.2m
- £28.2m-£48.7m
- £48.7m-£69.6m
- Location of responsible lending to SMEs



Responsible lending to SMEs and indices of multiple deprivation; Manchester

Indices of Multiple Deprivation 2010 (Percentiles)

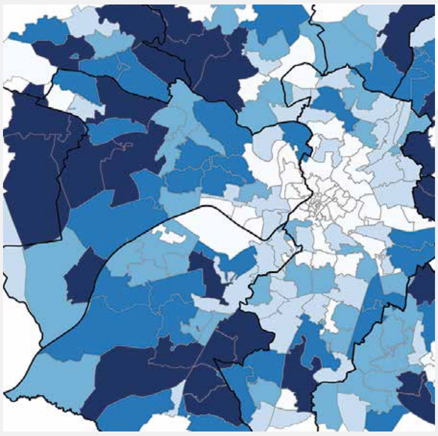
- 0-20% (most deprived)
- 20-40%
- 40-60%
- 60-80%
- 80-100% (least deprived)
- Location of responsible lending to SMEs



Responsible lending to individuals; Manchester

Total value of responsible lending to individials

- £0 - £700
- £700 - £1,470
- £1,470 - £3,030
- £3,030 - £8,500
- £8,500 - £60,430



Bank lending to individuals; Manchester

Total value of bank personal lending

- £0 - £6.6m
- £6.6m - £12.2m
- £12.2m - £16.2m
- £16.2m - £20.6m
- £20.6m - £37.1m

Chapter 3

Responsible finance in 2015

Trends in responsible lending

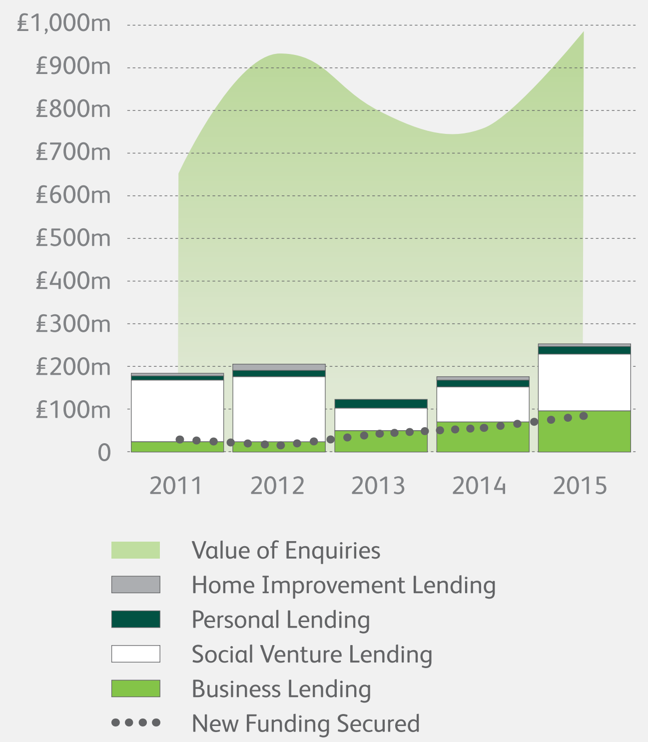
In 2015 the responsible finance industry reached more customers than ever before, lending £251 million to SMEs, social enterprises and individuals, 45% more than the £173 million lent in 2014. This record not only reflects the demand in the market for responsible products, but is also an indication how the model can work effectively at scale.

During the year, £84 million in new funding was injected into the sector, driving the increase in overall lending, and responsible finance providers' ability to meet the increasing demand in access to finance. As can be seen from **Figure 3.1**, stable funding into the sector enables it to scale up and develop the markets within which it operates. In additional to overall lending, demand, measured by the number of enquiries, has also risen 30% during this time.

At the end of 2015 the sector had £134 million available to on-lend, which is a decrease from previous years where there had been over £200 million in capital available. As multiple funding contracts are coming to an end there is a diminishing supply of capital; an ongoing challenge in scaling the sector.

Despite the uncertain future, 2015 was the sector's strongest year ever, meaning that more businesses, social enterprises, and individuals than ever were able to access finance that works for them – the responsible finance that they need to flourish, thus building strong local economies.

3.1 Demand and supply



3.2 The economic impact of responsible finance, 2015

In 2015 51 responsible finance providers lent £251m to:

11,440 For-profit microenterprises and SMEs	**454** Social enterprises	**45,185** Individuals	**677** Homeowners	And provided financial literacy and technical assistance to **57,756** customers

Adding…

£595m From businesses and jobs created and saved	**£12m** From social enterprises and jobs created and saved	**£4.1m** From savings	**£6m** From enabling people to stay in their homes and **£3.8m** from home repairs	**£17m** From increased financial capability and skills upgraded

…to the economy

As can be seen from **Figure 3.1**, the sector has been on a strong growth trajectory, at a time when credit was largely unattainable through high street banks. This has had significant impact on both the local economy and society through creating opportunity, boosting enterprise, and fuelling economic growth. Since the recession, the responsible finance sector has created 66,000 new jobs; helped almost 46,000 businesses and social enterprise to start up and grow, and offered 200,000 people an affordable alternative to high cost credit.

Responsible finance providers lent £251 million in 2015, 45% more than in 2014.

A summary of responsible finance activity and the value added to the UK economy in 2015 as a result can be seen in **Figure 3.2**. The following chapters outline responsible finance activity in individual market segments; further information can be found in the Appendix.

Section 3.1 Responsible finance for businesses in 2015

3.3 Responsible finance for businesses and its economic impact in 2015

In 2015 responsible finance providers lent £98m to 11,440 businesses:

9,584	1,225	14,433	5,431	Business turnover increased by
New businesses created	Existing businesses safeguarded	New jobs created	Jobs safeguarded	£147m

...Adding back to the economy...

£232m	£3m	£131m	£230m	£3.3m
From businesses created by unemployed people on benefits	From businesses created by employed people	From jobs created	From jobs safeguarded	From businesses mentored

£0.595bn added to the economy from responsible lending to businesses

Market characteristics

Microbusinesses and SMEs are critical drivers of economic growth and overall employment, accounting for almost half of private sector employment and one third of all private sector turnover.[6] Yet even with improved economic conditions, fewer firms are seeking new finance, with 50% of firms now qualifying as "permanent non-borrowers"[7] and a further 3% choosing not to seek finance because they are discouraged.[8]

This trend of overall fewer firms seeking finance indicates that there are still significant actual and perceived barriers for SMEs accessing credit, and this is damaging their ambition to grow, invest, and innovate. In particular, SMEs with limited borrowing history, trading track record, and no quality security face challenges in accessing mainstream finance, with 42% reporting unsuccessful applications, compared to 26% of repeat borrowers.[9] However, it is these small and micro enterprises that provide vital goods and services to local economies, such as local retailers, hair salons, and building contractors.

Responsible finance for businesses

Responsible finance providers specialise in providing access to finance to these segments of the micro and SME market that cannot access their full financial needs from mainstream providers. In 2015, 34 responsible finance providers lent a record of £98 million to nearly 11,500 businesses. Demand for responsible finance surged, with nearly 50,000 enquiries for £400 million. The majority (90%) of business customers were microbusinesses, with fewer than 9 employees. Overall, responsible finance providers lent to fewer businesses than in 2014, but 36% more in terms of value, which points to the nature of financial exclusion among businesses; the sector is now serving more businesses seeking larger loans for the growth stages of their lifecycle.

Responsible finance providers lend to both established microbusinesses and SMEs as well as to microentrepreneurs starting a new business. The core market for responsible finance providers is the former segment; established micro and small businesses that play an important role in the regional supply chain, such as manufacturing and engineering firms, that have been declined by other providers due to the amount of finance needed, lack of adequate security, or temporary financial difficulties. These factors contribute to what is perceived as higher risk and lower profitability, and do not meet the minimum standards for banks or other alternative lenders. The sector's approach of assessing viability, taking a flexible stance on security, and considering local economic impact, positions responsible finance providers as trusted local institutions for businesses otherwise unable to access the full finance they need for working capital or investment. Responsible finance also often serves as part of a larger finance package with banks or alternative lenders that enables the business to transition to the next stage of its lifecycle or make a significant investment. In 2015 responsible finance providers lent £52 million to this segment of the market, including £17.5 million to 700 microbusinesses and £34 million to 1,200 SMEs, which represents a 12% increase since 2014.

In addition to this segment of the market, responsible finance providers also lend to microentrepreneurs through public policy programmes such as the Start Up Loans scheme (SUL) and the New Enterprise Allowance programme (NEA). Both of these schemes help people become self-employed by creating the capacity and confidence to manage a business alongside the provision of finance. In 2015, responsible finance providers lent £36 million to 4,700 start ups through the SUL scheme, and £10.5 million to 4,800 microentrepreneurs who were previously unemployed through NEA.

In 2015 responsible finance providers lending to businesses raised £69 million in new capital to on-lend, a 30% increase over the amount received in 2014. The Regional Growth Fund (RGF) and European Regional Development Fund (ERDF), both public-private investment models, and the SUL scheme all drove this increase in new capital for on-lending.

Value back into the economy

In 2015, responsible finance generated nearly £0.6 billion in economic value through creating and saving over 11,000 businesses, and creating and retaining nearly 20,000 jobs. This not only helped unemployed people build the capacity to become self-employed, contribute to the economy and move off benefits, but also enabled existing businesses to become more productive, thus contributing to strong local economies.

Section 3.2 Responsible finance for social enterprises in 2015

3.4 Responsible finance for social enterprises and its economic impact in 2015

In 2015 responsible finance providers lent £126m to 454 social enterprises:

49	382	924	4,509
New social enterprises created	Social enterprises safeguarded	Jobs created	Jobs safeguarded

...Adding back to the economy...

£520k	£11.3m	£132k
From social enterprises created	From social enterprises safeguarded	From clients mentored

£11.8m added to the economy from responsible lending to social enterprises

Market characteristics

Social enterprises are businesses that trade with the purpose of tackling and preventing social problems, improving communities, people's life chances, or the environment. They can be set up as charities, community and voluntary organisations, and other not-for-private profit ventures, that trade their goods and services in the open market, but reinvest their profits back into the business or local area.

Although the social investment sector in the UK is among the most advanced and innovative in the world, social enterprises still cite access to finance as the biggest barrier to starting up and achieving sustainable growth, and it is a more pronounced challenge for social enterprises operating in deprived areas.[10] The majority of social enterprises still seek grants when applying for external funding, with 83% having applied for a grant in 2015; but an increasing number of social enterprises (23%) are now applying for loan finance.[11] The proportion of social enterprises receiving grants as their main source of funding has been falling year on year from 10% in 2011, 7% in 2013, to 5% in 2015.[12]

Responsible finance for social enterprises

The social investment market has become more sophisticated in recent years, with the introduction of new and innovative tools to stimulate investment, such as Social Investment Tax Relief (SITR). The social enterprise market has also been developed through investment readiness programmes. Both of these trends are reflected by the increase in responsible lending to social enterprises. As social enterprises themselves, responsible finance providers are acutely aware of the funding and operating needs of non-profit organisations, and tailor their products and services to this demand.

In 2015, 11 responsible finance providers lent £21 million to 325 social enterprises, a 71% increase since 2014. Social banks, which are also responsible finance providers, but serve a different segment of the market – that of larger and established social enterprises and charities typically seeking over £250,000 and with security – lent £106 million to 129 social enterprises. This increase across the board reflects social banks returning to their traditional lending levels after a period of restructuring, and non-social bank responsible finance providers accessing new funding and tools in the market to increase their levels of investment.

Demand for finance increased almost 20% with 2,000 enquiries worth £548 million, reflecting the growing social enterprise market, as more organisations become investment ready and invest in their growth. Demonstrating the social impact of their clients, the majority (72%) of social enterprise clients were located in a disadvantaged area; nearly half were social entrepreneurs under 30 years old, one third were women-owned social enterprises, and nearly one quarter were BAME owned. 81% of social enterprises served had applied for finance at a bank and had been declined.

Responsible finance providers lending to social enterprises secured nearly £12 million in new funding; more than double the level received in 2014, driven by access to funding streams such as the RGF programme and new funding from social investors such as Big Society Capital into the responsible finance sector.

Value back into the economy

Responsible lending and support to social enterprises generated £11.8 million in economic value in 2015, as a result of creating and saving over 430 organisations and creating and safeguarding nearly 5,500 jobs. However, not captured in this economic value is the impact of responsible finance on social wellbeing as a result of lending to social enterprises. By providing finance and support to organisations that address difficult social and environmental issues, responsible finance providers enable these issues to be tackled more effectively, thus decreasing government expenditure.

Case study

Glencraft is an Aberdeen based social enterprise that manufactures mattresses and beds, and was set up in the 1840s. Glencraft is committed to its community and investing in its workforce; 80% of the organisation's staff are disabled or disadvantaged. It invests in training staff to develop a broad set of skills. Due to a loss of funding in 2009, Glencraft went into liquidation. Local business owners intervened and re-launched the business, given its important role in creating local employment. In 2012, Social Investment Scotland (SIS) provided Glencraft with a £150,000 loan to cover the restructuring and working capital costs; Scottish Enterprise matched this with a £233,000 grant. This funding package secured employment for 51 staff, 35 of whom were disabled. SIS funded Glencraft again in 2015, which enabled it to move to a new site. The new facility will help Glencraft to expand its production from 8,000 mattresses a year to 12,000, increase its turnover from £1.3 million to £2 million, and hire more staff.

Section 3.3 Responsible finance for individuals in 2015

3.5 Responsible finance for individuals and its economic impact in 2015

In 2015 responsible finance providers lent £22m to 45,185 people:

Provided financial capability support to **31,000** people	Helped **28,000** people pay for emergencies or other unexpected costs	Helped **3,100** people pay for transport costs	Helped **2,500** people pay their bills and **6,300** people manage existing debts	Helped **12,000** people avoid using a high cost credit provider

...Adding back to the economy...

£4m
From loan repayment savings

£13m
From individuals mentored

Market characteristics

Individuals need to access financial products such as current and savings accounts, mortgages, and other loans, in order to manage daily expenditures, finance one-off purchases, and plan for their longer term financial security. But many people do not even have access to these basic services. An estimated 2 million adults do not have access to a bank account,[13] and a further 4 million are on the edge of mainstream banking due to incurring regular fees.[14] This, compounded with the fact that as a consequence individuals may not have a credit score, means they have increased difficulty accessing mainstream products and services in society, such as renting a flat or purchasing a mobile phone contract, not to mention the negative effect financial instability has on health and wellbeing.[15]

Alternative sources of credit for those partially or fully excluded from mainstream banking include responsible finance providers and credit unions. The high cost short term credit sector, including payday lenders, home credit, and pawn shops, have been under increased scrutiny and regulation, as unfair treatment and lack of affordability checks led to borrowers falling into a spiral of problem debt and additional borrowing when using these products. Whilst the change in lending behaviour and incentivisation of more responsible practices is a positive step, the FCA's own research indicates that 70,000 people will now be unable to access credit from payday lenders.[16] Given that 80% of borrowing from payday lenders is not for discretionary purposes,[17] this indicates that the demand for short term personal finance is still strong, and so the need for alternatives such as responsible finance providers is more pertinent than ever, in order to fill this gap.

Responsible finance for individuals

Responsible finance providers serve this segment of the personal lending market that faces both financial and social exclusion. In 2015, 12 responsible finance providers lent £22 million to 45,185 individuals. This was a 14% increase on 2014. Demand for responsible finance also remained high; with 85,000 individuals seeking £41 million in finance.

In 2015, 55% of consumers in receipt of responsible finance came from a household with annual income less than £15,000; 92% were located in a disadvantaged area; 62% were women; 56% lived in social housing; 52% were not in full-time employment; and a further 42% were single parents, representing the multiple social and financial challenges that this segment of the market faces which responsible finance providers aim to alleviate.

The responsible finance approach enables individuals to take control of their financial wellbeing and become financially secure. Responsible finance providers offer a holistic approach, serving customers with no or poor credit history, with products and terms that take into account the customer's ability to repay, and build financial capability through face-to-face advice and signposting to debt and money advice services. This access to responsible finance and a local ecosystem of financial capability support helps individuals build financial resilience and wealth.

In 2015, responsible finance providers lending to individuals secured nearly £1 million in new capital to on-lend, a decrease over previous years. The lack of new capital into this segment of the market is an ongoing trend and a significant challenge to responsible finance providers scaling up to meet the strong demand for ethical and responsible finance.

Value back into the economy

In 2015, responsible finance and support activities targeted at the vulnerable consumer segment of the market generated £13 million of economic value through increased financial capability, and a further £4 million in consumer surplus in savings on interest repayments. Responsible finance providers helped 12,000 people avoid using a high cost credit provider that may have led to problem debt; 28,000 people pay for emergency and unplanned costs; and a further 3,100 people pay for transportation costs enabling more people to access work.

Case study

Nicola Oddie (pictured on the left), 25, lives in Ribbleton but works in Preston as home help. Without a car, commuting to work and back was very time consuming, and she worried that she may have to give up her job. But before doing so, Nicola approached her local responsible finance provider, **Lancashire Community Finance (LCF)**, which provided her with a loan to help her buy a car, making it much easier for her to get to work, and enabling her to stay in employment. LCF offers loans and a personalised services; are flexible on their assessment criteria, such as credit score, and their products are provided at fair rates. Nicola was LCF's 10,000th personal loan customer, and for the occasion she was presented with a cake baked especially by one of its business customers – Lia's Cakes – which started up with a loan from LCF and secured a further loan from them to open her café.

Section 3.4 Responsible finance for homeowners in 2015

3.6 Responsible finance for homeowners and its economic impact in 2015

In 2015 responsible finance providers lent £5.3m to 677 individuals

566	**222**	
Homes were brought up to Decent Homes Standard	People were able to stay in their homes	The lives of homeowners who were elderly **(59%)**, low income **(41%)**, disabled **(12%)** were improved

...Adding back to the economy...

£3.8m	**£6.2m**	**£200k**
From bringing homes up to Decent Homes Standard	From individuals being able to stay in their homes	From homeowners advised

Market characteristics

Many people will need to access credit in order to undertake essential repairs or to make improvements to their property. Although most homeowners will access finance through mainstream suppliers such as banks, other individuals such as those who are on low or fixed incomes, older people or people with disabilities are often excluded from these basic financial products.

Living in a property that does not meet the Government's Decent Homes Standard[18] can seriously impact a homeowner's quality of life and can lead to poor health.[19] Official statistics show that in 2013 about 36% of all homes in the UK were classified as not of a Decent Standard,[20] with owner-occupied homes accounting for the majority of non-decent homes.[21] Often vulnerable people, such as those on low incomes or minorities living in non-decent properties are asset rich but cash poor, and because of this can experience additional difficulties accessing the finance to make the essential repairs needed to bring their homes up to a satisfactory standard. Homeowners making home repairs can access finance from local sources such as responsible finance providers, credit unions, local authorities, charities, and equity release lenders.

Responsible finance for homeowners

Six responsible finance providers specialise in lending to disadvantaged and low income homeowners who need to access finance for home repairs and energy efficiency upgrades. Responsible finance providers often serve as delivery mechanisms for local authorities to reach individual homeowners in need of home repairs and also for larger scale projects such as refurbishing empty homes.

In 2015, responsible finance providers lent £5.3 million to 677 homeowners, a 23% increase since 2014. The value of enquiries also increased by 12%, given harsher winter weather conditions in 2014/2015. Nearly half of the loans made were for general home repairs, and over 30% were for energy efficiency upgrades, which would decrease the cost of utility bills. Of the households served, 59% were over the age of 65 and 41% were low income.

In 2015, responsible finance providers lending to homeowners secured just under £2 million in capital to on-lend; an increase over funding secured in 2014, yet still reflecting the challenge that a lack of new funding plays in preventing the sector from scaling to its full potential. The majority of funding came from local authority grants, a source which has and will continue to make cuts in budgets. Given the proportion of ageing homes in the UK, demand for finance to make repairs is likely to increase. Responsible finance providers are vital delivery mechanisms for reaching residents in these ageing and unfit homes, improving their lives and making them better off overall as a result of their improved housing conditions.

Value back into the economy

In 2015, responsible lending and support to homeowners generated over £6 million in additional economic benefit through helping 222 people avoid displacement and stay in their homes. They created an additional £3.8 million through bringing 566 homes up to the Decent Home Standard. Not measured here are the environmental benefits that these repairs have, which result in long-term decreases in emission and energy usage.

Case study

Hayley, based in Darlington, was expecting a new baby but was living in a flat which was unsuitable for herself, her young child and her new baby. Her housing support coordinator connected her with Five Lamps, a responsible finance provider who together with Darlington Council, refurbishes long-term empty properties through the Department for Communities and Local Government (DCLG) Empty Homes Community Grants programme. A two bedroomed empty property was identified for Hayley, and with the homeowner's consent, the property was refurbished to a high standard; Five Lamps also installed a new A-rated boiler and external wall insulation; both measures have made the property energy efficient which will save Hayley money in the future on her energy bills. An Energy Advisor at Five Lamps has also ensured that Hayley is on the cheapest supplier/tariff available. Hayley said "The house is absolutely beautiful; top to bottom everything is perfect. I'm really, really pleased with it, and it's so much better than the flats; I wouldn't be able to manage the stairs with a pushchair and the two little ones. It's also come at the right time after just giving birth to a baby and Christmas coming up." Five Lamps supported the refurbishment of 49 properties across Durham and Darlington in 2015.

Chapter 4
The responsible finance model

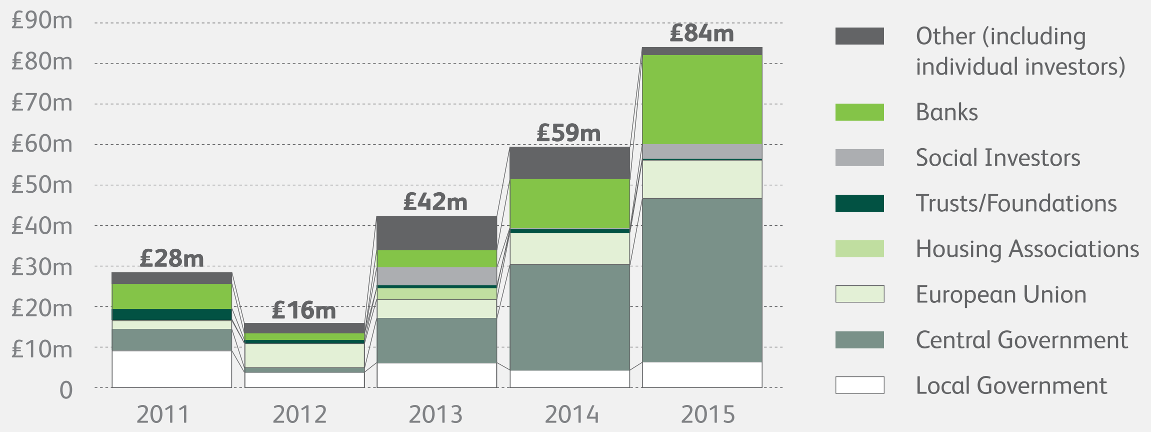
To sustain and build on this type of lending and support activity, responsible finance providers raise capital for on-lending, as they do not take deposits. This capital for lending is secured from a variety of sources – loans from commercial and social investors, grants from government, trusts and foundations, and equity from shareholders. Responsible finance providers generate income through interest and fees from lending, portfolio management fees, and many raise revenue grants as well, for the delivery of support services such as technical assistance and advice.

For the responsible finance model to work well, these organisations need to access a stable flow of new funding, which enables increased scale of lending and services, and long-term delivery of social and economic impact.

Sources of funding

In 2015, responsible finance providers secured £84 million in new funding, a 42% increase over the £59 million raised in 2014. As **Figure 4.1** demonstrates, this new capital continues to be a mix of bank and social loans, and grants from local, central, and European governments. This diversity of funding sources, and in particular the increase from commercial and social investors, reflects the changing funding landscape as the availability of pure grant funding is diminishing. Yet grants and other policy tools such as tax reliefs and guarantee schemes play a catalytic role in leveraging private investment into the responsible finance sector, enabling it to offer more flexible lending parameters in terms of geographic coverage and clients served. Although commercial investment comes with its own challenges – such as borrowing costs and security and covenant requirements, the aforementioned policy tools are critical in helping responsible finance providers balance these challenges so that they do not have a negative impact on their organisational sustainability and products. The responsible finance sector needs continued access to these tools in order to realise its potential in economic regeneration.

4.1 New funding secured to lend, 2011-2015



Policy tools for attracting new funding

Policy tools for attracting new funding: Community Investment Tax Relief

Community Investment Tax Relief (CITR) is a tax relief for corporate, institutional, and individual investors investing in responsible finance providers (formerly called CDFIs – community development finance institutions) for on-lending to businesses and social enterprises located in deprived communities. In 2015 there were 19 accredited responsible finance providers. Investors receive a relief of 25% of their total investment over five years, or 5% per annum. Through CITR, responsible finance providers have secured over £100 million in new funding since 2002, primarily through bank loans. This has facilitated more than £100 million of onward lending. CITR has the additional benefit of reducing the cost of capital for responsible finance providers, as many investors choose to offset the borrowing cost rather than claim back the full relief, as they are mindful of the impact that the cost of capital can have on the interest rates responsible finance providers charge their clients.

Policy tools for attracting new funding and reducing risk for investors: Policy Guarantee Schemes

An existing loan guarantee scheme is the Enterprise Finance Guarantee (EFG), which covers a net of 15% of loans in a lender's EFG portfolio. EFG can also be used as a wholesale guarantee, covering 15% of a bank's investment into a responsible finance provider. The portfolio and wholesale guarantees together can provide the investor essentially a 30% cover. As the majority of responsible lending is unsecured, EFG is a useful tool in minimising risk when lending to relatively higher risk SME markets. A range of guarantees are offered through the European Investment Fund (EIF), which cover a portion of a lender's portfolio when lending to SMEs and social enterprises, recognising that this is a harder to reach market. The use of an EFG or EIF guarantee often serves as a first loss facility in a funding deal – a mechanism of absorbing losses when lending to markets where the risk of non-repayment is higher. In these cases, the policy guarantee provides the commercial investor the assurance that their investment in the responsible finance provider will be repaid.

Policy tools for attracting new funding: Regional Growth Fund

An effective example of a fund structure which stitches together existing policy tools is the Responsible Finance (formerly CDFA) Regional Growth Fund (RGF) programme. This fund, targeted at SMEs and social enterprises across England, is a £60 million public-private match fund between the Department for Business, Innovation and Skills (BIS) and the Co-operative and Unity Trust Banks. The catalytic 50% grant from BIS serves to provide first loss cover and leverage in a 50% match investment from the banks. The grant also lowers the cost of the bank loan, as the total borrowing cost is spread over a larger sum. The participating banks invest through CITR, thus further lowering the cost of capital, allowing the responsible finance providers to allocate more resources to lending and operations. The repayments on the RGF grant are recycled to make further loans, and build responsible finance providers' balance sheets, leveraging in further commercial funding to on-lend.

The RGF programme has been highly successful. In 2015, responsible finance providers lent £23 million to 780 new and growing social and for-profit enterprises, creating and saving 3,800 jobs, which added an estimated £156 million to local economies across the country. Because the government grant leveraged a private match, the average cost to the government per job during the year was £3,000, only 7% of the average cost per job for the entire RGF programme.[22]

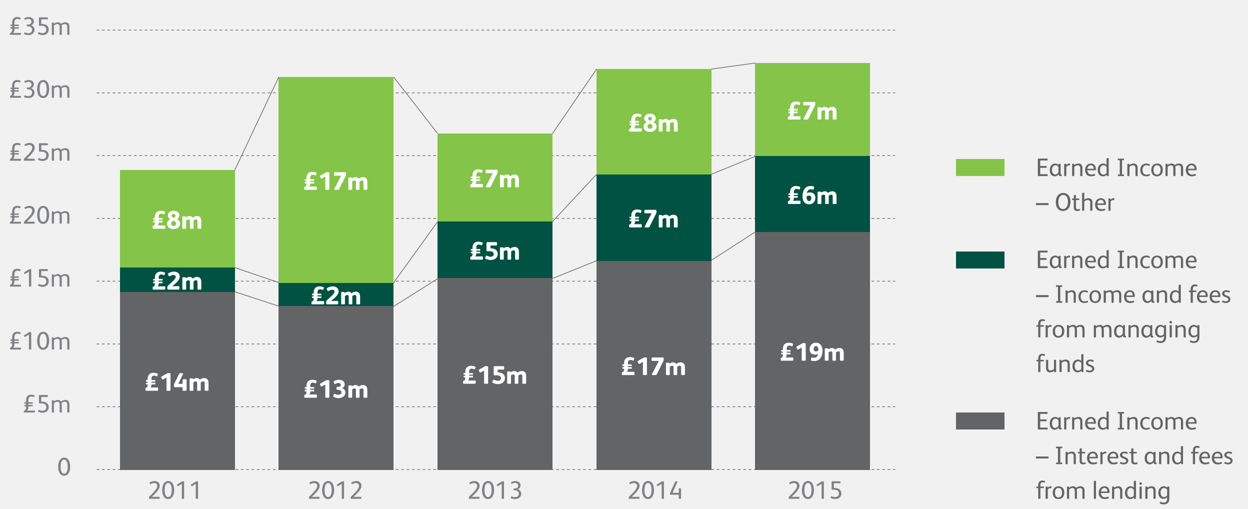
Sources of income

The responsible finance model generates income from a variety of sources, including both earned and other income. As with the shift towards more commercial forms of capital for on-lending, the availability of revenue grants to cover operating costs has also declined. Despite this trend, the higher volume of lending over time means that responsible finance providers are able to generate increased income through their lending activities in order to cover their operating, funding and risk costs. As can be seen in **Figure 4.2**, there has been a notable increase in the proportion of earned income, such as interest and fees, over other income, such as revenue and capital grants, over time.

Responsible finance providers raised £84m in capital to on-lend, 42% more than in 2014.

Whilst this shift is positive in terms of organisational self-sufficiency, the technical assistance and support that responsible providers offer, which is instrumental in increasing the customer's financial capability and ability to realise their economic potential, is typically funded through revenue grants. In the progression to operational sustainability, responsible finance providers must balance the pressures of continuing to provide affordable credit and high quality services to underserved and excluded segments of the market.

4.2 Earned and other income



	2011	2012	2013	2014	2015
Total Earned Income	78%	81%	80%	83%	85%
Total Other Income	22%	19%	20%	17%	15%

Portfolio performance

Responsible finance providers target market segments that are underserved by mainstream financial institutions. As these markets are considered to be relatively higher risk than those served by commercial providers, the expectation is that annual write offs and portfolio at risk (PAR) – 90 days or more in arrears, will be higher. Yet the performance of the responsible finance sector is aligned or outperforming benchmarks on portfolio performance within similar market segments.

4.3 Portfolio performance

	Performance 2015	Benchmark
Micro & SME lending		
PAR	15.8%	19%
Write offs/ Provisions	12.6%	
Social Enterprise		
PAR	2.7%	4-6%
Write offs/ Provisions	2.5%	
Personal		
Write offs/ Provisions	13.6%	6% / 14-20%
Home Improvement		
PAR	0.2%	1.6%
Write offs/ Provisions	0.2%	

- In the **micro and SME** market, responsible finance providers reported annual provisions and write offs of 12.6% and a PAR of 15.8%. This reflects continued fluctuation in annual loss rates, due to injection of new funding which has a diluting effect on the portfolio, and a share of loans from programmes such as Start Up Loans coming to maturity. As a benchmark for this segment, the Enterprise Finance Guarantee scheme, which guarantees a proportion of bank and non-bank lenders' portfolios, and is typically used when lending to riskier SME markets where businesses do not have security or credit history, has a default rate of 19%,[23] greater than responsible finance providers' bad debt rate. The average default rate for SME loans with banks is 4%.[24]

- Responsible finance providers lending to **social enterprises** reported annual provisions and write offs of 2.5% and a PAR of 2.7%. As social enterprises receiving responsible finance are established organisations, there is less likelihood that they will default on their debt. In addition, social enterprise loans tend to be larger – an average of £63,000, and 65% are secured against property or assets. Compared to other social investment funds that have write-off rates of 4-6%,[25] responsible finance providers lending to social enterprises outperform these portfolios.

- Responsible finance providers lending to **individuals** reported annual provisions and write offs of 13.6%. As a comparison, 14% of payday lenders' portfolios were never repaid in full[26] and 20% of loans rolled over.[27] Rollover rates are indicative of difficulty repaying. Credit unions, which are restricted from exclusively serving the most excluded and vulnerable customers because of their interest rate cap of 42.6%, had provisions of 6% in 2014.[28] Responsible finance providers' portfolios perform comparably with these industry benchmarks when operating in the higher risk, excluded segment of the market.

- Responsible finance providers lending to **homeowners** and households for home repairs and energy efficiency upgrades reported annual provisions and write offs of 0.2% and PAR of 0.2%. Compared to bank mortgage lenders who had a combined rate of 1.56% for severe arrears and repossession at the end of FY 2015,[29] the portfolios of responsible finance providers lending to households performed better.

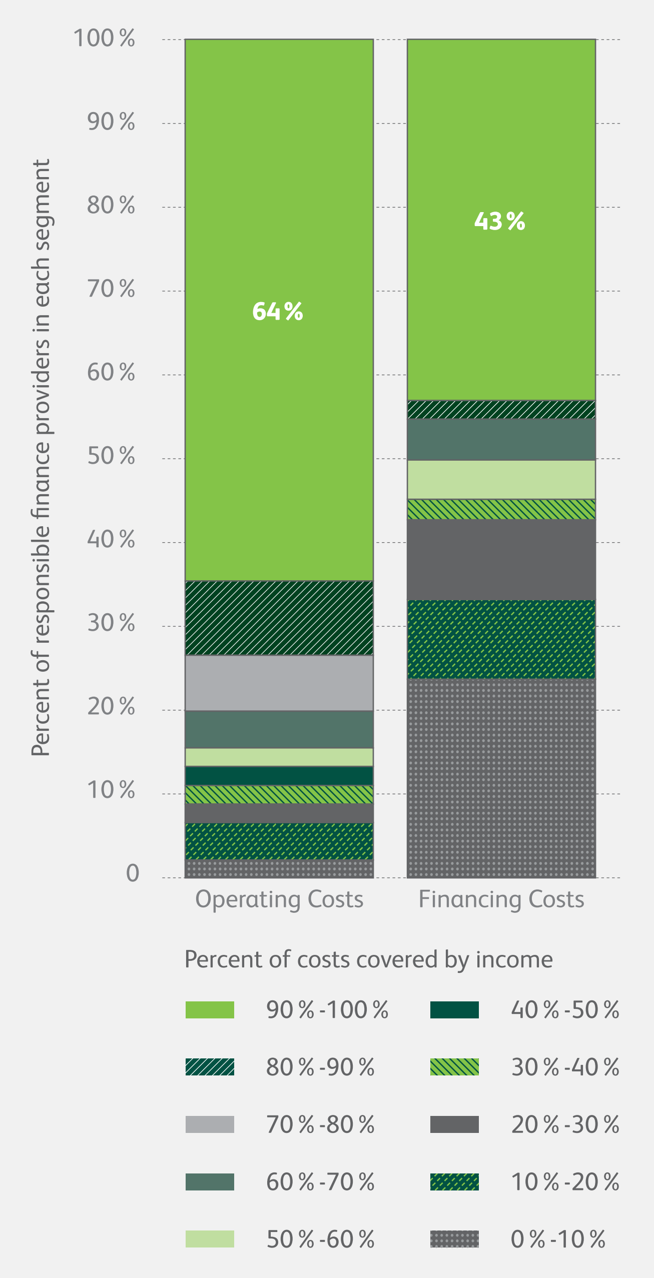
Sustainability

For responsible finance providers, specialising in lending to market segments that are traditionally underserved and excluded by the mainstream, there is a tension to continue to operate in this market but to do so more commercially. The sector's model, once grant reliant for both funding and revenue, is now much more diverse, generating the majority of its income through its activities, and using both new grant and recycled funds in order to leverage in more commercial investment for on-lending.

The sector's portfolio performance is aligned with or outperforming most industry benchmarks.

This trajectory demonstrates the efficiencies of scale and responsible finance providers' ability to adapt to their operating environment. The trend of decreasing availability of grant funding highlights the need for a sustainable model that will drive the sector's social and economic impact in the long-term.

4.4 Costs covered by income



For the responsible finance sector, sustainability is defined as both operational and financial:

- Covering **operating costs** such as overhead, staff salaries, and IT with income generated from lending and support activities, and
- Covering **financing costs** such as bad debt and the cost of capital with income generated from lending and support activities.

Figure 4.4 illustrates the state of operational and financial sustainability within the sector. The majority – 64% of responsible finance providers are able to cover 100% of their operating costs with income generated from their lending and support activities. Fewer are able to fully cover their financial costs with income generated. This illustrates the challenge of operating commercially when working in an area of market failure. The face-to-face and support-based approach is more expensive, but essential for determining viability and increasing financial capability in the higher risk and harder to reach segments of the business, social enterprise, and consumer markets.

Yet a majority of organisations are able to cover all or most of their operating costs, and continue to use creative approaches to cover their financial costs, primarily through first loss tools such as policy guarantees, assets, and catalytic grants. The gap in financial self-sufficiency underscores the need for a first loss mechanism that enables the overall model, and the social and economic impact produced by its activity to continue in the long-term.

Chapter 5

Financial services working for everyone

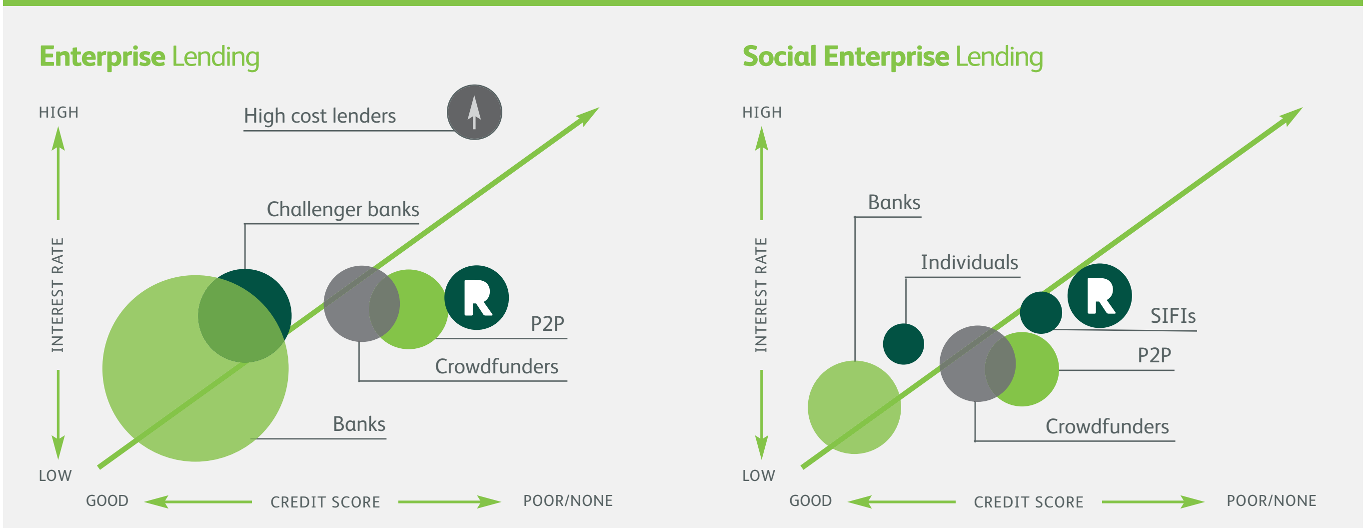
The need for a more responsible financial services system is a response to the unequal, non-transparent and at times exploitative practices of many within the industry. It also highlights the series of market failures that have prevented people, businesses, and places from accessing the finance they need. These failures have led to a fragmented financial services system, that by not reaching a significant minority of the population, impedes on growth and prosperity. This is evidenced by low levels of financial literacy,[30] the millions of people who do not have, or choose not to use their bank account,[31] along with the limited diversity of financial products. People and businesses do not trust the system and choose not to seek the finance they need to invest in their business, to pursue a start up idea, or to make necessary repairs to their homes, ultimately holding back the potential for further growth and productivity in the UK.

An integrated financial services system

In addition to providing fair and affordable products and services, a broad range of existing providers could be better integrated in order to enable a person or business to enter at the level appropriate for them, and use products and services designed to build their financial capability and move up the financial inclusion scale.

Figures 5.1a and **5.1b** illustrates the position of credit providers in each market: for-profit enterprise, social enterprise, consumer, and homeowner. As can be seen, responsible finance providers serve a segment of the market that mainstream and other non-bank providers are unable to support. It is also apparent that the financial services system is currently fragmented – both in terms of access and importantly, the relationships between providers. The models for co-financing and co-delivery are still underdeveloped, and therefore cannot unlock the significant economic potential that would be achieved in creating economies of scale and leveraging each provider's

5.1a Map of the financial services providers in each market



Note: Size of providers illustrative based on loans outstanding

Working in partnership: Affordable Lending Portal

The **Affordable Lending Portal** is an innovative and unique partnership between responsible lenders, commercial retail and utility firms, and credit reference agencies, utilising technology that will create efficiencies and lower lending costs. It will transform the way excluded consumers access finance, and provide a pathway into mainstream banking through a holistic approach to building financial capability.

The Affordable Lending Portal, a concept developed through the Cabinet Office's Affordable Lending Steering Group, is a partnership between seven responsible lenders (including 4 credit unions), Asda, Experian, StepChange (the debt advice agency), and Barclays. The model for this innovative partnership is for high street supermarkets and utility companies – the common points of contact for financially excluded and vulnerable consumers – to refer their lower income customers who are seeking credit, to a responsible finance provider, who may be able to provide them with affordable credit. This model leverages the strong brand presence of national chains – such as Asda, and the responsible finance sector's ability to serve this segment of the market affordably, using an online portal that makes the process of applying for credit seamless and efficient.

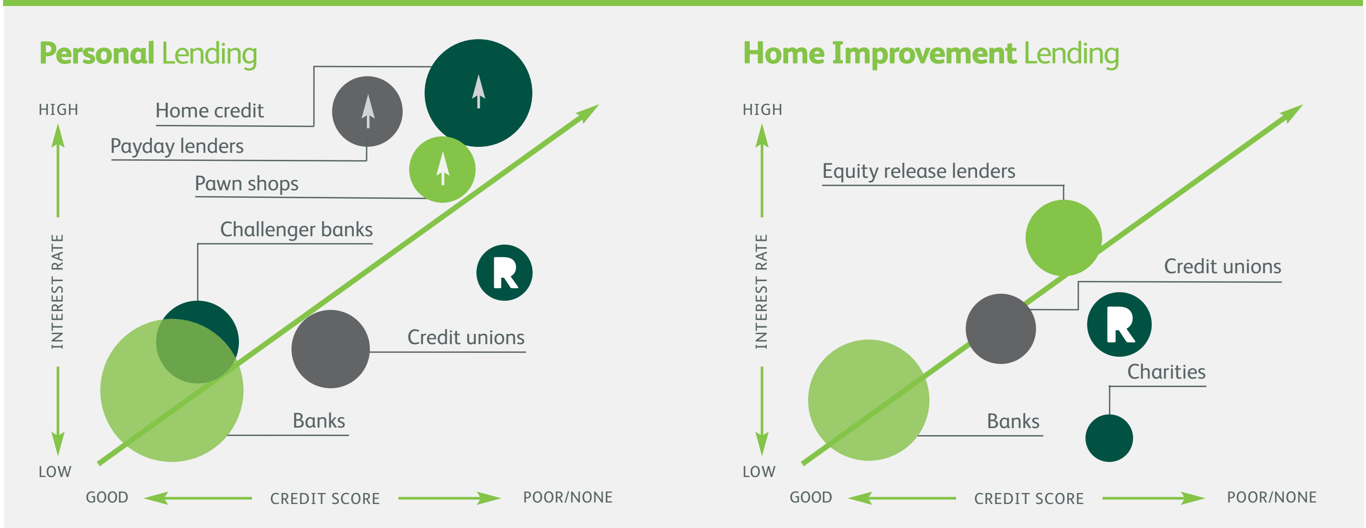
The outcome will be that vulnerable and excluded customers will avoid seeking out high cost credit, and the brand and presence of responsible finance will become more prominent. The Affordable Lending Portal is well positioned to tackle financial exclusion through serving a projected additional 60,000 customers through the pilot phase in 2016 alone. In the long-term the national partnership infrastructure linking high street chains and local finance providers has the potential to serve an additional 2-3 million customers per year. The Affordable Lending Portal is an example of how closer partnership working, including the use of new fintech, can achieve a step change in financial inclusion.

capabilities. For example, financial technology ("fintech") is a growing sector, but its innovations are still concentrated in London and the South of England[32] indicating that they are not yet reaching areas that face exclusion and underinvestment.

There are significant efficiencies that can be achieved by bridging close working relationships between the various financial services firms operating in a place. By working together towards the same goal – often with the same clients, a closer partnership could be a "one stop shop" for clients (both individuals and SMEs) that cannot access finance from mainstream sources. The value added by each partner is their unique specialisation – whether that is advice, affordable loans, or savings products.

Given the movement towards localism and devolution, in which cities and places will have more autonomous spending and decision-making power, these places will need a foundation – a financial services system that works for all of its residents and businesses, and is willing to invest and enable the flow of money. Particularly in the north of the country, which has historically been a region of underinvestment and consequent economic stagnation, a trusted and integrated financial services system with the local knowledge and reach of responsible finance providers, will be key for fuelling local economic growth.

5.1b Map of the financial services providers in each market



Note: Size of providers illustrative based on loans outstanding

Conclusion

2015 was the strongest year yet for the responsible finance sector, helping more businesses, social enterprises and individuals access finance tailored to their needs. The sector increased its lending by nearly 50%, helping SMEs to start up and grow, and offering individuals an ethical alternative to high cost credit. This increased access to finance and financial capability support generated record economic benefit across the towns and regions in which responsible finance providers operate.

The launch of the responsible finance brand is another exciting development for the sector, and one that crystallises its position in the financial services system. The evidence is strong that despite economic recovery and new entrants to the market, the gap in access to finance is persistently wide. The consequence of this is that the nation will not realise its economic potential, as businesses will not make the investments needed to grow, and people will not make the financial decisions that will allow them to save and build their wealth. The responsible finance sector is trying to close the gap, and reach those people and SMEs who cannot access the finance they need.

This is particularly important as the government works to rebalance the economy and stimulate growth in parts of the country that face generational underinvestment. Responsible finance providers already have a strong presence in these areas, are trusted local delivery partners, and work alongside local institutions to empower and regenerate their communities.

The growth trajectory for the sector is strong, and past performance demonstrates how the model can work well. However, this future is uncertain as challenges remain with matching demand for finance with supply. Responsible finance providers need access to stable sources of capital to scale, and currently the future source of those funds is uncertain.

Whilst these challenges exist, the sector continues to make strides and use innovative approaches to reach more businesses and people. The Affordable Lending Portal is an example of how a cross-cutting partnership model, underpinned by technology, will revolutionise how ethical finance is delivered. Close collaboration and partnerships like the Affordable Lending Portal are likely the future of the sector; and provide a lens into how access to finance will be transformed.

At the end of 2015 the responsible finance sector is at a critical junction. The opportunity for the sector to build on its strengths lies in part with public and private sector partners who can provide the tools and environment for the sector to thrive. Given the government's ambitions to increase prosperity and competitiveness within the UK, the responsible finance sector will be key to its success.

Responsible finance participants

ART Business Loans
BCRS Business Loans
Big Issue Invest
Business Enterprise Fund
Business Finance Solutions
Chamber Acorn Fund
The Charity Bank Limited
Co-operative and Community Finance
Community Land & Finance CIC
Coventry & Warwickshire Reinvestment Trust (CWRT)
DSL Business Finance
Enterprise Answers
Enterprise Loans East Midlands
Enterprise Northern Ireland Ltd
EV Business Loans Ltd
Fair Finance
Finance For Enterprise
Financing Enterprise Ltd
Five Lamps
Foundation East
Fredericks Foundation
The FSE Group
GLE oneLondon
Goole Development Trust
HBV Enterprise
Headrow Money Line
Impetus
IW Lottery
Key Fund
Lancashire Community Finance
Let's Do Business Finance
London Small Business Centre
MCF Loans
Merseyside Special Investment Fund Ltd
Moneyline
Moneyline Yorkshire
My Home Finance Ltd
Northern Pinetree Trust
Purple Shoots Business Lending Ltd
RBS Social & Community Capital
Robert Owen Community Banking Fund Ltd
Scotcash
Sirius
Social Investment Scotland
South West Investment Group (SWIG)
Street UK
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Appendix

Loan disbursals, by number and value

Total lending 2011–2015

	2011	2012	2013	2014	2015
Total number of loans disbursed	23,100	33,400	50,700	56,200	57,800
Total value of loans disbursed	£191m	£200m	£123m	£173m	£251m

Loans to Enterprises: microbusinesses and SMEs 2011-2015

	2011	2012	2013	2014	2015
Total number of start up/micro loans disbursed	1,240	2,318	8,992	12,791	10,280
Total number of SME loans disbursed	260	290	311	430	1,160
Total number of loans disbursed	**1,500**	**2,608**	**9,303**	**13,230**	**11,440**
Total value of start up/micro loans disbursed	£13m	£17m	£38m	£52m	£64m
Total value of SME loans disbursed	£10m	£13m	£14m	£20m	£34m
Total value of loans disbursed	**£23m**	**£30m**	**£52m**	**£72m**	**£98m**

Loans to Social Enterprises 2011-2015

	2011	2012	2013	2014	2015
Total number of loans disbursed by responsible finance providers	123	177	204	261	325
Total value of loans disbursed by responsible finance providers	£6m	£10m	£13m	£12m	£21m
Total number of loans disbursed by social banks	269	170	102	109	129
Total value of loans disbursed by social banks	£140m	£135m	£35m	£66m	£106m
Total number of loans disbursed to social enterprises	**392**	**347**	**306**	**370**	**454**
Total value of loans disbursed to social enterprises	**£146m**	**£145m**	**£48m**	**£78m**	**£126m**

Loans to Individuals 2011-2015

	2011	2012	2013	2014	2015
Total number of loans disbursed	20,652	28,992	40,562	41,938	45,185
Total value of loans disbursed	£8.3m	£11.4m	£19.4m	£18.9m	£21.5m

Loans to Homeowners 2011-2015

	2011	2012	2013	2014	2015
Total number of loans disbursed	516	1,420	541	584	677
Total value of loans disbursed	£5m	£13m	£4m	£4.3m	£5.3m

Lending pipeline and conversion rates

Enterprise loan pipeline and conversion rates

	#	Conversion rate	£	Conversion rate
Enquiries for finance	48,860	-	£396m	-
Applications	17,965	37%	£165m	42%
Approvals	12,340	69%	£104m	63%
Dusbursals	11,440	93%	£98m	94%

Social Enterprise loan pipeline and conversion rates

	#	Conversion rate	£	Conversion rate
Enquiries for finance	1,967	-	£548m	-
Applications	721	37%	£224m	41%
Approvals	516	72%	£159m	71%
Disbursals	454	88%	£126m	79%

Personal loan pipeline and conversion rates

	#	Conversion rate	£	Conversion rate
Enquiries for finance	96,756	-	£46m	-
Applications	84,283	87 %	£41m	87 %
Approvals	45,192	54 %	£22m	53 %
Disbursals	45,185	100%	£22m	100%

Home Improvement loan pipeline and conversion rates

	#	Conversion rate	£	Conversion rate
Enquiries for finance	979	-	£7.2m	-
Applications	783	80%	£5.9m	81%
Approvals	677	86%	£5.3m	90%
Disbursals	677	100%	£5.3m	100%

Loan characteristics

Loan size, interest rate and term

	Average loan size	Average term	Interest rate (APR)
Enterprise	£8,570	3.5 years	12%
Existing Micro	£24,600	3.5 years	13%
Existing SME	£29,400	3.5 years	13%
SUL	£7,600	3.5 years	6%
NEA	£2,100	3 years	6%
Social Enterprise	£277,700	5 years	10%
Responsible finance provider	£63,200	5 years	10%
Social Bank	£818,000	N/A	N/A
Personal	£480	9 months	78%
Home Improvement	£7,800	6 years	4%

Security (secured against property or assets, or using a loan guarantee scheme such as EFG or EIF)

	Loans secured by number	Loans secured by value
Enterprise		
Existing micro/SME	6%	31%
SUL/NEA	0%	0%
Social Enterprise		
Responsible finance provider	38%	64%
Social Bank	100%	100%
Personal	0%	0%
Home Improvement	58%	60%

Services other than lending

One-to-one business mentoring	**51%**
Business training	**14%**
Money management & budgeting advice	**16%**
Letting business space	**14%**
Personal accounts	**8%**
Commercial accounts	**2%**
Bill payments services	**2%**
Money transfer	**2%**
Islamic shari'a finance	**10%**
Commercial mortgages	**8%**
Online application	**20%**
Back office services for other organisations	**14%**
Wholesale lending to other responsible finance providers	**8%**

Referrals

Top sources of referrals for responsible finance providers lending to **Enterprises**

Own marketing activities	67%
Start Up Loans Company	42%
Word of mouth/informal referrals	33%
Banks	33%
Accountants	21%
Broker	15%
Local Authority	15%
Enterprise Agency	15%
Job Centre	15%

Top sources of referrals for responsible finance providers lending to **Social Enterprises**

Own marketing activities	83%
Word of mouth/informal referrals	67%
Social investors	33%
Banks (not including the CDFA/BBA referral scheme)	25%
Social enterprise support organisations	17%

Top sources of referrals for responsible finance providers lending to **Individuals**

Word of mouth/informal referrals	100%
Own marketing activities	67%
Housing Association	67%
Local Authority	22%
Credit Unions	11%

Top sources of referrals for responsible finance providers lending to **Homeowners**

Word of mouth/informal referrals	100%
Own marketing activities	80%
Local Authority	80%

CDFI Funding & Portfolio Performance

Sources of funding 2011–2015

Source	2011	2012	2013	2014	2015
Central Government	18%	7%	26%	44%	48%
Banks	22%	10%	10%	20%	26%
Other (including individual investors)	10%	16%	20%	14%	2%
European Union	8%	38%	11%	13%	11%
Local Government	33%	24%	14%	7%	8%
Trusts/Foundations	10%	6%	1%	1%	<1%
Social Investors	0%	0%	11%	1%	4%
Housing Associations	0%	0%	7%	0%	<1%
Total received in the year	**£28.3m**	**£15.8m**	**£42.3m**	**£59.4m**	**£83.8m**

Earned and other income 2011–2015

	Earned Income – Interest and fees from lending	Earned Income – Income and fees from managing funds	Earned Income – Other	Other income (revenue and capital grants, donations)
2011	£14m	£2m	£8m	£7m
2012	£13m	£2m	£17m	£8m
2013	£15m	£5m	£7m	£7m
2014	£17m	£7m	£8m	£7m
2015	£19m	£6m	£7m	£6m

Portfolio performance by market 2012–2015

	2012	2013	2014	2015
Micro & SME lending				
PAR	19.2%	20.4%	7.7%	15.8%
Write-offs/provisions	14.3%	7.6%	4.7%	12.6%
Social Enterprise				
PAR	5.5%	1.4%	2.8%	2.7%
Write-offs/provisions	0.9%	0.6%	2.6%	2.5%
Personal				
Write-offs/provisions	6.0%	7.7%	11.2%	13.6%
Home Improvement				
PAR	0.1%	0.2%	0.6%	0.2%
Write-offs/provisions	<0%	<0%	0.1%	0.2%

Client demographics

Enterprise demographics

Previously turned down by high street bank	86%
Previously unemployed	61%
Women owned businesses	35%
BAME (Black, Asian or Minority Ethnic)	29%
Under 30 years old	16%
Located in the UK's 35% most disadvantaged areas	54%

Social Enterprise demographics

Previously turned down by high street bank	81%
Women owned businesses	31%
BAME (Black, Asian or Minority Ethnic)	23%
Under 30 years old	45%
Over 65	32%
Disabled	37%
Located in the UK's 35% most disadvantaged areas	72%

Individual demographics

Unemployed	52%
Social housing occupant	56%
Woman	62%
Living in a household with dependents under the age of 18	50%
Single parent	42%
BAME (Black, Asian or Minority Ethnic)	19%
Under 30 years old	31%
Located in the UK's 35% most disadvantaged areas	92%
On household incomes of less than £15,000	55%

Homeowner demographics

Unemployed	66%
Woman	31%
Over 65 years old	59%
BAME (Black, Asian or Minority Ethnic)	10%
Disabled	12%
Located in the UK's 35% most disadvantaged areas	4%
On household incomes of less than £15,000	41%

Lending outcomes

Enterprise lending outcomes

	#
Number of businesses created	9,854
Number of businesses safeguarded	1,225
Jobs created (FTE)	14,433
Jobs safeguarded (FTE)	5,431
Business clients mentored	7,457
Business clients trained	4,628
Increase in clients' turnover	£147m

Social Enterprise lending outcomes

	#
Number of social enterprises created	49
Number of social enterprises safeguarded	382
Jobs created (FTE)	924
Jobs safeguarded (FTE)	4,509

Personal lending outcomes

	#
Number of clients given financial capability support/advice	30,853
Number of clients helped pay bills	2,419
Number of clients helped to pay down existing debt	6,332
Number of clients who could now cover transport costs	3,090
Number of clients helped pay for emergencies	8,857
Number of clients helped pay for special/unexpected events	18,773
Number of clients helped to pay for other non-discretionary costs	5,330

Home Improvement lending outcomes

	#
Number of homes brought up to a decent standard	566
Number of clients able to stay in their homes	222