

Written evidence submitted by Responsible Finance

About Responsible Finance and Our Response

Responsible Finance is the trade association for Community Development Finance Institutions (CDFIs) in the UK. 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. Our members make loans to people, businesses and social enterprises that cannot access finance from mainstream providers, like banks.

The reasons they cannot access mainstream finance are numerous. A business may be new, have limited trading history, or no assets to act as security for a loan. A person may have defaulted on credit agreements in the past and now be on a stable financial footing, but this may not be reflected in their credit score. A social enterprise values both purpose and profit, meaning they may not be viewed as a lucrative investment for profit-driven mainstream institutions. CDFIs overcome these market failures to generate a wide range of economic and social benefits which would otherwise be lost.

Instead of algorithms, the people, businesses and social enterprises that CDFIs serve need in-depth decision making and support to give them the best chance of success. If success were a climbing wall, CDFIs would be the instructor; providing the ropes to enable the business to climb to success by investing in innovation and growth, and a harness to catch their fall when things go wrong. This person-centered, empathic approach, where the goal of the finance provider matches that of the customer, is needed now more than ever.

For example, several years ago Mark and Lynne Norton decided to take over long-established bakery business [Prima](#) after relocating to Cornwall from France. 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. Instead they contacted CDFI SWIG finance and were able to borrow £20,000. This initial loan safeguarded 19 jobs. Since then the business has increased its headcount from 19 to 96 employees – and played a crucial part in feeding families who were struggling this year. The business didn't lay off or furlough any staff through lockdown, and instead employed 7 new staff members to meet increased demand. All these jobs may not exist now if a CDFI hadn't stepped in to catch their fall.

The CDFI sector is vital to the UK's recovery from the COVID-19 pandemic and the Government's levelling up agenda. It plays a unique role in catching SMEs which have fallen through the cracks and targeting investment into the more deprived and marginalised communities in the UK. It will also play a central role in ensuring SMEs have the finance necessary to take advantage of new opportunities after Brexit, and support communities to transition to net-zero so they are not left behind.

Enterprise lending CDFIs protect and create jobs, boost productivity, foster inclusive growth and facilitate enterprise creation. They fill a gap in the market that is not filled by any other lenders:

- They lend to businesses that have been declined by other lenders, so serve a higher risk market. In 2019 93% of businesses CDFIs lent to were previously declined by a bank.

- They turn the ‘no’ into a ‘yes’ and make the loan viable by operating a relationship-based model which provides pre, during and post loan support. This personalised support is successful (more than 90% of the businesses the sector lends to survive) but has higher operational costs.

Mainstream banks find it difficult and costly to adequately assess the risk of small businesses that have a thin credit history or a limited trading track record. Many therefore do not have the risk appetite to lend unsecured to businesses which lack sufficient collateral. CDFIs are able to lend to these businesses because they are driven by their mission to create local social, economic and environmental benefit. They take a flexible, person-centred approach, and have more in-depth processes for assessing business loan applications than other lenders.

CDFIs are key strategic partners for the Government and the British Business Bank. They deliver the Coronavirus Business Interruption Loan Scheme (CBILS), the essential Start Up Loan scheme, and the Northern Powerhouse, Midlands Engine and Cornwall and Isles of Scilly Investment Funds, which each address structural regional imbalances through their expertise and specialised nature.

A recent loan through the Northern Powerhouse Investment Fund (NPIF) from CDFIs **Finance for Enterprise and the Business Enterprise Fund** has set SME [Labfacility](#) up for expansion. Labfacility is the UK’s leading manufacturer of temperature sensors. It employs 80 people and is responsible for producing a range of more than 5,000 temperature instruments, sensors, and couplings, and manufactures more than a million products each year which are sold in 120 countries across the globe. Its products are used in the engineering, pharmaceutical, aerospace, oil and gas and food production industries. The six-figure funds raised through NPIF will be used to help it acquire the adjacent 6,000 sq ft premises to its existing manufacturing and stores facility, as it targets future growth within the export sector.

Seventeen enterprise lending CDFIs are accredited to deliver the CBILS. As of the 14th December 2020, CDFIs had approved £59 million in CBILS-backed loans to hundreds of SMEs. Through this they have protected over 6,500 jobs and helped to create over 500 new jobs.

Such as Lincolnshire-based cheese company Chuckling cheeses, which secured a £250,000 Coronavirus Business Interruption Loan Scheme-back loan from CDFI First Enterprise – Enterprise Loans through the Midlands Engine Investment Fund. Despite losing all of its event turnover this year, the locally produced artisan cheese company is utilising the funding to adapt its business by investing in its online presence and moving several shopping centre kiosks into stores. It is also enabling the firm to stock more products, move warehouses and create 12 new jobs with more planned in 2021.

Social enterprise lending CDFIs provide finance and support to charities and social enterprises that often struggle to access appropriate finance. As social enterprises themselves, CDFIs understand the funding and operational needs of non-profit organisations. Social enterprise lending CDFIs are instrumental to the recovery from COVID-19 through the provision of financial support to help charities and social enterprises adapt to the new normal.

Throughout the COVID-19 crisis charities and social enterprises faced a double whammy of rising demand and falling incomes. Despite this, social enterprises were not able to furlough

staff as this would have meant 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. This funding includes:

- the [Resilience and Recovery Loan Fund](#), a fund targeted at organisations improving people's lives across the UK who are experiencing disruption as a result of COVID-19. The fund has issued £16 million in loans to more than 50 charities and social enterprises that would have not been able to access them otherwise;
- the [Social Enterprise Support Fund](#), which provides grants to support social enterprises during COVID-19.

Personal lending CDFIs provide affordable loans to low-income and financially vulnerable households who would otherwise only be able to access high-cost credit. Access to affordable credit improves the wellbeing and resilience of individuals by offering them a tool to:

- smooth fluctuating incomes;
- cover unexpected calls on their finances;
- spread the cost of expected larger expenses.

Alongside affordable credit CDFIs offer wrap around services such as helping people to claim benefits and providing budgeting advice. By empowering people to take control of their finances, CDFIs help them to save money in lower interest payments compared to high-cost credit, reduce stress and meet essential needs.

Since the onset of the COVID-19 crisis, millions more UK people have become financially vulnerable. CDFIs' proactive and innovative response is a lifeline for people facing financial hardship and will be vital as we move into the recovery period to stop people being saddled with debt by exploitative high-cost lenders.

About Our Response

Our response will focus on the role of the CDFI sector in mitigating the impacts of the COVID-19 pandemic and the support it can offer the Government to 'level up' the UK, protect and create jobs where businesses have fallen through the cracks and facilitate enterprise creation. This can be enabled by ensuring CDFIs have continuity of capital. Guarantees are like armour; but the CDFI sector's ammunition in the fight for business' survival is sufficient capital to on-lend. Despite their sustainable financial track record and experience delivering strong financial and social returns, the cost of accessing funding for CDFIs remains high.

Unlocking £100 million of funding for CDFIs will enable them to support SMEs through the recovery; to scale up; and make the UK a world-leader of purpose driven finance.

CDFIs and non-bank lenders are not on a level playing field with banks as they do not have access to the same low-cost capital. If left uncorrected, this unlevel playing field risks damaging the long-term sustainability of the non-bank finance sector, and creating a less diverse financial services ecosystem. By unlocking £100 million in funding for the CDFI sector, the Government could protect 13,000 UK jobs¹. Because the businesses CDFIs lend

to are located in the more deprived areas of the country, these jobs retained have a multiplier effect on sustaining the local economy.

A blueprint for this fund is Responsible Finance's Regional Growth Fund, which has an eight year track record of supporting unbankable but viable businesses. This model should be embraced and built on as it offers a strong and continuing return on the government's investment. The pioneering fund unlocked co-investment from two private banks; each loan made from the fund consisted of 50% of this leveraged private investment.

Details of the fund can be found below in our response and in our 2020 impact report available on our [website](#). The original Regional Growth Fund programme was restricted to England, therefore we recommend its successor being UK-wide.

This response ends with an appendix containing recent case studies from our member CDFIs.

Our Response

- **To what extent do Government measures protect viable jobs in the future and reduce the risk of long-term unemployment?**

We believe that the Government's measures including the Coronavirus Business Interruption Loan Scheme and the Job Retention Scheme have protected viable jobs and mitigated some of the risks of long-term unemployment.

Despite this there cannot be a one-size-fits-all approach to the UK's recovery from the Covid-19 pandemic. In order to build on the Government's 'levelling up' agenda regionally focused strategies are needed, shaped by local voices in local economies.

A challenge to recovery highlighted in Lloyds Bank's 'big conversation report' was that SMEs do not know where to turn for support and advice about finance, skills, growth and survival². The report suggested integrating sources of support for SMEs in clearly signposted hubs linked to employment services. The report said that 'above all, recovery will require businesses to invest in growth opportunities.' Businesses need sympathetic, flexible finance to support them to do so.

Going forward, to protect viable jobs and help to create new ones the Government must prioritise:

- Increasing the supply of finance to SMEs and social enterprises;
- Increasing the diversity of SME financing options;
- Addressing regional and demographic imbalances in the supply of finance.

This can be done by supporting the UK's CDFI sector to access long-term sustainable capital. By giving the sector continuity of capital, CDFIs can invest in their infrastructure to permanently scale-up into a world-class purpose-driven finance sector.

¹ Figure based on job outcomes from previous CDFI funding programmes.

² Lloyds Banking Group (2020) The Big Conversation: Helping Britain Recover. Available: <https://www.lloydsbankinggroup.com/assets/pdfs/who-we-are/our-purpose/the-big-conversation/the-big-conversation-report-2020.pdf>

- **How large a problem is corporate indebtedness? How effectively did the financial sector give assistance to businesses?**

SMEs have been hard hit by the pandemic, yet their ability to adapt, survive and innovate will determine the strength of the UK's economic recovery. Whilst protecting over 6,500 jobs, the CDFI sector's CBILS lending has simultaneously help to create over 500 new jobs. This is a triumph in the face of adversity and speaks to the adapt and thrive approach of many of the UK's SMEs. By offering flexibility and tailored support alongside loans, CDFIs' customers receive support to help them weather the storm and mitigate issues associated with corporate indebtedness.

- **Is there a need for a new state sponsored investment bank? If so, what should it do?**

There is a need for a source of long-term patient capital to drive investment in the UK's recovery from COVID-19, help us to navigate a post-Brexit reality and transition to net-zero. Any new financial institution should work in harmony with the existing network of institutions, banks and purpose-driven finance providers, including CDFIs. It should also have a remit to make investments which address key social and environmental challenges.

- **What improvements can be made to institutions to ensure that responses to crises like these are more robust in the future and policy makers have the data they need? What further analysis should the Government do and make transparent?**

Community Development Finance Institutions are counter-cyclical lenders so lend more at times of crisis to balance out the UK's cyclical financial markets.

CDFIs are recognised as one of the best routes to facilitate the flow of capital to small businesses in underserved communities, so to ensure we are well equipped to respond to future economic crises we must empower CDFIs.

In response to the 2008 financial crisis the Government awarded £30 million of Regional Growth Funding to Responsible Finance to be delivered by CDFIs to:

- lend to SMEs where banks would not;
- promote economic growth;
- address inequality of opportunity between different parts of the country;
- and create lasting private sector employment.

It sought solutions to the problem of how private enterprise and jobs could be stimulated in areas of deprivation and over-dependence on the public sector.

CDFIs used the original £30 million Government grant to unlock £45 million of private capital. By the end of 2019, repaid capital from the original fund had been recycled into new loans, bringing total lending to almost £90 million. This exceeded the target set by the Department for Business, Energy and Industrial strategy to March 2021 of £70.4 million. The fund has also exceeded its jobs target by over a third; creating 11,772 jobs and giving the government a cost per job of just £2,549.

The fund serves as a blueprint for a UK-wide recovery fund to build back better from the Covid-19 crisis at a time when it is most crucial.

Appendix – Case Studies

Nottingham Tech Firm Secures Funding To Improve Productivity Of Remote Workers

Dovetail Technology, a Nottinghamshire-based technology company responsible for developing laptop monitors to help businesses increase the productivity of staff working remotely, secured a £250,000 investment from CDFI First Enterprise - Enterprise Loans through the Midlands Engine Investment Fund (MEIF) and the Community Investment Enterprise Facility (CEIF), backed by the Coronavirus Business Interruption Loan Scheme.

The company was founded by Matthew Relf who designed and developed Packed Pixels in 2015 – a durable, lightweight and portable laptop monitor to provide users with all the benefits of working on two monitors that they'd experience in the office.

The business plans to use the funding to grow its operations and support fulfilment of orders across the UK and North America before expanding sales across Europe, Asia, Australia and South America.

Matthew, founder and CEO, said *“The idea for the portable laptop monitor came to me through frustration. I often found myself irritated when out on the road with a single laptop screen to work on.*

“After a long journey of design, development, testing, and continuously making improvements, I've learned so much and I am excited to bring the latest Packed Pixels monitors – Go and 4K – to the market. I firmly believe the latest models are game-changing products for remote workers that need the benefit of multiple monitors. The funding from First Enterprise, Enterprise Loans and MEIF has been fundamental in making this journey happen.”

Start Up Loans Floats Green Boat Design Business

Bristol-based Naval Architect and Boat Design business, ENPLO Ltd, is one of the latest to receive funding from CDFI SWIG Finance via The Start Up Loans Company.

The £15,000 loan will be used to provide working capital to cover initial repair costs and marketing expenses while the business establishes its profile.

ENPLO Ltd is a unique business which provides consultancy on all aspects of ship and boat design, including repairs and new designs for their customers.

Business owner, Despoina Karanta, 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.

Despoina is a qualified naval architect and marine engineer, she has also obtained a professional diploma in yacht and boat design. Her robust background will play a significant role in the success of her business.

Of the funding, Despoina said *“I am very grateful to Sarah and SWIG Finance for their assistance in securing this Start Up Loan, the funding will play a pivotal role in launching the business. Sarah is very knowledgeable and was able to provide advice throughout the application process”*.

SWIG Finance Business Manager, Sarah Osborn, led the deal. She commented *“This is an exciting and unique female-led business that has been launched into a male-dominated industry. We believe that Despoina will be very successful with her venture and we look forward to seeing how the business evolves”*.

Funding Lifeline for Ecological Housebuilder

One of the only developers in the country building houses to the premium ecological ‘Passivhaus’ standard has secured crucial bridging funds enabling its work to continue – protecting four jobs and helping to create four additional jobs.

Pure Haus, a Leeds-based ecological housebuilder, needed a funding lifeline to continue building one of the few UK developments in which all the homes will meet this strict standard. When a larger funding facility, vital to the work, was delayed because of the Coronavirus crisis the entire Pure Meadows project was put at risk. But a Coronavirus Business Interruption Loan has given Pure Haus the breathing-space it needed while other funding channels are finalised.

The firm made an application for a Coronavirus Business Interruption Loan (CBIL) to CDFI the Business Enterprise Fund (BEF) on a Friday – and received its bridging loan on the following Thursday.

“BEF were easy to deal with, the application was straight forward, and the funds were quickly in our account. This is a bit of a lifeline whilst the other funding channels are being finalised,” said David Bradley-Bowles, a director of Pure Haus.

Steve Waud, BEF’s CEO, added, *“Being small allows us to be incredibly responsive and agile. We have responded to a vast number of referrals in the market for assistance during this difficult time. The CBILS facility from British Business Bank has been a fantastic opportunity to help as many small businesses as we can.”*