Responsible Finance

The industry in 2019

We are building a strong responsible finance sector, so that capital can be invested into communities to transform lives.

Our members create positive economic, social and environmental impact within communities that are not adequately served by mainstream financial service providers.

This report compiles the achievements of our members over the course of 2019. The changing context of the United Kingdom over the coming years means that an ongoing commitment to the responsible finance industry is more important than ever.

About Responsible Finance

We are the voice of the responsible finance industry. We support a strong network of responsible finance providers – primarily Community Development Finance Institutions (CDFIs) – which drive inclusive growth across the UK by lending to those excluded from mainstream sources.

Our members provide affordable finance to individuals, businesses, social enterprises and communities. These customers would otherwise struggle to access finance – or to do so at a fair rate – from mainstream lenders.

Responsible finance providers are professional social enterprises which re-invest profits to help more people and businesses access finance.

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.

About this publication

Responsible Finance: The Industry in 2019 is based on a survey conducted by Responsible Finance which was completed by 31 responsible finance providers. The reporting period was 1st April 2018 to the 31st March 2019. The survey has been conducted annually since 2003 and was previously known as Inside Community Finance.

The report was written by Eleanor Pughe with Jamie Veitch.

Acknowledgements

We would like to thank the Start Up Loans Company and all the responsible finance providers that gave us vital information on their activities and impact for this report.

We would also like to thank all our funders, including our founding patron, CCLA Investment Management, for their support over the last year.

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Message from the Chief Executive

Across the UK in 2019, people, businesses and communities used responsible finance to achieve their ambitions, and it had a real impact. The sector's investment - £78 million to over 4,200 SMEs, £93 million to almost 400 social enterprises, £24 million in over 35,000 loans to individuals, and £3.3 million to over 200 homeowners - drove local growth that was both inclusive and sustainable.

Responsible finance providers are embedded within their communities and invest into every region which can go a long way to reduce the UK's geographic disparities. In 2019 they created and protected 13,800 good jobs and helped their customers build wealth by saving £7.5 million in interest repayments to high-cost lenders. The sector is committed to its brand of 'responsible', and that comes out strongly in the case studies of the innovative businesses, inspirational social enterprises and resilient people they support.

We know that the sector can continue to scale up this impressive impact. The demand is there and growing, but having the right environment is crucial. The fall in lending in 2019 from previous years highlights the need for this; our calls for sustainable funding into the sector, a fit for purpose Community Investment Tax Relief including an extension to personal lenders, and replacement of EU funds through the Shared Prosperity Fund, will create a healthy and supportive environment for responsible finance providers to thrive.

New initiatives in place and emerging, such as Fair4All Finance and the Big Society Capital Community Investment Enterprise Facility, are promising developments in this space. Especially in times where political and economic uncertainty compound existing financial stress, we must continue to build on initiatives like these that scale the sector so that everyone who needs responsible finance can access it.

Thank you to all the members who provided information, and thank you to our members, funders and corporate patrons for their support which makes Responsible Finance's work possible.

Theodora Hadjimichael

Foreword from Fair4All Finance

Imagine a financial system that works as well for those with unpredictable incomes and lives as it does for those with more predictable financial situations. This report from Responsible Finance shows the power of investment in this area to change lives for the better.

What's our purpose? Fair4All Finance has been established as an independent organisation with a purpose to increase the financial wellbeing and resilience of people in vulnerable circumstances through access to appropriate financial products and services. Our funding has come from the Dormant Assets Scheme - money that people hadn't noticed was there being applied to make a difference to those for whom every £1 counts.

How we'll play our part? As this report shows there is already great work in play. The opportunity we're focusing on first is to develop a scaled and sustainable affordable credit market for individuals. We call it a 10x challenge, recognising the difference in scale of affordable credit to the high cost market. Our focus is to identify the optimal approaches to serving these consumers, and use this insight to support providers to scale, to capacity build and to innovate new products and services.

Working together we can build on the strong foundations to create a new normal - where consumers in vulnerable circumstances have products and services designed around what they need to meet both their short-term needs and to build their long-term wellbeing.

Sacha Romanovitch, CEO

Foreword from Big Society Capital

At Big Society Capital, we believe that Community Development Finance Institutions (CDFIs) play a key role in increasing the supply of capital to social enterprises, underserved small businesses and individuals to help improve people's lives across the UK.

We've seen the flow of loans to social enterprises grow by 64% over the last three years to address some of society's most entrenched social challenges. Social enterprise lending CDFIs play an important role in this area, having supported almost 400 social enterprises in 2019.

We're particularly pleased to see the positive market developments in the enterprise lending CDFI space to enable them to help more underserved small businesses survive and thrive in their communities. This is especially the case in left-behind communities where small businesses are an important part of the local economy, both as employers and generators of local wealth. An early indicator of this impact is that of the £9.5 million CDFIs have lent through the Big Society Capital supported Community Investment Enterprise Facility, 53% of small businesses are in the bottom 35% of the most deprived areas as defined by IMD and 70% of small businesses are in the bottom 50%.

We believe there is an opportunity to significantly grow the social and economic impact of CDFIs' enterprise lending. However, the right support and environment is needed. We're encouraged that others are increasingly sharing this view, as shown through the activity of the Community Investment Steering Group.

As stakeholder interest increases, the evidence base will gain greater importance to increase confidence and support learning amongst CDFIs. We were pleased to publish lessons from the USA earlier this year with a group of CDFIs and look forward to building on the evidence base by sharing the initial findings of the Sheffield Hallam University evaluation next year.

Responsible Finance's 2019 Industry Report sets the scene for the difference CDFIs are making to people's lives and communities up and down the country, and we look forward to seeing this grow in future.

Rebecca MacDonald, Investment Director

Industry overview

The industry in 2019

In 2019, the responsible finance industry lent £200 million to 40,000 businesses, social enterprises and individuals.

Of this:

- **£78 million was lent to over 4,200 businesses, supporting inclusive growth across the regional economies that make up the UK.**

- **£93 million was lent to almost 400 social enterprises, creating value that is shared across communities.**

- **£24 million was lent in 35,000 loans to individuals, lending a helping hand to people to smooth fluctuations in their income and expenditure, and saving low-income households over £7.5 million in interest payments.**

- **£3.3 million was lent to over 200 homeowners, enabling people to bring their homes up to a decent standard.**

The UK is facing a number of challenges. Economic stagnation, social division, the increasing concentration of wealth and the impending climate crisis are affecting communities across the UK. In addition, political uncertainty and welfare reform have further complicated the picture for low-income households, SMEs, microenterprises, the self-employed, and social enterprises.

Responsible finance providers transform under-served and financially excluded communities through their use of finance, facilitating inclusive economic growth, financing sustainable social enterprises, and bridging gaps between income and expenditure for consumers. They are needed now more than ever.

What are responsible finance providers?

Responsible finance providers are professional social enterprises that re-invest their profits to help more people and businesses to access finance. Their mission is to deliver responsible, affordable lending to those who would otherwise struggle to obtain funding from mainstream lenders.

There are currently around 50 responsible finance providers operating across the UK in four markets: business, social enterprise, personal and home improvement lending.

Who do they serve?

Responsible finance providers open up access to finance to those who cannot borrow from mainstream lenders.

Businesses often struggle to access finance from mainstream banks if they are deemed high-risk due to a lack of trading history or insufficient assets for security. Responsible Finance providers adopt a flexible approach to determining the viability of a business, and can often provide support when mainstream lenders can't.

Social enterprises state that access to appropriate finance is their biggest barrier to growth and sustainability. As social enterprises themselves, responsible finance providers understand their needs and are able tailor their products and services accordingly. As well as ensuring the social enterprise is viable, responsible finance providers assess loan applications based on the social impact that the enterprise will create.

People on low or fluctuating incomes or with low credit scores are often turned down for mainstream credit. Responsible finance personal and home improvement lenders serve some of the lowest income and most financially vulnerable households in the UK, such as the unemployed, benefits recipients and single parents.

How do they do it?

Responsible finance providers are ethical entities with a knowledge of local markets and networks, and expertise in dealing with public funds.

For responsible finance providers, transparency and affordability are key to responsible lending. Part of treating customers fairly is ensuring that before taking out a loan the customer understands the cost and terms and how that will impact on their personal and/or business's finances. Responsible finance providers will not lend to a customer if debt and its associated costs will make the customer worse off, or if it will not improve the business's chance of success.

In addition to loan finance, responsible finance providers offer a range of additional services and products, success as business mentoring, money advices and access to savings facilities.

Support for the industry

The responsible finance industry is making great strides towards sustainability, and there have been a number of initiatives over the years from the Government and key stakeholders which are enabling it to flourish. These are some examples:

Fair4All Finance[1] was founded in February 2019 in response to the Government's commitment to allocate dormant assets money to financial inclusion initiatives. Its initial focus is on addressing the problem of access to affordable credit by providing support and funding for the affordable credit market. As part of this, it is working closely with Responsible Finance and our members on a number of initiatives. In July 2019, Fair4All Finance announced the five affordable credit providers which will join its pilot scale-up programme. Our members, Five Lamps / Conduit, Leeds City Credit Union and Moneyline were selected as three of the pilots, alongside Enterprise Credit Union and Fair for You.

In 2018 Big Society Capital established a national £30 million Community Investment Enterprise Facility for CDFIs, managed by Social Investment Scotland. The fund is intended as a proof of concept facility to test new models of funding for CDFIs that could attract other socially motivated investors[2]. So far, the facility has invested in 4 responsible finance providers. The Centre for Regional Economic and Social Research at Sheffield Hallam University[3] will undertake an evaluation over the life of the facility with a focus on financial, social and economic performance, and any shifts in the CDFI sector.

In November 2019 the Community Investment Steering Group (of which Big Society Capital is a member) set out an economic, social and financial case for investing in CDFIs. Their report, Scaling Up Community Investment in the UK, describes "quantitative and qualitative evidence on the social and economic impact CDFIs are creating." It presented a vision to increase the social and economic impact our enterprise lending members create in underserved communities through increased capital to the sector, and an "ambitious but realistic target" to double CDFI annual lending growth – if the "right supportive environment" were to exist[4].

Carnegie UK Trust launched a £1 million fund to help tackle the poverty premium for low income borrowers in Scotland, in partnership with Social Investment Scotland. The fund aims to help more people access affordable credit, delivered on a not-for-profit basis by social enterprises, including responsible finance providers[5]. The Scottish Government added an additional £1 million to the fund in March 2018.

Community Investment Tax Relief (CITR)[6] has been successful in stimulating significant levels of private investment in disadvantaged communities through accredited responsible finance providers. CITR provides a tax relief to individuals and companies that invest in accredited responsible finance providers. The investment is then onward lent by the accredited body into enterprises that meet the scheme criteria. The aims of CITR are: to stimulate private investment in disadvantaged communities; and, to support a thriving community development finance sector[7].

The Enterprise Finance Guarantee (EFG)[8] is a loan guarantee scheme to facilitate lending to viable businesses that have been turned down for a normal commercial loan due to a lack of security or a proven track record. It provides the lender with a government-backed 75 % guarantee against the outstanding facility balance, potentially enabling a 'no' credit decision from a lender to become a 'yes'. A number of enterprise lending responsible finance providers are accredited EFG lenders.

Seven responsible finance providers are involved in delivery of the Northern Powerhouse Investment Fund[9], Midlands Engine Investment Fund[10] and the Cornwall and Isles of Scilly Investment Fund[11]. All three funds aim to transform the finance landscape for smaller businesses in each region and realise its potential to achieve economic growth through enterprise. They are a collaboration between the British Business Bank and the Local Enterprise Partnerships in each area., and are supported financially by the European Union using funding from the European Regional Development Fund.

The Start Up Loans Programme[12] is a government-backed scheme helping individuals start or grow a business in the UK. Alongside the low-interest loan, successful applicants can access free mentoring from experienced advisers. Responsible finance providers create considerable impact through their delivery of the Start-Up Loans programme.

The Regional Growth Fund (RGF)[13] programme aimed to increase access to finance for small businesses after the financial crisis. £30 million was allocated to the responsible finance sector, matched by £30 million from Unity Trust and the Co-operative banks. By 31st December 2018, this fund had supported thousands of businesses and jobs, easily meeting the targets set by the Government. 91 % of the fund was lent outside of London into sectors that provide goods and services to the economy or support local supply chains. RGF has demonstrated success in scaling the sector to meet the gap in finance that persists a decade after the financial crisis.

The future of the industry

Responsible Finance calls on the Government to continue its support of the industry by endorsing the following commitments:

1. Ensure there is long term and sustainable funding for business lenders, social enterprise lenders and personal lenders.

This will ensure the sector has the capacity and capital to expand its reach and impact. A strong and capitalised responsible finance industry will build wealth, help move people out of poverty and reduce inequality of opportunity. We welcome the creation of Fair4All Finance, and will work with them to help scale the personal lending sector.

2. Update Community Investment Tax Relief to ensure it remains fit for purpose.

Tax reliefs and guarantee schemes are tools widely utilised by the responsible finance industry to leverage commercial investment, thus increasing our impact. These tools need to be kept competitive to maximise social and economic return. There are a number of technical adjustments that we hope we can work with the Government on.

3. Launch a tax relief for the personal lending sector to enable greater investment into responsible finance providers that are competing head on with high cost credit providers.

Community Investment Tax Relief (CITR) has proved effective at attracting investment into enterprise lending responsible finance providers. Personal lending by responsible finance providers do not currently qualify for access to CITR tax relief, therefore we propose extending the tax relief for use by the personal lending sector.

4. Replace access to European Union funding and facilities through the UK's new Shared Prosperity Fund.

It is vital that EU facilities which incentivise commercial investment into the responsible finance sector, namely EaSI, COSME and ERDF, are replaced in full by the UK's Shared Prosperity Fund.

Responsible finance providers support inclusive and sustainable growth

People and place are key foundations in the Government's Industrial Strategy, and sustainable economic development is central to this. The UK is transitioning to net zero greenhouse gas emissions by 2050 in response to the burgeoning climate crisis. It is essential that this transition is just:

'A just transition is one that ensures that climate action and efforts to build a sustainable economy are designed and delivered so that they improve social justice, with the interests of workers, communities and consumers particularly in mind'[14].

Small and medium enterprises are particularly significant in deprived areas. They contribute to local regeneration, employment, innovation and social cohesion[15], but can often lack capital and support. Whilst the shift to a sustainable economy in the UK will boost prosperity, there will be transitional challenges for workers and communities and the gains will not be automatic[16]. The responsible finance industry is well-placed to help local economies adapt and build resilience, to ensure a transition which delivers 'fairness, social justice and greater wellbeing'[17].

At the same time, the United Nations Sustainable Development Goals act as a blueprint to achieve a better and more sustainable future for all. Responsible finance providers directly contribute towards achieving most of the goals. They contribute indirectly too. Responsible finance providers' customers – businesses and social enterprises – are creating jobs alongside sustainable economic, social and environmental impact, all enabled by the support from our members.

These are some of the ways responsible finance providers contribute to reaching the sustainable development goals:

Goal	Definition	How responsible finance providers fulfill this goal
1 NO POVERTY	**End poverty in all its forms everywhere**	Responsible finance providers have a proven track record in lending to the most deprived parts of the UK. They support pathways out of poverty by giving people access to appropriate financial services. Responsible finance business lenders help disadvantaged microentrepreneurs create opportunities and support job creation. Responsible finance social enterprise lenders do this too, and actively invest in projects with specific social objectives, such as training the long-term unemployed and helping them gain meaningful employment. Personal lending responsible finance providers help to alleviate the effects of poverty by offering an affordable option for smoothing out the effects of fluctuating income and expenditure. They offer individuals an alternative to the exploitative lenders that may be their only other options. Responsible finance home improvement lenders help people to make essential repairs to their homes to make them habitable.

2 ZERO HUNGER	**End hunger, achieve food security & improved nutrition & promote sustainable agriculture**	Among the world's richest nations, the UK has some of the highest levels of hunger and deprivation[18]. People living in the most deprived areas of the UK have far worse health outcomes than those who live in the most affluent areas. Many people struggle to afford healthy and nutritious food. Responsible finance providers work to distribute economic prosperity to all parts of the UK. They exist to serve the underserved. By working to alleviate the effects of poverty and spread wealth, they help to ensure that everybody has the means available to access nutritious food. Many viable food-related projects could not have started or grown without the support of responsible finance providers.
3 GOOD HEALTH AND WELL-BEING	**Ensure healthy lives & promote well-being for all at all ages**	The impact of financial exclusion on health and well-being can be devastating. The poorest in society are often excluded from affordable finance and sometimes have to resort to high-interest credit, creating a cycle trapping them in poverty. This can increase mental health issues such as stress and anxiety, harm well-being and connection with others, and lead to substance abuse[19]. Personal lending responsible finance providers provide credit at affordable rates on fair terms. They promote financial wellbeing and literacy and encourage saving. Responsible finance lending to businesses and social enterprises provides an avenue for people to build rewarding careers. Rewarding careers foster thriving communities.
4 QUALITY EDUCATION	**Ensure inclusive & equitable quality education & promote lifelong learning opportunities for all**	Most responsible finance providers offer wrap-around services to their customers. Many responsible finance business and social enterprise lenders offer business mentoring and support, educating micro and social entrepreneurs and helping them innovate. Personal lending responsible finance providers often provide customers with financial capability education, improving the quality of customers' lives by equipping them with vital money management skills.
5 GENDER EQUALITY	**Achieve gender equality & empower all women and girls**	Responsible finance providers monitor and report on their lending demographics. They offer finance to female individuals and female-led businesses and social enterprises. Research continues to demonstrate that female business owners continue to be underrepresented or disproportionately excluded by traditional finance providers.
7 AFFORDABLE AND CLEAN ENERGY	**Ensure access to affordable, reliable, sustainable & modern energy for all**	Several social enterprise responsible finance providers specialise in supporting community energy projects, developing skills and capacity and unlocking wider investment. Hundreds of clean, green energy projects would not exist without finance from them. Responsible finance home improvement lenders provide finance to homeowners to give their homes energy efficiency upgrades. Personal lending responsible finance providers offer advice on home energy bills for their customers.
8 DECENT WORK AND ECONOMIC GROWTH	**Promote sustained, inclusive & sustainable economic growth, full & productive employment & decent work for all**	Microfinance is a key enabler of sustainable economic development. Access to finance and financial exclusion continue to be significant barriers to growth and long-term prosperity in local economies across the UK, at the individual, household, and business levels. Responsible finance providers develop skills, confidence and resilience, enable inclusive growth and sustainable job creation, and create work and income which circulates in local economies.
9 INDUSTRY, INNOVATION AND INFRASTRUCTURE	**Build resilient infrastructure, promote inclusive & sustainable industrialisation & foster innovation**	Access to affordable and appropriate finance is a key component for businesses across industrial sectors when making strategic decisions, and restricted access to finance has implications for developing strong and resilient industrial sectors. Finance gives the people with the ideas the means to innovate and grow. Geographical disparities in the provision of finance mean businesses in some areas of the UK have greater access to financial services than in others, particularly impacting on business confidence and the rate of start-ups in sub-regions. All responsible finance providers support local economic development across the UK, and some act as delivery partners for geographically focused funds.
10 REDUCED INEQUALITIES	**Reduce inequality within & among countries**	The UK has an uneven economic landscape. All responsible finance providers work to reduce inequality across the UK by providing opportunity in the form of finance, mentoring, training and other support to people from the most deprived communities, who are often left out from mainstream sources. This enables them to lift themselves out of poverty thereby helping to create a more equal society.
11 SUSTAINABLE CITIES AND COMMUNITIES	**Make cities & human settlements inclusive, safe, resilient & sustainable**	Local funding can develop resilience and help to attract private capital at scale. Responsible finance providers invest in the social fabric of places, helping to transform communities to become inclusive and socially sustainable. Responsible finance social enterprise lenders support social enterprises which are outperforming traditional business in their diversity, inclusiveness, growth and innovation[20].
12 RESPONSIBLE CONSUMPTION AND PRODUCTION	**Ensure sustainable consumption & production patterns**	Numerous waste reduction, recycling and sustainable manufacturing projects – run by businesses, charities and social enterprises – have been enabled and developed thanks to business and social enterprise responsible finance providers.
17 PARTNERSHIPS FOR THE GOALS	**Revitalise the global partnership for sustainable development**	Responsible finance providers have a collaborative culture, fostering positive partnerships to implement sustainable development within localities and regions, across the UK, in Europe and worldwide.


Small business
lending

Highlights from 2019

Enterprise lending responsible finance providers use finance creatively and positively to support inclusive growth and increase the social and economic wellbeing of the communities they serve.

£78 million lent to 4,200 businesses

3,400 businesses created

8,300 jobs created and safeguarded

Many viable small businesses, particularly those in deprived areas, are unable to access mainstream finance to start-up, innovate and grow. Recent research found that a lack of available funding holds back one fifth of UK SMEs, with those impacted missing out on income worth an average of nearly £80,000 per year[21]. Responsible finance providers operate across the nine English regions and three devolved nations, offering access to finance in left-behind communities.

Responsible finance providers found that the businesses they lent to reported an average £320,000 increase in turnover.

The latest SME Finance Monitor found that more SMEs are now using finance than those which meet the definition of a permanent non-borrower. Despite this, the success rate for bank loans continued to decline and is now at just 63 % . Among those declined, a third were not able to expand as they had planned, and a similar proportion found running their business more difficult[22].

Businesses often struggle to access finance from mainstream banks if they are deemed high-risk due to a lack of trading history or insufficient assets for security. Responsible Finance providers adopt a flexible approach to determining the viability of a business, and can often provide support when mainstream lenders can't.

In 2019, 93% of the viable businesses lent to by responsible finance providers were previously declined by a mainstream bank.

A recent report found that Community Development Finance Institutions could increase their lending to underserved small businesses to £250 million annually if given the correct support. This would enable the sector to have an even bigger impact on supporting inclusive growth and delivering social and environmental impact.

Responsible finance providers are key delivery partners for the British Business Bank's Start Up Loans Programme, which recently hit its £500 million milestone. They also deliver the Northern Powerhouse Investment Fund, Midlands Engine Investment Fund and Cornwall and Isles of Scilly Investment Fund. They are well placed to deliver such programmes because of their local-market knowledge and reach, and their provision of mentoring and support alongside finance.

One of the industry's offers as a lender is its relationship based model; 75% of business and social enterprise lending responsible finance providers offer mentoring and advice.

New wave of funding for seaweed farm

A Scarborough couple were able to set up England's first commercial seaweed farm thanks to a £25,000 loan from responsible finance provider the Business Enterprise Fund (BEF).

SeaGrown, whose farm is based in the North Sea four miles out of Scarborough, was the brainchild of former fisherman, diver in the Navy and navigating officer Wave Crookes and marine scientist Laura Robinson, who met while on a Royal Research Ship in Antarctica. The duo were inspired to set up a business harvesting seaweed after discovering many of its surprising qualities.

Their seaweed was initially harvested from rocks to create products for food, baths, pets and restaurants. SeaGrown will continue to hand harvest seaweed, but in order to sustainably increase levels of production, the couple began the venture into seaweed farming with support from the Coastal Communities Fund. After seeing a significant increase in demand for their products and wanting to expand into bigger industries such as biochemicals, food additives, biofuels and plastics, they approached BEF for funding. This allowed them to purchase essential equipment.

"Seaweed has many phenomenal qualities, including soaking up of carbon, oxygenating and de-acidifying seawater, its ability to create biodegradable plastic and cut down ruminant animal methane emissions by up to 80%. All it requires is sea and sun to grow, so sustainability is at the heart of our business".

Wave Crookes, Director at SeaGrown.

Rocket boost for Helston organic plant firm

Online and mail-order organic plant business Rocket Gardens sells more than a million organic plants per year and has created a plant growing and mail order packaging system which is 100% plastic free - the first UK mail order edible plant supplier to have done so.

"Ultimately the best way to reduce food miles and the cost of buying food is to grow it yourself and that's what we want to encourage people to do" Mike Kitchen, Founder.

Launched in 2006, Rocket Gardens has developed from a 2-acre smallholding into a 125-acre purpose-built growing facility with 22 modern poly tunnels. Entrepreneur Mike Kitchen launched Rocket Gardens after growing his own organic vegetables at home whilst raising his two young children. That sowed a seed for a business growing and selling organic seedlings in "instant veg packs" ready for planting. Kitchen is passionate about building a sustainable business that educates and encourages healthy lifestyles.

Rocket Gardens' success story has been supported by responsible finance provider SWIG Finance which has made three investments over the last two years. This 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. This investment has helped to realise a 50% increase in turnover, and the creation of four new jobs.

Stainless steel firm secures £60,000 MEIF finance

Stainless Metal Solutions Ltd (SMS) has been able to purchase new equipment and expand its team thanks to a £60,000 business loan from the Midlands Engine Investment Fund (MEIF). Run by father and son, Nigel and Jake Mason, Stainless Metal Solutions is a Cannock-based manufacturer of stainless steel metal components. The firm secured the funding from the MEIF WM Small Business Loan Fund, delivered by responsible finance provider BCRS Business Loans.

Nigel Mason, Director at SMS, said: "Benefitting from over 30 years' experience in supplying coil and sheet to UK and European markets, we have built an excellent reputation in our sector which has influenced recent growth."

Jake Mason, Co-Director at SMS, added: "Recent advancements in our sheet polishing department have given us a competitive advantage in the commercial kitchen sector – an area of growth for the firm that we seek to build on with this investment."

"We required funding to purchase new equipment, which has enabled us to advance our product range. This will not only help us boost sales, but also create two new jobs for local people, which is very important to us." Nigel Mason, Director.

The Midlands Engine Investment Fund project is supported financially by the European Union using funding from the European Regional Development Fund (ERDF) as part of the European Structural and Investment Funds Growth Programme 2014-2020 and the European Investment Bank.


Social enterprise
lending

Highlights from 2019

Responsible finance providers invest in the social fabric of places, creating value that is shared across communities. Responsible finance social enterprise lenders support social enterprises who are outperforming traditional businesses in their diversity, inclusiveness, growth and innovation[23].

£93 million lent to 390 social enterprises

38 social enterprises created

5,500 jobs created and safeguarded

Social enterprises are businesses whose mission is to tackle and prevent social problems. The social enterprise sector in the UK is vital to the economy and to the SME sector; the value they create is shared across communities and they champion environmental responsibility and sustainability. They lead the way for businesses in their diversity and vibrancy; employing those who are disadvantaged and reinvesting profits to deliver their mission. 40 % of social enterprises are led by women compared to only 17 % of SMEs. In addition, 13 % of social enterprises are BAME led and 35 % have BAME directors[24].

At the same time, social enterprises are commercially strong. Despite the turbulence of recent years, social enterprises are increasing in size and hiring more staff. More than half of social enterprises grew their turnover in the last year, and 56 % introduced a new product[25].

Access to appropriate finance is the biggest barrier for both start-up and established social enterprises when it comes to their sustainability and growth[26]. As social enterprises themselves, responsible finance providers are aware of the funding and operational needs of non-profit organisations. This enables them to tailor their products and services to this market, offering finance to start-up and grow socially and environmentally impactful businesses.

There are two categories of responsible finance provision to social enterprises:

- Traditional responsible finance loan funds lend to social enterprises that are seeking less than £250,000, have a limited track record or inadequate security, and are unlikely to be able to secure finance from mainstream sources.
- Social banks lend to larger and more established social enterprises and charities, typically seeking over £250,000 with security .

Ethical apparel which minimises environmental impact

A batch manufacturer of textiles, apparel and accessories, Kalopsia is a social enterprise which started as an artists' collective in 2012 and morphed into a textile producing Community Interest Company in 2016. The entrepreneurial journey for Nina, Adam and Kalopsia has been supported by three rounds of investment from Glasgow-based responsible finance provider, DSL Business Finance.

It makes exciting products (including for brands you will have heard of), supports the textile industry and the people in it, and minimises waste and environmental impact. And it demonstrates this is possible as a sustainable business.

Kalopsia was established by Adam Robertson and Nina Falk. It now competes against traditional businesses, selling to mills, retailers and independent businesses nationally and internationally. It strives to minimise the environmental impact of the business and manufacturing operations. The business, which has developed highly resource-efficient manufacturing techniques for its products such as accessory bags and clothing, doubled its turnover from 2017 to 2018.

It has partnered with industry in sustainability projects, run pilots for a Government environmental agency, designed costumes for films, constructed murals and manufactured products for international clients.

"It was also the social aspect - to speak with a person who wasn't wanting you to just tick boxes – it felt like a partnership and it has been that which has pushed us and pushed our growth. Our sales have ramped up, we have new staff, new equipment – and that's all because of responsible lenders - we could not sing the praises any higher as a system!" Adam Robertson, Founder.

Constantly evolving to meet local needs

Doncaster Refurnish is part of a community's continuing efforts to pull itself together in the aftermath of pit closures. Responsible finance provider the Key Fund has supported its journey along the way.

Doncaster Refurnish collects, restores and sells furniture to low income families, and works to alleviate poverty, as well as benefit the environment. It offers employment and training to those on the margins of their local community, and rehabilitation and integration opportunities for prisoners due for release from Hatfield Prison, as well as placements for young offenders. It also offers handyman and support services to those in need, and a number of charities in the area.

Refurnish wanted to raise finance to purchase a large retail outlet in a highly disadvantaged area of Doncaster. It also has projects working with schools where people with special educational needs or disabilities come in on work experience placements or to increase social interaction. Constantly evolving to meet local needs, they recently set up a women's group with a focus on anxiety issues. They make crafts from the furniture, and clothing for charity, boosting their confidence and sense of well-being. On average, Refurnish makes 13,500 items of bulky household waste collections every year.

"With every Key Fund investment we've received we've grown and done something bigger. It's enabled us to spread the risk a bit in financial terms and take on a challenge. Every time we've grown we've recruited more staff. Currently we're at 58 staff; 98% of whom were unemployed before they joined us. Turnover is £1.3m," Andy Simpson, CEO.

Giving a second chance to disadvantaged young people

The Alternative Learning Company is an educational establishment which gives a second chance to hard to reach and disengaged young people, children who aren't meeting their potential in school and those whose needs aren't met by mainstream education. In many cases, this means taking on pupils from difficult and unsettled backgrounds,. This is no small task, but financial assistance from Social Investment Cymru's Social Business Growth Fund has helped The Alternative Learning Company to pull these children back from the brink and give them a springboard towards a brighter future.

Working in partnership with Carmarthenshire County Council and local schools, last year was the first year of operation for this project, taking in pupils from year 10 and 11 whose needs were not being met by mainstream education. Several of these young people were in danger of becoming victims of sexual exploitation and many had substance abuse issues. Quite a few weren't living with parents (who may themselves have health related challenges to contend with), and a lot of young people had a wide range of social/emotional difficulties whilst others have ADHD or autism.

Coming from such troubled backgrounds, it's unsurprising that many of the children taken on by the ALC presented a wide range of challenging behaviours. To begin with, they struggled with children coming in to school intoxicated and had to persuade them to leave the drink and drugs behind.

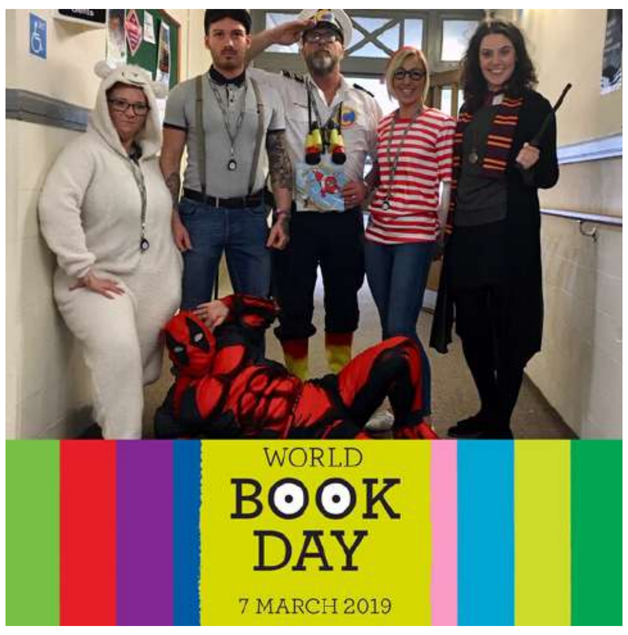
Their approach is to take away the barriers you'd find in a typical school environment – no one is asked to call anyone miss or sir, and there's a strong focus on team building activities where whatever is asked of the children is also asked of the adults. The aim is to build a family atmosphere whilst offering a curriculum that complies with Welsh Government standards.

When learning about the planets and the solar system, one pupil remarked "I don't want to learn about these countries anyway, I'm not going there". Another didn't know that beef came from cows, others didn't realise that chips came from potatoes, and this is before you address basic literacy and numeracy issues.

This is one of the challenges – there's such a wide range of backgrounds, experiences and abilities and somehow a curriculum must be tailored to that. Pupils might not know their times tables or their alphabet, so there can't be one big curriculum. They try, but to be successful they must adapt for the individual.

This is the key to The Alternative Learning Centre's success. Of the 15 year 11s they took on in their first year of operations, all of them predicted to become NEET (Not in Education, Employment or Training), every single one has gone on to further education, employment or training, which is truly astonishing.

50 % of them finished with attendance of 70 % or above and completed 191 units from Agored Cymru, leading to 36 qualifications. They also engaged with community work such as walking up Pen y Fan to raise money for charity and raising money for Comic Relief. And this is after the first few weeks, which were described as "absolute bedlam" with police being called in on 8 separate occasions. In less than a year this has been completely turned around.



"You know in school, if you do something wrong you get sent out, but here they give you a chance. And I'm not surprised that everyone's still here cos they give them chances.

"It's so much better than school. I wouldn't go back to school. Everyone's nice here. I think I've learned more here than in school. I just used to be naughty and get sent out. I come here every day. I'd even come here at the weekends if I could... but probably not Sunday though."

Marcus, a pupil who started at the Alternative Learning Company last year.

Personal lending

Highlights from 2019

Personal lending responsible finance providers help to alleviate the effects of poverty by offering an affordable option for smoothing out the effects of fluctuating income and expenditure.

£24 million lent in 35,000 loans to individuals

£3.3 million lent to 215 homeowners for repairs

The number of people with unpredictable earnings and with precarious jobs such as low-paid self-employment or on zero-hours contracts has increased to around 3.7 million[27]. Alongside this, the implementation of Universal Credit has damaged the financial resilience of many vulnerable and low-income households, with some predictions that the worst impacts are yet to come.

Low-income households pay a poverty premium of several hundred pounds a year for many essential utilities and services. Sadly, they usually pay the highest rates for credit and often only have high-cost options available to them. Access to affordable credit is not a luxury. It is a necessary tool which many low-income individuals and households use to smooth fluctuations in income and address unexpected calls on their finances.

Individuals must be empowered to take control of their finances. They must have affordable, appropriate and sustainable options available when unforeseen expenses and emergencies arise. This is particularly important given that 22 % of UK adults have less than £100 in savings[28]. The use of high-cost short-term Credit (HCSTC) has been increasing since 2016 despite a reduction in the number of lenders; £1.3 billion was lent in 5.4 million loans in the year to 30 June 2018[29].

In 2019, personal lending responsible finance providers saved their customers £7.5 million in interest payments, compared to if they had gone to a high-cost lender[30].

The FCA's figures show that five out of six HCSTC customers are working full time, and the majority live in rented properties or with parents[31]. This points to two of the key drivers of UK poverty and demand for payday loans: jobs lacking decent pay, prospects or security[32] and rising housing costs relative to income[33]. The nature of the gig economy and zero hours contracts exacerbates the effects of low pay, and people are often driven to seek high-cost loans to make ends meet.

In 2019, responsible finance providers helped 19,000 people pay for emergencies and unexpected events.

The consumer credit landscape has changed enormously since the FCA took over regulation in 2014. In 2018, payday loans company Wonga collapsed into administration, followed by the high-profile collapse of the owner of the UK's largest payday lender Quick Quid in October 2019. Whilst we welcome the end of the exploitative practices of these lenders, there is widespread recognition that the provision of unsecured credit is an essential service for many households. It is therefore crucial that there is a strong alternative finance sector, and responsible finance providers are a key part of this.

Responsible finance personal lenders engage with their customers meaningfully and only lend based on genuine affordability:

7/10 of them offer money management and budgeting advice, and 44% offer savings accounts facilities or access.

Responsible finance providers tend to serve relatively high-risk customers and must price to cover the risk of bad debt, which often leaves little money left over for investment in their product design and systems. Despite this, they are constantly innovating, designing new products to fit around the people they lend to, and forging partnerships with Fintechs. In addition, they are embracing the Open Banking revolution to improve customer experience and enhance affordability checks.

Supa gran's new wheels!

CONDUIT Lending Fairly. Changing Lives.

Miriam Dean is the 'adoptive Grandmother' of her community and when her mobility scooter broke everyone tried to come together to solve her problem.

One of her friends recommended applying for a personal loan with Conduit. Initially Miriam was a bit wary and unsure about taking out a loan but after going without a scooter for several months, she decided to contact Conduit.

Miriam went through her income and expenditure, collected the correct documents and quickly completed her application with the help of the call centre staff. Shortly after, she received her loan and was able to buy her mobility scooter.

After receiving her scooter the community came together and decided to get Miriam a little gift. They had bought her a number plate for new vehicle with her nickname 'Supa Gran' and she was ready to go! Miriam expressed how Conduit has saved an "old lady" from boredom.

"From the first phone call to receiving the loan the staff have been so helpful and I couldn't ask for more. They really helped me get the money I need with affordable payments that fit around me." Miriam, 'Supa Gran'.

When Eileen met Gillian and Kevin

55-year-old Eileen, a recovering alcoholic, had faced personal challenges but managed to stabilise her life thanks to ongoing support from Drink Wise. When Drink Wise recommended moving to a new home would help her recovery, they also encouraged her to contact Scotcash.

Eileen's housing association was supportive and keen to help her, but she needed a small loan to allow her to make improvements to her old house before she could move to a new home. Eileen made an appointment and applied at Scotcash's Glasgow office. Gillian, Scotcash's Loan Officer, approved a small loan of £250 and introduced Eileen to Kevin, Financial Inclusion Officer.

Eileen is financially much better off after coming to Scotcash and now aware of the support that is available to help her to improve her quality of life and meet the costs of her serious medical condition.

Kevin was able to meet with Eileen immediately after her loan application appointment and identified a number of key benefits which Eileen was eligible for. He also explained how – as a result of her vulnerabilities – she could access assistance through the Scottish Welfare Fund and from Glasgow City Council for a Discretionary Housing Payment (DHP) to help with one months' rental advance. In the meantime due to her ongoing health issues, a claim for Personal Independence Payment was submitted by Kevin – she was unaware that she should have been claiming these benefits or of the other support Kevin had identified.

Reducing Eileen's financial stress will directly and positively impact on her ability to deal with her medical condition, improving the quality of her life and helping her cope physically and mentally on a day to day basis. Scotcash will continue to support Eileen in her transition to her new home by providing on-going advice on her financial situation.

Eileen said that had she not come to Scotcash she would still be unaware of what support was available to her and although she felt apprehensive about attending her appointment, she was made to feel at ease. Eileen rated her experience of Scotcash as "very, very good" and said "I would have no qualms recommending Scotcash to anyone, definitely go as they all try to help out".

In 2019, responsible finance providers supported 200 families to bring their homes up to a decent standard by general repairs.

Thank you

We would like to thank all our members for their commitment to reporting the sector's impact.

THE BIG ISSUE INVEST
cwrt
BCRS BUSINESS LOANS
Charity bank a bank for good
FINANCING ENTERPRISE
FINANCING START UP ENTERPRISE
Business Finance
fair FINANCE
fredericksfoundation now you can.
Newable Business Finance
Places for People
Lendwise
streetUK the affordable finance company
FINANCE FOR ENTERPRISE
MONEYLINE
Key Fund Growing Enterprise in Communities
Let'sDoBusiness Finance
Scotcash™ approachable finance
UCIT Financing Social Enterprise
msif... msif.co.uk
Buddsoddiad Cymdeithasol Cymru Social Investment Cymru
WcVA CGGC
ART BUSINESS LOANS
Lancashire community finance
CO-OPERATIVE & COMMUNITY FINANCE supportive lending since 1973
PURPLE shoots little loans to grow ideas
SWIG FINANCE
Foundation East Finance and Support for Businesses
CONDUIT Lending Fairly. Changing Lives.
SIS Social Investment Scotland
DSL BUSINESS FINANCE LTD
bef Business Enterprise Fund

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Appendix

Loan disbursals, by number and value

Total lending , 2015 - 2019

	2015	2016	2017	2018	2019
Total number of loans disbursed	57,756	47,484	61,163	52,121	40,069
Total value of loans disbursed	£250,880,171.10	£242,237,486.00	£234,722,918.71	£254,257,655.07	£198,765,044.99

Loans to businesses, including start-up and micro loans, 2015 - 2019

	2015	2016	2017	2018	2019
Total number of loans disbursed	11440	9583	5072	5314	4205
Total value of loans disbursed	£98,032,501.96	£103,449,004.65	£67,194,129.90	£85,198,858.77	£78,380,514.13

Loans to social enterprises, 2015 -2019

	2015	2016	2017	2018	2019
Total number of loans disbursed by responsible finance providers	325	376	227	360	323
Total value of loans disbursed by responsible finance providers	£20,555,771.00	£29,521,962.29	£21,346,628.39	£23,489,191.85	£46,155,957.97
Total number of loans disbursed by social banks	129	179	136	115	67
Total value of loans disbursed by social banks	£105,502,703.00	£86,657,784.35	£120,350,914.78	£114,694,244.25	£46,617,542.89
Total number of loans disbursed to social enterprises	**454**	**555**	**363**	**475**	**390**
Total value of loans disbursed to social enterprises	**£126,058,474.00**	**£116,179,746.64**	**£141,697,543.17**	**£138,183,436.10**	**£92,773,500.86**

Loans to individuals, 2015 -2019

	2015	2016	2017	2018	2019
Total number of loans disbursed	45185	36957	55348	45903	35259
Total value of loans disbursed	£ 21,535,761.14	£ 19,781,277.83	£ 22,045,418.64	£ 26,121,496.31	£ 24,298,068.00

Loans to homeowners, 2015 -2019

	2015	2016	2017	2018	2019
Total number of loans disbursed	677	389	379	429	215
Total value of loans disbursed	£ 5,253,434.00	£ 2,827,456.88	£ 3,785,827.00	£ 4,753,863.00	£ 3,312,962.00

Loan characteristics

Loans to businesses

	Average Loan Size	Average Term (years)	Average Interest rate	Secured loans (#)	Secured loans (£)
Existing SME	£ 44,950.02	4.1 years	14.2 %	17.8 %	48.9 %
Micro & Other Start Up	£ 27,433.55	4.1 years	14.2 %	17.8 %	48.9 %
SULCO/NEA	£ 7,537.56	4.4 years	6.0 %	0.0 %	0.0 %

Loans to social enterprises

	Responsible finance provider	Social bank
Average loan size	£ 142,897.70	£ 695,784.22
Average term	6.3 years	N/A
Average interest rate	7.9 %	N/A
Secured loans (#)	73.6 %	Unknown
Secured loans (£)	22.7 %	Unknown

Loans to individuals and homeowners

	Alternative to high cost credit	Home improvement
Average loan size	£ 689.13	£ 15,409.13
Average term	9 months	10 years
Average interest rate	151.2%	5.1%
Secured loans (#)	0.0%	99.1%
Secured loans (£)	0.0%	99.8%

Services and referrals

Services other than lending

Online application	62 %
Personal lending responsible finance providers which offer money management and budgeting advice	7 out of 10
Business and social enterprise lending responsible finance providers which offer business mentoring	75 %
Savings accounts facilities or access (by personal lending responsible finance providers)	44 %
Equity/quasi equity	17 %
Letting business space	14 %
Back office services for other organisations	10 %
Commercial mortgages	10 %
Business training	7 %
Personal accounts facilities or access	3 %
Islamic Sharia Finance	3 %

Top sources of referrals for responsible finance providers

Own online marketing activities	27 %
Word of mouth	22 %
Own other marketing activities (including TV advertising)	10 %
Start Up Loans Company	9 %
Broker	6 %
Banks	5 %
Social enterprise support organisations	5 %
Online referral platforms	3 %
Enterprise agencies	2 %
Accountants	2 %
Local Authorities	2 %
Housing Associations	1 %
LEP	1 %
Other responsible finance providers	1 %
Jobcentre plus	1 %

Funding and portfolio performance

Earned and other income, 2015 - 2019

	Earned income - interest and fees from lending	Earned income - income and fees from managing funds	Earned income - other	Other income (revenue & capital grants, donations)
2015	£ 19,000,000.00	£ 6,000,000.00	£ 7,000,000.00	£ 6,000,000.00
2016	£ 21,000,000.00	£ 6,000,000.00	£ 130,000,000.00	£ 9,000,000.00
2017	£ 22,000,000.00	£ 7,000,000.00	£ 5,000,000.00	£ 8,000,000.00
2018	£ 23,000,000.00	£ 6,000,000.00	£ 3,000,000.00	£ 7,000,000.00
2019	£ 28,090,913.09	£ 4,920,472.20	£ 4,376,011.01	£ 3,951,350.00

Portfolio performance by market, 2015 - 2019

	2015	**2016**	**2017**	**2018**	**2019**
Micro and SME (non-Start Up loans lending)					
par	15.80 %	10.50 %	9.30 %	9.60 %	8.39 %
Write offs/provisions	12.60 %	6.20 %	9.00 %	10.50 %	10.82 %
Social enterprise					
par	2.70 %	1.90 %	3.70 %	2.20 %	3.62 %
Write offs/provisions	2.50 %	5.80 %	6.90 %	6.10 %	7.14 %
Personal					
Write offs/provisions	13.60 %	8.50 %	8.40 %	6.60 %	8.87 %
Home improvement					
par	0.20 %	0.50 %	0.10 %	0.60 %	0.35 %
Write offs/provisions	0.20 %	0.50 %	0.30 %	0.20 %	0.87 %

Lending outcomes

Business lending outcomes

	2019
Number of businesses created	3398
Number of businesses safeguarded	592
Jobs created (FTE)	6238.41
Jobs safeguarded (FTE)	2060.4
Average increase in business turnover as a result of the loan	£320,189.72
Businesses previously declined by a mainstream bank	93 %

Top three sectors financed
Manufacturing
Wholesale and retail trade, repair of motor vehicles and motorcycles
Accommodation and food service activities

Social enterprise lending outcomes

	2019
Number of social enterprises created	38
Number of social enterprises safeguarded	122
Jobs created (FTE)	846
Jobs safeguarded (FTE)	4657

Top five sectors financed
Community Development
Arts, culture and heritage
Employment support, training and advice
Housing and accommodation
Sport and leisure

Individual lending outcomes

	2019
Calculated amount saved customers compared to home collected credit/payday loans	£ 7,491,597.26
Number of customers given financial capability support and advice	8455
Number of customers helped to open a savings account	1363
Number of customers helped to pay bills	1032
Number of customers helped to pay down existing debt	683
Number of customers helped to pay for emergencies	8752
Number of customers helped to pay for transportation	2344
Number of customers helped to pay for special/unexpected events	10319
Number of customers recorded to have used a high cost lender in the last year	19771

Individual lending customers who were...	
Unemployed	48 %
Social housing occupants	50 %
Benefits recipients	64 %
Women	65 %
On household incomes of less than £15,000	52 %
Living in a household with dependents under the age of 18	50 %

Homeowner lending outcomes

	2019
Number of homes brought up to a decent standard	200
Number of customers able to stay in their homes	200
Number of loans used for general reparis	202

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