Setting up for success.

Enterprise lending report
2021

Responsible Finance

Contents.

About Responsible Finance

We believe in a fair financial system where investment flows into communities to create positive economic, social and environmental impact. To enable this we lead a strong responsible finance sector. This gives communities access to finance to build businesses, grow social enterprises and help people without savings cover one off costs without having to resort to a high-cost lender.

Responsible Finance is the UK industry body for Community Development Finance Institutions (CDFIs) and purpose-driven lenders. CDFIs support and lend money to businesses, social enterprises, and people unable to access it from mainstream lenders. They are legally structured so the profits they make are reinvested to increase their impact and reach even more customers.

"CDFIs have seen a couple of recessions and been able to support businesses and people, so we have a demonstrated track record in navigating those challenging times."

– Theodora Hadjimichael,
Chief Executive,
Responsible Finance.

Responsible Finance
7-10 Adam Street, London,
WC2N 6AA

info@responsiblefinance.org.uk
www.responsiblefinance.org.uk
@resp_finance

About this report

This report is based on impact data collected from our member organisations covering the period 1st April 2019 – 31st December 2020. All the quotes and case studies are from real CDFI customers.

Due to the impact of Covid-19 on the responsible finance sector, data collection for this report was delayed. The reporting period has been amended going forwards to align with the calendar year.

This report was written by Eleanor Pughe with input from Theodora Hadjimichael and Jamie Veitch.

"As the Minister for Small Business I value the work that CDFIs do around the country with both businesses and individual borrowers. And the core value of CDFIs is their focus on the customer as a person, understanding their circumstances and supporting their potential. The responsible finance movement is uniquely well placed to ensure that it can build back better and I'm looking forward to working with you to that end."

– Paul Scully MP, Minister for Small Business, Labour Markets and Consumers.

"We were named in Forbes' 30 under 30 list as one of Europe's most innovative companies, which is a testament that support such as this is having a positive impact on UK innovation."

– Olga Turner, EKKIST Architects. Supported by CDFI Let's Do Business Finance.

"It was not a box ticking exercise, rather an in depth and challenging look at the proposal and creating a robust set of accounts I could justify with logic."

– Terry Langton, Turncoat Bars. Supported by CDFI MSIF.

"ART was a life-saver. It was like talking to a bank manager, as you could 20 years ago"

– Brian Donnelly, Synapse. Supported by CDFI ART Business Loans.

Using finance creatively to make change.

£263 million lent to 6,000 enterprises

This is a report about Community Development Finance Institutions (CDFIs). It is also about their investees; their resilience, ingenuity and creativity – and how CDFIs are setting them up for success.

CDFIs spent the equivalent of over 4 years' worth of time supporting investees alongside finance...

20,000 hours of investment readiness support

19,000 hours of post-loan enterprise support

5,200 jobs created

7,400 jobs safeguarded

3,600 enterprises created

1,000 enterprises safeguarded

CDFIs measure success by focusing on the 'triple bottom line' of financial, social, and increasingly environmental returns. They are complementary to the banking sector and fill the gap in the market that exists where banks aren't able to lend.

90% of the businesses lent to by CDFIs had already been turned down for a loan by another lender, despite being viable.

Why are CDFIs needed to plug the gaps?

As any entrepreneur will tell you, running a business is not plain sailing. It is bumpy ride and you need the resilience to withstand failures. This has probably never been more true than in the last year. Despite this, mainstream lenders aren't able to build this in to their decision making systems when assessing loan applications. This is why many viable, investable businesses get rejected when they apply. CDFIs have the flexibility to take a different view, and understand what lies behind an SME's...

Limited cash

If a business has limited capital on its balance sheet, or its balance sheet is diluted by trading losses, a CDFI will seek to understand why. If it is trying to trade out of the situation to fund a growth in turnover to break even and eventually move into profit, a CDFI can make a realistic assessment of the chance of success.

Low credit score

Banks use a score-based system which essentially says ‘yes’, ‘no’, or ‘maybe’ (where further assessment is needed). These scores are not perfect but they're effective at assessing the large volume of applications banks receive. Even though there will be cases that they lend to that default, and declined cases that would have repaid, the scoring system is effective overall at producing a limited level of exposure. CDFIs are more flexible in their analysis.

Current account conduct

SMEs who are under financial pressure may have excesses over agreed credit facilities, dishonoured payments, or falling account turnover. This impacts the analysis by bank lenders. CDFIs can take time to understand the reasons behind the financial pressure and make an informed decision based on additional facts learned from talking to the business owners.

Lumpy credit history

CDFIs look into the business's situation to uncover the reasons why it has County Court Judgements (CCJs) or delinquent debts. It uses this insight and qualitative analysis to determine whether the business has learnt from past mistakes and is on a stronger trajectory.

Sector

CDFIs do not have blanket policies not to lend to certain sectors. They take a business on its merits, regardless of the sector it falls into.

Constructive decline

Where a bank has advised an SME not to apply, or offered it a facility with conditions or covenants that the business is not able to meet, CDFIs can make an offer with less strings attached.

"Sunday Times columnist, Luke Johnson states that entrepreneurs do not get the backing from banks that they need. I couldn't agree more. We are indebted to Mark Iley of BEF who was able to see and understand the potential and complexities of producing a successful business model."

– Peter Lancaster, Heavenly Services. Supported by Business Enterprise Fund (BEF).

It's a similar story with social enterprises...

The biggest barrier for both start-up and established social enterprises is access to appropriate finance, and 16% of organisations who apply for finance are unable to obtain any[1].

Social enterprises commonly need finance for development, working capital, or to purchase property or equipment. The finance options available to them are narrower because they are not purely driven by profit, so their structures and business models are often unfamiliar to mainstream lenders. They may also have had a previous reliance on grant funding, they might not have a credit history, and they may have variable revenue streams.

Banks therefore might not see them as a worthwhile, profitable investment as they have to spend extra time assessing the loan application to understand how they work. Social enterprises may also face challenges in providing sufficient commercial financial return.

As social enterprises themselves, CDFIs understand their financing needs so can tailor loan products to suit them.

"Applying for funding can sometimes be quite daunting and arduous. With SIS, I always had the feeling that they were on our side and wanted to make this happen. Their support has been invaluable, and, because of it, we have been able to develop the skills of hundreds of young people."

– Tim Mart, Know You More. Supported by Social Investment Scotland (SIS).

SME lending: the engines of our economy.

£115 million lent to 1,900 SMEs

4 years average loan term

£61,400 average loan size

11.95% average interest rate (range 0% - 25%)

1,800 jobs created

7,200 jobs safeguarded

The term "SMEs are the engines of our economy" is widely believed but what does it actually mean? Small and Medium Sized Enterprises (SMEs) are businesses which employ less than 250 people. They support the creation of a country free from poverty by providing jobs to people in all socioeconomic groups, ensuring the flow of money around the whole of society.

In the UK SMEs account for over 99.9% of the business population and 60% of total employment. Small businesses (with 0 to 49 employees) make up 99.3% of this[2]. CDFIs specialise in lending to SMEs with this higher jobs impact.

96% of CDFI loans go to businesses with less than 49 employees.

But SMEs are so much more than job creation machines. Every day we benefit from SMEs without even realising it: they fill our high streets, bring exciting new ideas into our homes, and create things that tangibly improve our lives. Often they need finance to help them do this.

Making sustainability more accessible through financing innovative businesses

DSL BUSINESS FINANCE LTD

- After a 20-year career in food manufacturing, in 2019 founder Kelly Wright opened The Refillery: Edinburgh's largest plastic-free and zero-waste store.
- Half of the business start-up costs came from her savings, with the other half from CDFI DSL Business Finance.
- A year after opening its doors The Refillery had beaten its sales projections, revitalised its local area, created 5 jobs and saved over 120,000 pieces of plastic packaging from being used.
- It become a local lifeline to its community during the pandemic.

Supporting people from unemployment to booming employment in the middle of the pandemic

PURPLE shoots
little loans to grow ideas

- **Ian Thomas was made redundant during the first lockdown in 2020.**
- **He launched a new business in July 2020 and was quickly inundated with clients.**
- **During the summer he took on new staff to keep up with demand.**

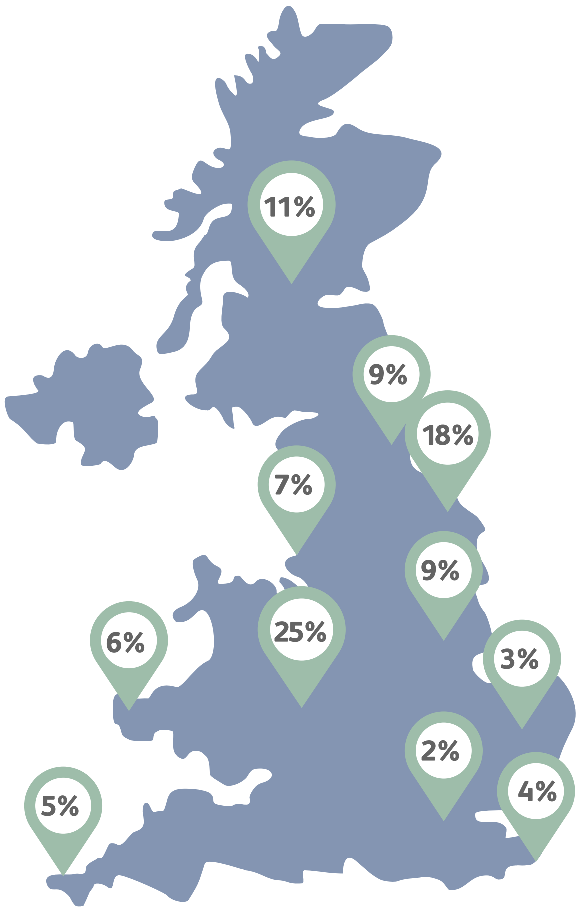
When COVID-19 first hit, Ian was laid off without furlough and left wondering how to survive the looming recession. With plenty of thinking time, he started weighing up options. He thought of caravans. He'd sold them in a previous job and loved the holiday industry. So he looked into the market to see what caravan owners needed most. Answer: professional cleaning. It's a specialist role, because caravans have their own unique cleaning and maintenance needs. It felt right, so Ian went ahead and set up the business: Sparkle Pro Caravan Cleaning.

He needed a small loan to get started but at first he had no joy. His regular bank wasn't lending, and as a new business he didn't qualify for the latest government funding. It seemed hopeless until he was pointed in CDFI Purple Shoots' direction.

Purple Shoots quickly approved a loan of £3,000 as a down payment on a logoed vehicle. Then, armed with tools and leaflets, he hit the caravan parks, using the sales skills he'd built up over the past two decades. He went door to door and demand was overwhelming. He cleaned his first caravan in July 2020, just four months after losing his job. The money he made was reinvested to buy better tools and more marketing materials. Within two months he'd cleaned over 75 caravans, and every single one rebooked for the next year. He even took on temporary staff for 16 hours a week each with scope for full time work.

Caravan cleaning is a seasonal industry where demand peaks in the summer, so the autumn brought a new challenge. Ian began making new plans immediately to stay in touch with his customers and diversify. "I'm so happy having my own business, knowing I've made that step to do something of my own. There's a long way to go, of course, but it's all going in the right direction."

CDFIs lend to businesses across the UK. They have a strong presence in the North of England, the Midlands and Scotland, as well as coastal and rural communities in the South of England. It is often thought that businesses in London and the South East have more than their share of finance. But in these places there are pockets of deprivation which are shut out from access to finance too. It is only by helping each and every left-behind neighbourhood, street and cul de sac to improve that we can truly level-up the UK. The map on the right shows the number of CDFI loans made in each region to SMEs (%).



CDFIs don't just serve new, small fledgling businesses with few employees. They do that, but their bread and butter is more established businesses.

Nearly 60% of the businesses CDFIs lend to are more than 4 years old, and 30% are 10 - 50 years old.

Helping businesses to overcome the challenges of Covid-19 to be in a position of growth

msif... msif.co.uk

- **Open since 2011, The Climbing Hangar is a popular indoor climbing centre which employs over 100 members of staff.**
- **It took out a loan from CDFI MSIF through Metro Mayor Steve Rotheram's Flexible Growth Fund to invest in the renovation of one of its existing sites, open a brand new unit and re-start the business following lockdown.**

Since opening in 2011 Sandhills-based The Climbing Hangar, an indoor rock climbing venue, has been a growing hit for the city, and nationally, with five sites based across the UK employing over 100 members of staff. Boasting half a million visits annually, The Climbing Hangar has a passionate approach towards the impact that a social, challenging, supportive, progressive and fun activity can have on people's lives, regardless of ability, age or fitness – advocating an inclusive environment for all.

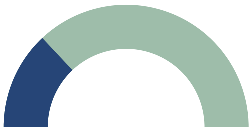
It received a £496,000 loan as part of Metro Mayor Steve Rotheram's Flexible Growth Fund – powered by Growth Platform, managed by CDFI MSIF's fund manager subsidiary, Alliance Fund Managers (AFM). The £20 million Flexible Growth Fund is part of the Liverpool City Region Metro Mayor's £75 million business growth package, which can support the local business community to recover, grow and create jobs from the impacts of the COVID-19 pandemic. The funds are part of the Mayor's long-term plan to deliver growth and to help the city region Build Back Better.

The additional £496,000 capital supported the opening of the Climbing Hanger's new Matchworks Unit, which is its fifth site, alongside a full renovation of the Sandhills site, ready for the re-start of the business following lockdown restrictions.

Ged Mac, Founder and Director of The Climbing Hangar commented on the investment: "The FGF funding is an amazing opportunity to continue investing back into Liverpool, the city and people that nurtured and grew our now national company. Schemes like this allow us to invest for the long-term creating attractive facilities and jobs to help continue to make our city a great place to live and work. So proud to continue to invest in growth back where it all started."

Creating opportunities

Supporting access to finance among disadvantaged communities is central to CDFIs' social mission, but it can also play a central role in levelling-up and tackling the UK's low productivity.



26% of the businesses lent to by CDFIs are led by women...

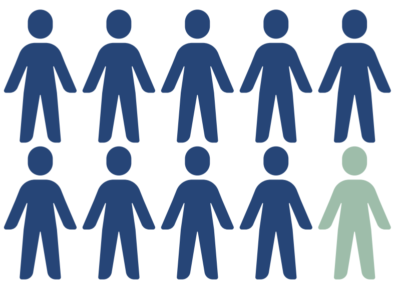
...whereas women-led SME employers make up just 15% of the business population in the UK[3]. CDFIs strive to continue opening up opportunities for women owned businesses. A number have signed up to the Investing in Women code, and some run specific initiatives to encourage and support female entrepreneurship. Increasing support for female entrepreneurs in the UK to achieve the same average share of women entrepreneurs as best-in-class countries would generate £200 million of new value for the UK economy[4].

Let's Do Business Finance

South of England based CDFI Let's Do Business Finance runs Her Biz, a free programme which helps aspiring female entrepreneurs to set up their own businesses by giving them the tools, knowledge and confidence to start their own venture. The programme is delivered in partnership with NatWest Bank.

In 2020 concerns about racial inequality were brought to the forefront of the policy discussion, revealing the greatest disparity between ethnic minority and White households exists in measure of household wealth[5]. We feel passionately that entrepreneurship can provide a path to wealth creation. To level up the UK and reduce the wealth disparity, finance needs to be made more accessible.

In 2019-2020 the proportion of CDFI loans that went to each ethic group was:



White: 90%
Mixed/Multiple Ethnic Groups: 1%
Asian/Asian British: 6%
Black/African/Caribbean/Black British: 2%
Any other ethnic group: 1%

In the UK, minority ethnic group led businesses accounted for 5% of SME employers[6]. For CDFIs who reported this data, 10% of their loans went to businesses led by Black, Asian and Minority Ethnic entrepreneurs. The CDFI sector can still do more to support businesses led by individuals from ethnic minority groups and improve its reporting.

CDFI loans have a long-term positive impact on SMEs and the communities they operate in, stretching far beyond the initial investment.

From 19 to 96 employees, 3 vans to 12: Record business for Cornwall pasty-maker

SWIG FINANCE

- **Couple Mark and Lynne Norton took on an established bakery business in 2010 with the support of a loan from CDFI SWIG Finance after their bank wasn't able to help.**
- **At the time this safeguarded 19 jobs at the business.**
- **The bakery now employs 96 people and has gone from selling 500 pasties a week to 30,000.**
- **During 2020 the business took on 7 new members of staff to cope with increased demand caused by the pandemic.**

Mark and Lynne Norton decided to take on a long-established bakery business in 2010 when they relocated to Cornwall after running their own holiday home business in Brittany for several years. They knew they could raise the finance they needed on top of their own funds – until the sale of their French property fell through and the bank wouldn't consider it as collateral for further support.

Mark contacted CDFI SWIG Finance, which helped complete the financial package required with a loan of £20,000, safeguarding 19 jobs and enabling Mark and Lynne to usher Prima into a new era.

Fast forward ten years to 2020 and Prima's headcount has increased from 19 to 96 employees, 3 vans to 12 and 500 pasties a week to 30,000.

Lockdown demand for homebaked frozen pasties helped the bakery to achieve record orders, create seven new jobs and send baked goods all over the UK. According to Mark, it saw demand go "through the roof". The firm "sold over 80,000 homebaked frozen pasties during the first lockdown," "as well as hundreds of boxes sent all over the UK via our mail order service. We continued to trade through the lockdown. We didn't lay off staff or furlough anyone and it's been so busy we have actually recruited seven new people."

Mark said: "I'll always be grateful to SWIG who moved very quickly to solve our funding dilemma and were key to making all of this happen in the first place." "Our retail trade went down when the hospitality sector closed down but our home delivery and wholesale trade to Spar, Co-op, Costcutter and other convenience stores went up as bigger supermarkets struggled."

"I didn't want us to profiteer from Covid and the lockdown so I made sure we sold our classic steak pasty for £1.25 so hard-up families who were struggling could have a meal for four for £5. "Our pasties and other frozen baked goods did tremendously well. It's been so successful that we had to open a special extension to the shop at the front of the bakery." "Through our partnership with the Cornish Hamper Company we've seen our mail-order side of the business go through the roof."

"We're still very small compared to Ginsters, but to make sure we continued to make our pasties by hand we recruited more people and continued to focus on making the best top-quality products possible."

Stepping up to the mark: the Coronavirus Business Interruption Loan Scheme.

"The CBILS funding has offered us a lifeline. We chose to work with SWIG Finance because, unlike other lenders, at SWIG you can talk to a person."

– Andrew Hunt, Holiday Architects. Supported by SWIG Finance.

The Government swiftly launched the Coronavirus Business Interruption Loan Scheme (CBILS) in March 2020 to respond to the near standstill of society and the economy. One of the first loans made under the Guarantee was by CDFI Business Enterprise Fund.

In the UK, CDFIs are a small part of the overall finance system but they punched well above their weight to ensure businesses remained resilient. Throughout the period they still found time to speak to their customers and build relationships, something that not only supports business confidence but also enables them to be more flexible.

As of the end of 2020 the CDFI sector's CBILS-backed lending stood at:

£63 million
of applications approved

12.29%
average interest rate
(range 8% - 14.97%)

£110,000
average loan size

5 years
average loan term

Lincolnshire cheese company creates 12 new jobs thanks to a CBILS loan

First Enterprise
Enterprise Loans

- **Artisan cheese company Chuckling Cheese lost all of its event income in 2020 because of the pandemic.**
- **It sought a CBILS loan to adapt the business and invest in its online presence following a 1,000% surge in online sales.**
- **The CBILS loan enabled the firm to increase its product range, move warehouses and create 12 new jobs.**

Stuart Colclough, founder and owner of Chuckling Cheese, said: "We've adapted well to the Covid-19 challenges we've faced and are excited to launch our new website with a 'build your own' hamper and subscription service thanks to the MEIF and CBILS funding boost."

"Accessing a CBILS loan was essential in supporting the survival of our company during this incredibly difficult time."

– Ian Strangward, Architectural Wallsz. Supported by BCRS Business Loans.

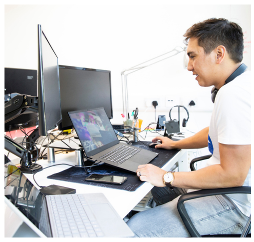
Helping the UK's front-line battle against coronavirus by supporting a sterile packaging firm

- **Extrupol Packaging supplies sterile packaging to protect NHS staff.**
- **The firm sought a CBILS loan from CDFI Finance For Enterprise to fulfil an order three times larger than its typical order size, which would have placed significant pressure on its cashflow.**
- **As a result of the loan it was able to ensure its products were quickly rolling off its production line and into hospitals.**

Marina Wittey, Financial Director of Extrupol Packaging, said: "We have worked with a specialist supplier who provides sterile cleaning products, uniforms and surgical equipment to the NHS for more than 20 years. We were approached to fulfil an order which was three times larger than a typical one and we knew it would place significant pressure on our cashflow. Having worked previously with Finance For Enterprise, we called upon them for help."

"From the outset Finance For Enterprise understood our business model and helped us to secure the funds we needed to fulfil our orders. The time taken between securing a lending decision and being able to draw down the funds happened within just a few days. As a result, new products are now rolling off our production line and will be quickly distributed to hospitals; something which wouldn't otherwise have been possible."

Global performance marketing company able to plan for growth despite the pandemic



- **Digital marketing agency Ventura Digital had its growth plans put on hold due to the pandemic.**
- **It took out a CBILS loan and benefitted from mentoring with CDFI Let's Do Business Finance (LDBF), enabling it to restart its growth plans.**

Ventura Digital is a performance marketer with offices in Essex and Shanghai. The agency, led by Dan Spicer, has gone from humble beginnings to a thriving company with clients across the world. Ventura Digital had delivered impressive growth and was embarking on the next stage of its expansion plans when the pandemic hit. With lockdown, changes in consumer behaviour, and many companies reducing marketing budgets due to cost pressures, Ventura Digital found planning for the future difficult.

CDFI LDBF was able to assist Ventura Digital with a CBILS loan, mentoring and expanding its network, to support it to deliver its growth plans despite the challenges of Covid-19.

Dan Spicer, CEO of Ventura Digital said "Let's Do Business Finance have been an extremely valuable partner over the last few months, both in terms of providing support in acquiring finance to help drive our business growth; as well as providing mentorship and connections in the local business ecosystem including peers, partners and potential clients."

Creating conscious change.

Lending to social enterprises – social investment – means channelling money into businesses that are changing the world for the better.

“Like traditional businesses they aim to make a profit, but it’s what they do with their profits that sets them apart – reinvesting or donating them to create positive social change. Social enterprises are in our communities and on our high streets – from coffee shops and cinemas, to pubs and leisure centres, banks and bus companies[7].”

Social investment allows social enterprises to become stronger and increase their impact. And that increased impact improves lives; whether it’s a community- owned windfarm which uses its profits to invest in local community projects, a bakery which provides training for unemployed young people, or a charity providing housing for the homeless.

The map on the next page shows the number of CDFI loans made in each region of the UK (%). Although almost all regions have a CDFI service, activity is highly location dependent. Because CDFIs are rooted in their local communities, there are some areas they do not yet have the scale to serve, demonstrating the sector’s potential for further growth.

"In addition to the funding, the team at BII provided invaluable advice and support in developing the business case and helping us as an organisation to further strengthen our governance."

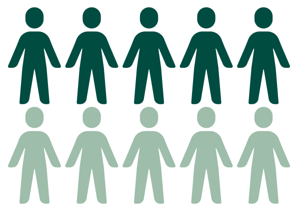
– Brian Holt, St Helena Hospice.
Supported by Big Issue Invest (BII).

£109 million lent to 700 enterprises

£163,400
average loan size

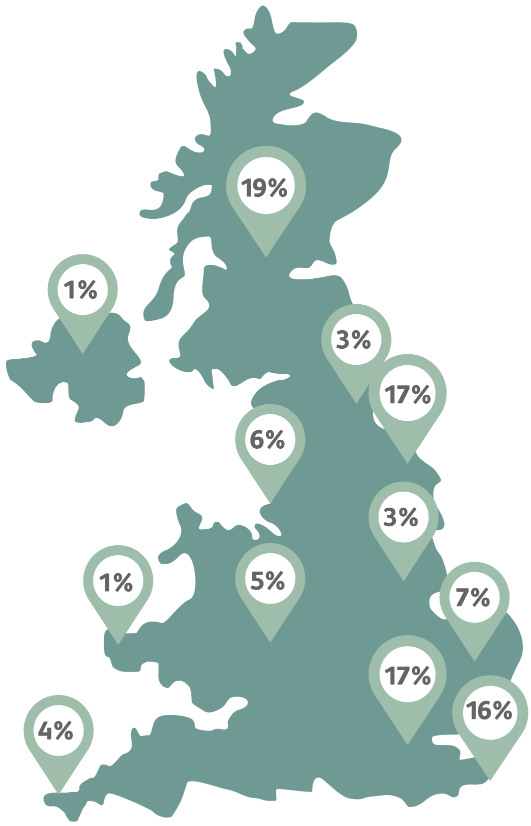
5 years
average loan term

0% - 12%
interest rate range



40% of social enterprises are led by women[8], and CDFIs channel 49% of their social investment into women-led social enterprises.

Throughout the Covid-19 crisis charities and social enterprises faced a double whammy of rising demand and falling incomes. Despite this they were not able to furlough staff as this would have mean shutting their doors on their communities when they were needed most.



Social enterprise lending CDFIs stepped up to deliver a significant level of funding to charities and social enterprises, including:

- the Resilience and Recovery Loan Fund, targeted at organisations improving people's lives across the UK experiencing disruption as a result of Covid-19. To date the fund has issued £23 million to more than 60 charities and social enterprises[8];
- the Social Enterprise Support Fund, which provides grants to support social enterprises.

Supported housing for vulnerable young people in Cornwall

- **YMCA Cornwall is an independent charity which provides supported housing for young people aged 16–25 who are homeless or at risk of homelessness.**
- **It received funding from CDFI Big Issue Invest to create 20 new homes by converting a disused gym and hostel.**

Access to affordable and social housing in Cornwall is a significant challenge. 73 % of neighbourhoods are deprived of affordable housing and around 19,000 people are on the waiting list for a council home. Due to low pay, seasonal work and zero-hour contracts, young people are disproportionately affected.

Established in 1877, YMCA Cornwall is an independent local charity which provides safe and stable self-contained flats and bedsits for residents to move towards independent living, remain in education and find employment. This is done with the guidance of a dedicated team of support workers. YMCA has responded to the huge demand for housing by converting obsolete buildings into accommodation for young people.

Big Issue Invest's Growth Fund provided £150,000 of investment to provide 20 new homes for YMCA Cornwall. The charity converted the lower ground floor of an obsolete gymnasium and backpacker's hostel. Carolyn Trevivian of YMCA Cornwall said: "When we made our application to Big Issue Invest the Investment Manager (Alan) travelled to Cornwall to visit us, meet our team and see our work with homeless young people first-hand. It was incredibly useful to talk through the work we wished to fund and outline our plans for the future. Following the approval of our original loan in 2018 we took on additional borrowing to complete our project in a shorter timescale."

Changing the world, one macaroon at a time through work placements for young people

- Founder Rosie Ginday MBE worked as a pastry chef before starting social enterprise Miss Macaroon to give opportunities for unemployed young people.
- Her training courses enable those aged 18-35 to build their confidence and skills to become work ready.
- Unable to get a loan from her bank, funding from CDFI BCRS Business loans with match funding from the Big Venture Challenge enabled Miss Macaroon to expand and employ four full-time staff.

A co-operative committed to serving communities through the Covid-19 pandemic

- **The Rame Peninsula Trust is a community-owned cooperative which provides services for local people.**
- **It sought funding from CDFI Co-operative and Community Finance in 2015, alongside community shares and The Co-operative Loan Fund, to buy a building to use as its hub.**
- **Throughout the Covid-19 pandemic the Trust stepped up to expand its food bank provision, provide crisis loans and grants, and support around benefits and housing.**

The Rame Peninsula Trust was founded by a group of locals in 2014 to support the community. It is a fully community-owned operation with 660 members at that time. A year after launch the Trust raised money through a community share issue and loans from CDFI Co-operative & Community Finance and The Co-operative Loan Fund to buy a building to use as a hub. By 2020 the Trust had reached the point where it was connected, well known and the 'go to' organisation in its community.

The Trust started planning for lockdown on the 10th March. It called a public meeting and got set up; 118 volunteers came forward in 3 weeks. The food bank greatly expanded as did crisis loans and grants, and 1-2-1 support around benefits, housing and general welfare.

Within a couple of weeks of lockdown starting, its local pharmacy had two staff off sick, including its delivery driver. It rang the Trust one morning at 10.20am and by 12.30pm it had 12 volunteers waiting outside, and by 2.30pm all the delivery backlog had been cleared. The Trust carried on doing this for three weeks until the pharmacy was able to recruit a new driver.

"Co-operative and Community Finance were brilliant. We didn't even have to make the call. Within a couple of days, Ian Rothwell called us, asked how we were doing and offered up a capital holiday. It wasn't just that this was on offer, it was that they actually made the offer, they made the first move."

With the need for the local support so clearly in mind, the Trust's Board has now decided to commit the Trust to running a permanent local support service with paid workers, as an extra major addition to its existing work on housing, workspace and community activity. It had always wanted to do this but was waiting until it had the income. Covid forced its hand, and it has committed to £35,000 a year to provide advice around housing, welfare, benefits, debt, legal, domestic abuse and mental health. It has a huge range of external organisations coming in and working from its centre and a satellite operation it is setting up in the next village.

A number of CDFIs specialise in supporting community energy projects.

Using community-generated wind power to invest in local impactful community projects

- **Point and Sandwick Development Trust operates the UK's largest community windfarm.**
- **It needed finance from CDFI Social Investment Scotland to complete a funding package to enable the windfarm to be built.**
- **The income generated from the wind power has so far enabled the Trust to invest over £1 million in local projects.**

Point and Sandwick Development Trust is based in the Outer Hebrides. It built and operates the UK's largest community wind farm and has been recognised as leading the way in community renewable energy. CDFI Social Investment Scotland provided a £600,000 loan as part of an overall financial package which enabled the Trust to build the windfarm.

The income generated from the wind power allows the Trust to fund local social, cultural, educational and environmental projects of all sizes on the Isle of Lewis and the wider Western Isles.

Donald John MacSween, General Manager, Point & Sandwick Development Trust, said "Point and Sandwick Trust was delighted (and relieved!) when SIS stepped in and confirmed that they would lend a substantial sum to complete the funding package enabling us to build our windfarm. The gift aid from the windfarm has supported our community, with over £1million to various social developments over the last few years: a considerable achievement for a complex development enabled by SIS."

In response to the coronavirus pandemic the Trust made a £55,000 donation to its local NHS and community councils. It also supplied protective face visors, created using 3D printing, to all hospital and care home staff in the Western Isles.

A community coming together to harness the power of solar

- Linlithgow Community Development Trust aims to make Linlithgow carbon neutral in energy supply.
- In 2018 it raised funding through Community Bonds, issued by CDFI Scottish Communities Finance Ltd (SCF Ltd.), to put solar panels on the roofs of local buildings in a pilot project.
- Based on the success of the pilot, it launched another successful bond offer to bring renewables to more local sports facilities.
- As a result of the higher than expected financial returns from these phases, the Trust plans to launch a third bond offer in 2021 with SCF Ltd. to bring even more solar adaptations to the town's buildings.

Start Up Loans.

2020 saw the launch of thousands of new businesses. Entrepreneurs seized upon opportunities created by Covid-19 restrictions, the move to online shopping, and having more time on their hands either from skipping the daily commute or being on furlough. These new business don't just provide us with an exciting new meal delivery service or a new app for our phones; they create new jobs.

Start-up businesses are especially hard for mainstream lenders to serve because of their higher rates of failure, absence of a track record and fewer assets to act as loan collateral.

The Government-backed Start Up Loans programme tackles this gap[9]. It provides loans to individuals looking to start or grow a new business. In addition to finance, successful applicants receive 12 months of free mentoring. 10 CDFIs across the UK deliver the scheme.

£39 million lent to 3,400 start-ups

Of start-ups lent to by CDFIs through the Start Up Loans Scheme:

5 years average loan term

£11,600 average loan size

6% interest rate

39% women-led

60% male-led

White: 81%
Mixed/Multiple Ethnic Groups: 9%
Asian/Asian British: 5%
Black/African/Caribbean/Black British: 2%
Any other ethnic group: 2%

Funding floats green boat design

SWIG FINANCE

- **Despoina Karanta is a qualified Naval Architect.**
- **She was able to launch her consultancy with the help of a Start-Up Loan from SWIG Finance.**

Bristol-based Naval Architect and Boat Design business, ENPLO Ltd, provides consultancy on all aspects of ship and boat design. It received £15,000 funding from CDFI SWIG Finance via the Start Up Loans programme. The loan will be used to provide working capital to cover initial repair costs and marketing.

Business owner, Despoina Karanta, is a qualified naval architect and marine engineer and has a professional diploma in yacht and boat design. She is passionate about sustainability and this value is translated into the business by converting heritage vessels into greener battery powered designs, making the boats more efficient while reducing the carbon footprint.

Supporting a salon to cut through cashflow gap

- **Mother and daughter team converted a former laundrette into a salon thanks to their savings and a Start-Up Loan from CDFI Finance For Enterprise (FFE).**
- **The salon was an instant success, but when lockdown hit their growth plans were jeopardised. The funding they had from FFE provided a vital buffer.**
- **Today the salon employs five members of staff and is hoping to take on an apprentice.**

Experienced hairdresser Anna Wesley and her make-up artist daughter Robyn launched their Wickersley-based salon, The Only Way is S66, with support from CDFI FFE. The duo had invested more than £60,000 in transforming a former laundrette into their new salon, but realised that additional financial support would be needed to complete the extensive renovation work, as well as to provide a cash buffer during the first few months of trading.

Recognising that many high street banks are often reluctant to lend funds to a new business with no previous trading history, they began researching alternatives and called upon FFE for help. FFE supported the duo to secure funding to support their business through the Start Up Loans programme.

Anna opened her very first hair salon at the age of 21 and she has devoted the past twenty years to building and turning around the fortunes of hair dressing businesses across South Yorkshire. From a relatively early age, her daughter Robyn identified as transgender. She left home to study at the London College of Fashion when she was 18 and after qualifying as a make-up artist, Robyn began to forge a successful career for herself in the capital, using her skills in the world of TV and film and even spent time working on the hit series Game of Thrones. Despite the success she was enjoying in her career, as she began her transition, Robyn felt she lacked the support network she needed in the capital, placed her career on hold and returned to her native South Yorkshire.

Since first opening the doors of the business in 2018, the Only Way is S66 proved to be an instant success, quickly establishing a loyal customer base. It appeared the salon was poised to enjoy a significant period of growth, however, when lockdown forced their closure, future plans were thrown into jeopardy. The funding they had received from FFE provided a vital cash buffer.

With extended restrictions placed upon the hair and beauty industry a number of local salons were forced to close their doors. With ample space available, when a nearby barber's shop closed Anna and Robyn stepped in to enable two experienced barbers to continue trading.

Since reopening, bookings at The Only Way is S66 have increased fourfold. Today the business employs five members of staff and they are hoping to recruit a new apprentice in the near future.

Anna Louise Wesley, Owner of Only Way is S66, said: "I knew how important it was to maintain a healthy cashflow during our first few years of trading if the business was to succeed, although we could have never predicted the impact Covid-19 would have on our business. The funds we secured from Finance For Enterprise helped to provide us with a cash buffer, whilst we waited to find out whether we would be eligible for additional Government support. It proved to be a lifeline and without the help we received from Finance For Enterprise, I doubt whether our business would have survived. Since restrictions were lifted, the business has gone from strength-to-strength."

What do CDFIs need for their own success?

Imagine a future where all viable businesses and social enterprises can access the finance they need to flourish and support their communities. That means more jobs where people live, a globally competitive SME sector and an economy fit for people, planet and place.

To get there, the UK needs a diverse finance system with a vibrant CDFI sector that will fill the gaps in unmet demand. And for this CDFIs need investment.

Community Investment Tax Relief – an outstanding reward for investors

The Community Investment Tax Relief (CITR) is a tax incentive that encourages investment in under-served communities by giving tax relief to corporate and individual investors who invest in accredited CDFIs. In turn, CDFIs make loans to enterprises that operate within or for disadvantaged communities.

The tax incentive is a form of tax relief, which reduces the investor's income tax or corporation tax liability. The relief is worth up to 25 % of the money invested, spread over five tax years. This equates to 5 % per annum for five years.

Investment raised through CITR has a high impact, supporting businesses that:

- have not been able to obtain funding from other sources;
- are located in a deprived geographic area; or
- are disadvantaged individuals recognised as being disadvantaged on account of their ethnicity, gender, age, religious beliefs, disability or other defining characteristic.

The impact of using CITR is profound because of the requirement on where the money is on-lent. Banks, individuals, and corporations who invest in the sector through CTIR benefit from two types of return; the financial return through tax relief, and the social return on the impact the money is creating. Banks like Unity Trust Bank report this impact in their annual report[10].

In the last annual reporting period, Responsible Finance's members made £25 million in loans to small businesses and social enterprises using money raised through CITR. It is a vital tool in enabling the sector to raise finance to correct the market failure in SME and social enterprise access to finance.

If you're a bank or investor looking to learn more about CITR, get in touch!

Thank you.

We would like to thank our members who were able to complete the survey this year.

References:

[1] Social Enterprise UK (2019) Capitalism in Crisis.
[2] Department for Business, Energy and Industrial Strategy (2020) Business Population Estimates for the UK and Regions 2020: Statistical Release.
[3] House of Commons Library (2021) Briefing Paper: Business Statistics.
[4] HM Treasury (2019) Policy Paper: The Alison Rose Review of Female Entrepreneurship.
[5] Fair4All Finance (2020) Research Round-Up: Black Lives Matter.
[6] House of Commons Library (2021) Briefing Paper: Business Statistics.
[7] Social Enterprise UK: What Is It All About?
[8] Social Investment Business: Resilience and Recovery Loan Fund.
[9] British Business Bank: Start Up Loans Programme.
[10] Unity Trust Bank (2020) Impact Report.

Appendix.

All data is from the reporting period 1st April 2019 - 31st December 2020

Loan disbursals and characteristics

Total loans to start-ups, SMEs and social enterprises

Total (#)	Total (£)
5,887	£ 262,801,569

Total loans to SMEs

Total loans (#)	1,868
Total loans (£)	£ 114,717,294
Average loan size (£)	£ 61,412
Average term (months)	50
Interest rate range (%)	0%-25%
Average interest rate (%)	11.95%

Of this, loans disbursed through the Coronavirus Business Interruption Loan Scheme up until 31st December 2020

Total loans (#)	631
Total loans (£)	£ 63,172,121
Average loan size (£)	£ 100,114
Average term (months)	57
Interest rate (average)	12.29%

Total loans to social enterprises

Total loans (#)	668
Total loans (£)	£ 109,165,902
Average loan size (£)	£ 163,422
Average term (months)	58
Interest rate range (%)	0% - 12%

Total loans to start-ups through the Government's Start Up Loans programme

Total loans #	3,351	
Total loans £	£	38,918,373
Average loan size (£)	£	11,614
Average term (months)	56	
Interest rate	6 %	

Lending outcomes

SME lending

New businesses created	187
Businesses safeguarded	871
Businesses helped to scale	471
New jobs created FTE	1,750
Jobs safeguarded FTE	7,212
Hours of investment readiness support delivered to SMEs	7,015
Hours of post-loan support delivered to SMEs	5,603

Social enterprise lending

New social enterprises created	22
Social enterprises safeguarded	191
New jobs created FTE	136
Jobs safeguarded FTE	191
Hours of investment readiness support delivered to social enterprises	1,061
Hours of post-loan support delivered to social enterprises	700

Start-Up Loans programme lending

New businesses created	3,351
New jobs created FTE	3,351
Hours of investment readiness support delivered to start-ups	12,116
Hours of post-loan support delivered to start-ups	12,854

Borrower characteristics

SME lending

Gender identity

Female	26 %
Male	74 %

Ethnicity

White	90 %
Mixed/Multiple Ethnic Groups	1 %
Asian/Asian British	6 %
Black/African/Caribbean/Black British	2 %
Any other ethnic group	1 %

Age

18-24	1 %
25-30	7 %
31-49	53 %
50+	39 %

Number of employees

0 - 9 employees	64 %
10 - 49 employees	32 %
50 - 249 employees	5 %
250+ employees	0 %

Age of business

Less than 1 year old	13 %
1 - 4 years old	28 %
5 - 9 years old	27 %
10 - 50 years old	30 %
50+ years old	1 %

Rejected for finance from another lender in the past 12 months

%	90 %

Region

East Midlands	9 %
East of England	3 %
London	2 %
North East	9 %
North West	7 %
South East	4 %
South West	5 %
West Midlands	25 %
Yorkshire and the Humber	18 %
Scotland	11 %
Wales	6 %
Northern Ireland	0 %

Industry

Mining & Quarrying	0 %
Agriculture, Forestry & Fishing	1 %
Electricity, Gas, Steam & Air Con Supply	1 %
Water, Sewerage & Waste Management	1 %
Financial & Insurance Activities	1 %
Real Estate Activities	1 %
Transportation & Storage	3 %
Arts, Entertainment & Recreation	3 %
Education	3 %
Information & Communication	5 %
Human Health & Social Work Activities	5 %
Accommodation & Food Service Activities	7 %
Admin & Support Service Activities	9 %
Professional, Scientific & Technical Activities	9 %
Other Service Activities	10 %
Construction	11 %
Manufacturing	13 %
Wholesale & Retail Trade & Repair	17 %

Social enterprise lending

Gender identity

Female	49 %
Male	51 %

Number of employees

0 - 9 employees	75 %
10 - 49 employees	23 %
50 - 249 employees	1 %
250+ employees	1 %

Region

East Midlands	3 %
East of England	7 %
London	17 %
North East	3 %
North West	6 %
South East	17 %
South West	4 %
West Midlands	5 %
Yorkshire and the Humber	17 %
Scotland	19 %
Wales	1 %
Northern Ireland	1 %

Industry

Environment and recycling	5 %
Access to finance	5 %
Leisure, tourism, and sport	6 %
Arts, creative and digital services	7 %
Employment, education, and training	9 %
Other	22 %
Community services	15 %
Housing and accommodation	32 %

Start Up Loans programme

Gender identity

Female	39 %
Male	60 %
Other	1 %

Ethnicity

White	81 %
Mixed/Multiple Ethnic Groups	9 %
Asian/Asian British	5 %
Black/African/Caribbean/Black British	2 %
Any other ethnic group	2 %

Age

18-24	7 %
25-30	18 %
31-49	56 %
50+	19 %

Region

East Midlands	21 %
East of England	1 %
London	7 %
North East	3 %
North West	8 %
South East	24 %
South West	1 %
West Midlands	0 %
Yorkshire and the Humber	28 %
Scotland	7 %
Wales	0 %
Northern Ireland	0 %

Portfolio performance

SME lending

Annual provision rate for last financial year (average - %)	11 %
Percentage of portfolio 90+ days in arrears as at 31st December 2020 (%)	21 %

Social enterprise lending

Annual provision rate for last financial year (average - %)	11 %
Percentage of portfolio 90+ days in arrears as at 31st December 2020 (%)	21 %