

LEND ME YOUR FEARS

Lending, borrowing, saving and earning
Social enterprise finance in the East of England



THE GUILD

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Executive Summary

Findings from the research

The report outlines the findings of the research into finance available for social enterprises in the East of England and the financial support available for excluded individuals through services provided by social enterprises. Social enterprises are organisations that trade for social purposes and have social as well as financial objectives.

A questionnaire was sent to 405 social enterprises in the region and 161 were returned. The profile of the sector is that it comprises of a majority of traditional charitable organisations (57%). 49% trade at local level in an area less than county wide. 48% operate in the care sector and two thirds identify themselves as undertaking some level of trading activities. Although most of the respondents saw themselves as facing a growing demand for their services, there were mixed feelings about increasing their trading activities.

81% of respondents receive some grant funding. 19% are currently borrowing money, of which 88% are using commercial lenders. Loans are mostly larger than £100,000 and are most commonly used to invest in buildings. Respondents to the questionnaire and the telephone survey thought that the limitations on their ability to borrow money were caused by the perception that borrowing is risky (especially by trustees), the cost of borrowing, the need to provide personal guarantees and the lack of knowledge and information about this area of financial management.

Social enterprises using high street banks as lenders are more likely than other types of SMEs to be granted benefits such as repayment holidays. Social enterprises are less likely than other SMEs to use an overdraft facility. Social enterprises experience different experiences of using commercial lenders.

Positives	Negatives
Brand strength. Seen as financially stronger, more robust and trustworthy.	Requirement for matched funding
Complex transactions managed with ease.	High deposits sought
Local presence	Not designed for needs of charities Fair weather friends
Confidence of local authorities, trustees	Profit making motive incompatible with social economy.
International/export experience	Not geared up to deal with alternative legal structures i.e. co-operatives Out of touch with sector needs
Seen as cheaper than social economy specialists	Out of touch with sector needs
Good personal relationships	High charges
Preferential rates/low charges	

There was significantly less awareness and use of social enterprise lenders. Only two organisations had borrowed from one of the sector specific lenders. There appears to be a wide range of lenders in the social enterprise sector with mostly under subscribed loan funds. There are a number of new organisations starting up under the new system of Community Development Finance Initiatives. There are several very experienced lenders in the sector at local and national level, who specialise in lending to social enterprises.

Positives	Negatives
More ethical	Narrow product range
Geared to sector needs	Highly fragmented
Dynamic	Weak brands
Help financially weakest	Poor marketing & communication
Give better deposit rates.	High Street gives better rates
Will help organisations that the High Street will not consider	Better suited for large organisations, small organisations should not be encouraged to get into debt
	Weaker financial base
	Out of touch with 'grass roots'
	Very rigid lending criteria e.g. expensive time-consuming feasibility studies demanded
	Only work with certain organisations i.e. ICOF & co-operatives
	Unresponsive – long lead times.

Social enterprise lenders have different attitudes towards the issue of sustainability. Some prioritise the sustainability of the loan fund – being able to cover the cost of managing the fund with interest payments and other charges. Others subsidise the real cost of managing the funds so that they can provide cheap loans to their clients and help them set up sustainable businesses.

A range of grant funders currently support social enterprises but it is not always clear that they have thought about the differences between grant funding trading and non trading organisations. The Adventure Capital Fund specifically provides a fixed term development grant to help groups to set up new trading activities.

Social enterprises also act as financial institutions supporting individuals who are financially excluded. The most common form of organisation is that of a Credit Union – a community saving and loan mutual institution. Other providers include the New Horizons Savings and Loan Scheme (run by Cambridge Housing Society in partnership with Cambridge Building Society, for the benefit of its tenants) and the Suffolk Regeneration Trust (a mutual loan fund to support businesses and excluded individuals).

Section 1

Introduction

Extensive research has been undertaken to identify what constitutes financial exclusion, who is likely to be financially excluded, and what are the reasons for it. This research summarises many of those findings and identifies that the main causes of financial exclusion include:

Causes are complex and there is no singular or straightforward reason. Several studies differentiate between those who have disengaged from financial services after falling into financial difficulties resulting in the withdrawal of services and a majority who never engaged in the first place owing to barriers inhibiting their take-up of services.

Reasons given commonly include the following:

- Products are too expensive.
- Conditions can be attached to products which make them inappropriate.
- Some government policies can encourage or reinforce financial exclusion.
- Financial institutions deliberately target higher income groups.
- Limited or non-existent access to services. Changes in the structure of the retail-banking sector have led to the closure of 25% of local branches.
- Access to mainstream banking services can be restricted by identity requirements that poorer households may be unable to comply with on account of their exclusion in other areas.
- Poor financial education, beginning with a lack of basic instruction within the school curriculum.
- Studies have shown that many adults have limited knowledge of the alternatives to mainstream banks such as credit unions.
- There has been a slow response from the Government in revising the Consumer Credit Act 1974. As a result British consumers are particularly vulnerable to extortionate lending practices and the well documented activities of lenders who are acting illegally as well as high cost lending by some mainstream providers.
- Many people have a fear and mistrust of personal banking institutions.
- Failures of the Social Fund.

There are a number of areas within the East of England where debt is concentrated, identifying where people are most likely to be financially excluded, including Norwich, Luton, Watford and Bedford.

There are contradictions in the welfare system that appear to contribute to financial exclusion, including the programmes to help unemployed people start businesses (which would include social enterprises), where the risk is disproportionately borne by the individual rather than the benefits system. There needs to be

more forms of bridging between unemployment and employment, in particular self-employment.

The research identified opportunities to strengthen the social enterprise programmes such as those described above and help the organisations that have had some success in providing appropriate services to help overcome financial exclusion.

The research identified international models in Europe, the United States and in developing countries that could be incorporated into local support systems dealing with financial exclusion and social enterprises. However, research and development would need to be undertaken in order that the projects could be contextualised to be delivered in the UK fiscal and legal frameworks and within the local culture of finance and enterprise.

Implications from the research findings

There is currently sufficient loan finance available to support social enterprises in the region. However, what is available needs better promotion. Better financial advice is needed to help organisations manage risk and take on a wider range of financial support but organisations will need different forms of finance at different points in the organisation's life cycle and they should not be pressurised into borrowing because the funds are available and because this meets current policy requirements.

Many social enterprises would be unwise to borrow money in their current positions because they do not have the financial management capacity to deal with trading accounts.

Organisations giving grants to support social enterprises should be more aware of how grants can have a negative impact on organisations that are set up to trade unless certain conditions are attached.

There are a number of successful credit unions and other models of finance that are able to offer high quality programmes supporting people who are financially excluded. However, the provision and the quality of some of these are inconsistent and there are activities that could be undertaken collectively in order to minimise costs and maximise the impact of these approaches.

The successful models offer saving opportunities as well as the opportunity to borrow money. They also link with debt crisis programmes and provide people with long-term sustainable solutions to financial exclusion as well as instant access to crisis loans.

There is no single model that provides support appropriate to all excluded individuals or social enterprises at different stages of their development. A range of providers will always be needed. However, social enterprises do need to be made more aware of the specialist lenders in their sector and how they do not have the same conditions as commercial lenders, in particular they do not ask for personal security on loans. In addition they lend according to the borrowing records of social enterprises, which are shown to have a lower likelihood of defaulting on a loan.

Terms of reference

This research was commissioned by the East of England Development Agency (EEDA) as part of its remit to address social cohesion in the region. One of EEDA's strategic objectives is to promote social enterprise, whilst another is to support disadvantaged individuals to overcome financial barriers that prevent them taking up employment and self-employment. The research will form part of the evidence base to support the activities of the programme Supporting Social Enterprise in the Eastern Region (SSEER), funded by the European EQUAL programme. One of the outcomes of the research will be to compare the impact of social enterprise finance in SSEER's partner projects in Italy and Portugal.

The research was commissioned in order to:

- Review access to finance for individuals
- Report on access to finance for social economy organisations and potential social entrepreneurs
- Develop an East of England Strategy based on sound evidence

Approach taken by the researchers

Early in the research process it was agreed that the main focus of the research would be in the area of finance for social enterprises. There is a large body of existing data on the financial exclusion of individuals. We have undertaken secondary research and summarised the results. We have examined the link between individuals who are financially excluded and access to business finance. We have examined both the supply and demand for finance, in particular loan finance, as this has become an implicit barometer of the extent to which social enterprises are developing similar behaviour to traditional businesses.

Structure of the report

Sections two to four summarise the background to the research, the methodology used and describe the ways in which we have approached the different areas of finance for individuals and businesses.

Sections five to thirteen summarise the research findings from the different methods we have employed.

Sections fourteen and fifteen describe the implications of the findings, the conclusions we have drawn and the recommendations we have made.



Definitions of terms –

Social enterprises and the social economy

2.1 The main focus of this report is that of finance available to social enterprises. Social enterprise is a relatively new term in the UK and a definition given in the Department of Trade and Industry (DTI) publication ‘Social Enterprise: a strategy for success’ in 2002, has rapidly been accepted as standard.

A social enterprise is a business with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or in the community, rather than being driven by the need to maximise profit for shareholders and owners¹.

2.2 Social enterprises must earn at least some of their income through trading activity. This can include selling goods and services directly to the general public or to other businesses, providing services under contract to public sector agencies, earning money through rents on property or interest on loans. There are different types of social enterprise structures, some are completely self-supporting through trading activity while others subsidise their income through grants. These different types of social enterprise include:

- Social firms
- Co-operatives
- Community businesses
- Housing Associations
- Voluntary organisations that trade

2.3 These organisations provide social benefits in a number of different ways:

- Creating employment for disadvantaged people
- Providing services in disadvantaged communities (of place or interest)
- Earning income through trading that subsidises other social activities
- Providing socially beneficial services on the open market

2.4 Another term that is frequently used in this context is ‘Social Economy’. This is also known as the ‘Third’ or ‘Independent Sector’. It refers to all organisations that exist outside the public or state sector and private, profit-distributing business. The social economy includes:

- Social enterprises
- The whole of the voluntary and community sector
- Foundations and trusts
- Self-help and mutual organisations

2.5 The value of the social economy includes the unpaid labour of volunteers and community activists, donations and grants from the public, private and charitable sectors.

Social ends and social ownership

2.6 Social benefit is not the exclusive prerogative of the social enterprise sector, as well as those services delivered through public agencies, the private sector also makes a significant contribution. Larger businesses often make financial contributions to community organisations and sponsor the arts and sports. Increasingly they also look at the wider social impact of their activities including employment and environmental policies. This is commonly referred to as ‘Corporate Social Responsibility’.

2.7 Small businesses can also have an important social impact in the community, supporting local activities and offering beneficial services such as care for children, training for unemployed people, village shops or waste recycling – often the same sectors where social enterprise operate.

2.8 One of the main differences between these businesses and social enterprises is that the latter also demonstrate social ownership. That is the assets and resources of the business formally belong to those who benefit from it, for example:

- The local community
- The clients or users of the service
- Members of an organisation
- People who work there

2.9 That the organisation is accountable to the community it serves is an important factor of the social enterprise. The rules of the Charity Commission have traditionally mitigated against this approach, it being a fundamental principle that the beneficiaries of philanthropic activity are not able to influence how the service is funded or delivered. The social enterprise sector emerges from the alternative tradition of co-operatives and mutuals with organisational democracy.

Social enterprise and social exclusion

2.10 The genesis of the current government’s commitment to social enterprise is within its Social Exclusion Unit. In 1997 and 1998 a number of Policy Action Teams reviewed the causes of and possible solutions to the large number of people that were unemployed, under qualified, suffering from poor health and housing and a range of other factors that were deemed to exclude them from full participation in society and the economy. This work culminated in the production of the index of multiple deprivation and the identification of 88 areas of the country in which significant concentrations of disadvantage occur.

2.11 Part of the government’s subsequent support for social enterprise is as a perceived means of alleviating social exclusion. Social enterprises are seen as a means of delivering jobs, goods and services to disadvantaged communities.

2.12 Those agencies now charged with promoting or supporting social enterprises mainly do so within an economic context; the Regional Development Agencies (RDA) and Business Link Organisations (BLO) (through the Small Business Service). The Social Enterprise Coalition recently published the results of a survey of RDAs and devolved authorities of Wales, Scotland and Northern Ireland, undertaken by Professor Peter Lloyd. This study shows that social enterprises are seen in various agencies as:

- CDFI, ‘trading social enterprises’
- European ‘bottom up’ and social inclusion
- Co-op, CDA, democratic management²

2.13 Most support within RDAs is delivered:

As a part-task carried out by members of the social inclusion or sustainable development team³.

2.14 Business Links also support social enterprises as part of their brief to address the social exclusion agenda.

Social enterprises and social lenders

2.15 A further strand of the government’s strategy to support social enterprises is to identify ways in which to increase the financial investment to the sector. Social enterprises have always been able to generate income from different sources, including earned income from trading, grants and loans. Social enterprises have always been able to borrow from banks like any other business, but have often encountered difficulties in doing so (see below) and there have been a small number of social lenders that have targeted these organisations lending often at a reduced rate of interest.

2.16 In 2000 the Social Investment Task Force reported to the Chancellor of the Exchequer that the ways to:

Create wealth, economic growth, employment and an improves social fabric in its most under-invested, that is to say poorest communities⁴

2.17 Would be in the following ways:

- A community interest tax credit
- Community development venture funds
- Disclosure of individual bank lending activities
- Greater latitude for charitable trusts and foundations to invest in community development initiatives
- Support for Community Development Financial Institutions⁵

2.18 With new funding now available for many of these measures and a clear policy commitment from central government in place to help grow the social enterprise sector, we are now in a position to review what, if any differences these steps have made in the sector, whether the policies are having the predicted effect on social exclusion and what has been the response of the social enterprises themselves – many of which pre-date the current government enthusiasm for their work.

2.19 As is clear from the recommendations of the social investment task force, the role of financial investment has two drivers. One aim is to invest in social enterprises as a means of creating and retaining wealth in poor communities and where it can help maintain the financial sustainability of social enterprises, these enterprises being owned by members of the community. The second aim is to intervene directly to support individuals in poor communities who are excluded from mainstream financial services at competitive charges. The result often being that they are driven to use exploitative service providers for high cost finance.

2.20 The approach therefore is to make finance available to

- Social Enterprise Organisations
- Other employment initiatives
- Individuals
- Lenders

2.21 Through the means of

- Grants
- Loans

2.22 For the purpose of this report, we have divided our findings into the following areas:

- Finance for social enterprises.
- Finance for socially and financially excluded people for individual consumption – whether or not it has specific social benefits.
- Finance that aims to enable socially excluded people to start businesses – traditional businesses as well as social enterprises
- The impact of the benefits system on socially excluded people moving from welfare to work.

¹ Social Enterprise: a strategy for success, DTI, 2002.

² Social Enterprises in the English RDAs and in Wales, Scotland and Northern Ireland, Peter Lloyd, SEC, 2003
³ Ibid.

⁴ Enterprising Communities: wealth beyond welfare, the Social Investment Task Force, 2000
⁵ Ibid.

Section 3

Methodology

- 3.1 The main focus of this work has been that of finance for social enterprises. However, we have also examined the main issues of how individuals are excluded from financial services. The main research methods we used were as follows
- 3.2 A postal questionnaire was administered in order to capture basic information on the nature of the sector, covering kinds of organisations, the sectors in which they operate, their main activities, their sources of finance, their experience with loan finance and their knowledge and interest in specific social economy financial services and instruments (see appendix 1).
- 3.3 A purposive sample of 405 organisations was drawn up. The sample was based on a database created during a previous research contract for EEDA⁶. The sample was constructed to cover all the geographic areas in the region. We ensured that the sample included a range of different activities and structures of social economy organisations.
- 3.4 A total of 405 questionnaires were sent out in the week beginning 28.7.2003 following an initial telephone contact to confirm up to date contacts and addresses. In total 171 questionnaires were returned by the deadline of 29.8, representing a return rate of 41.9%. Further analysis confirmed that this was still a representative sample, although there was a slightly higher response rate from credit unions but this was expected considering the questionnaire addressed finance.
- 3.5 The second research method we employed was a telephone survey of social enterprises. We selected a sample group of 30 organisations out of the questionnaire respondents. Again we chose a sample that was geographically representative of the region, which included all the different types of social enterprises and based on responses to the questionnaire, those that had a more diverse financial profile. We designed a semi-structured questionnaire and the respondents were interviewed by telephone at a pre-arranged time (see appendix 2). The interviews took place in September and early October 2003.
- 3.6 Interviews with Credit Unions were undertaken separately (although one Credit Union was included in the sample of social enterprises). We identified a sample of six Credit Unions and looked for a representative sample of the different sizes of Credit Unions, based on the most recent returns to the Association of British Credit Unions Limited (ABCUL). We only sought to interview community Credit Unions, not those that are employer based, as we were aiming to examine the issue of financial exclusion (see appendix 3 for interview questions).
- 3.7 We undertook secondary research on social economy finance internationally. This included both instruments to support social enterprises and traditional businesses set up by socially excluded people.
- 3.8 We undertook further secondary research into the financial barriers to starting a business that are presented by the welfare benefits system and the effectiveness of the current initiatives to address this problem.
- 3.9 Finally, we undertook a series of telephone interviews with support agencies. These agencies are mostly providers of finance to either social enterprises or financially excluded individuals or both. In some cases the finance for individuals is specifically for business purposes and in others for personal use. In case of the latter, we wanted to know whether people use the finance for any kind of business purpose. We again used a semi-structured questionnaire to conduct the interviews (see appendix 4).

⁶ Making @ Living for the community: mapping the social economy in the East of England, the Guild, EEDA, 2001.



Section 4

Borrowing and Social Exclusion

- 4.1 Social enterprises, as described above, represent a broad spectrum of organisations and there are diverse views and practices of sourcing and managing finance. While the more enterprising end of the spectrum, the co-operatives and specific trading organisations have used the same processes as traditional Small and Medium-sized Enterprises (SME), that is borrowing to fund start-up and expansion and aiming to cover revenue costs by trading; those from a voluntary sector background have developed a dependence on grants.
- 4.2 Voluntary organisations have frequently earned some of their income through trading – charity shops being the most common example. The traditional model of a charity shop is one in which donated (free) goods are sold to the general public by unpaid volunteers. These trading activities have generally been set up as separate trading arms, wholly owned by the parent charity, to which all surpluses generated from the trading activity are donated.
- 4.3 Increasingly, voluntary organisations have begun to undertake a wider range of trading activities, aiming not just to earn income from trading, but to sustain paid employment. This approach is seen as a way of maximising the contribution they can make to overcoming social exclusion, creating employment that is often for excluded people – in many cases the organisation's target beneficiary group. However, many of these organisations appear to develop their trading activities with a deficit underpinned by their grant funding.
- 4.4 It is thought by many practitioners and support agencies that one of the fastest ways of growing the social enterprise sector is to enhance the trading activities of voluntary and community organisations. This assumption underpins the DTI's social enterprise strategy
- While some social enterprises start off as businesses, most are in transition from their beginnings as voluntary sector organisations, dependent largely on grants and volunteers, and working to increase traded income. A recent National Council for Voluntary Organisations (NCVO) report said that up to 35% of general registered charity income is derived from trading activities⁷.*
- 4.5 One of the key indicators of the success of this approach will be to identify whether these groups are maintaining a dependence on grant funding or whether they begin using traditional forms of business finance, in particular loans, overdrafts and equity finance.
- 4.6 There have been a great many public sector initiatives since the early 1980s, to encourage unemployed people to set up their own businesses. From the Manpower Services Commission's Enterprise Allowance Scheme, set up in the mid 80s (in which people coming off unemployment benefits could be paid £40 per week for a year and any income their business generated could be retained) to loans offered by local authority economic development units to help new businesses set up in the area, these initiatives have all aimed to create jobs through self-employment.
- 4.7 Twenty years on there are a number of proven methods of support to help people setting up businesses with few resources, to invest in their business in order to build financial sustainability, manage risk and develop a good credit record to enable them to access mainstream business finance.
- 4.8 Individuals can be excluded from mainstream finance in a number of ways (see section 12). The main routes for addressing these issues are through advising people in crisis, such as the debt counselling services provided by agencies such as the Citizen's Advice Bureaux; financial literacy programmes, often targeted at young people and run in areas where there is a history of financial problems and the provision of alternative forms of finance. The most common form of financial provision is through Credit Unions. These are community saving and loans mutual institutions in which local people are encouraged to save and can then borrow against their savings for personal use. A number of other forms of saving and loan schemes have been established in recent years, a number of them in the East of England.
- 4.9 A common feature of these schemes is that they not only offer access to money to people who have very few options available, but that they encourage people to save and take more control of their finances. As with the business programmes described above, developing a track record of saving and re-paying loans with a credit union or other form of community finance scheme, enables people to access mainstream financial institutions.

⁷ Social Enterprise: a strategy for success, DTI, 2002.

Section 5

Profile of Social Enterprise in the Region

5.1 In 2001 EEDA contracted with The Guild to undertake a mapping of social enterprises operating in the East of England. This was the first time the sector had been profiled in any way. 1103 social enterprises were identified and figures extrapolated from the 33% of organisations that returned the questionnaire, show that:

5.2 The total turnover of the sector is over £3 billion per annum.

- This represents between 1% and 1.5% of the total turnover of Small and Medium size Enterprises (SMEs) in the region.
- Nearly 27,000 people are employed in the sector on a full time basis and 13,500 on a part time basis.
- The sector also employs nearly 1000 trainees and just over 26,000 volunteers.

Profile of the respondents

5.3 Of the 1103 social enterprises that were identified and sent a postal questionnaire, 326 organisations returned eligible responses. This group provided the basis for the sample used in the current research. Added to the sample group were new organisations that have started trading since 2001 and some that were unknown at the time of the previous survey.

5.4 From the 161 eligible responses to the questionnaire the following profile has been drawn.

Legal status of the organisations

Table 1: Breakdown of legal structure of social enterprise respondent

Company limited by guarantee	63 (39)	Development Trust	1 (1)
Company limited by share	8 (5)	Co-operative	14 (9)
Industrial and Provident society	38 (24)	Community Enterprise	4 (2)
Registered Charity	91 (57)	Credit Union	9 (6)
Unincorporated Association	10 (6)	Social Firm	7 (4)

(a) Respondents could tick more than one category of legal structure as:

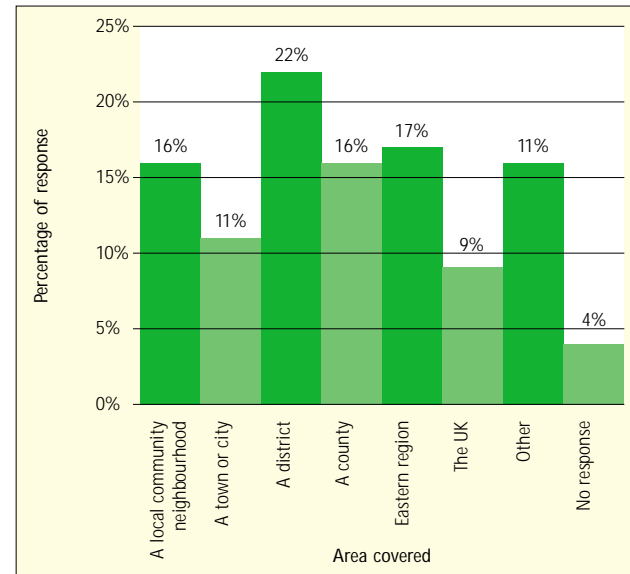
(b) Organisations incorporated under the Industrial and Provident Societies Act and regulated by the Financial Services Authority can be established as co-operative or for the benefit of a designated community.

(c) If a respondent describes their legal structure as a charity, then the charity must have a separate legal form, so it is likely that they will have ticked company limited guarantee as well.

5.5 The question (1.7) on the legal status of the organisation revealed a social economy sector in the region, which remains traditional. 91 of the sample were registered charities and 39% were companies limited by guarantee. A relatively small number operated as co-operatives, community enterprises or development trusts.

Trading area

Chart 1: Breakdown of areas covered by respondents trading activity (a)

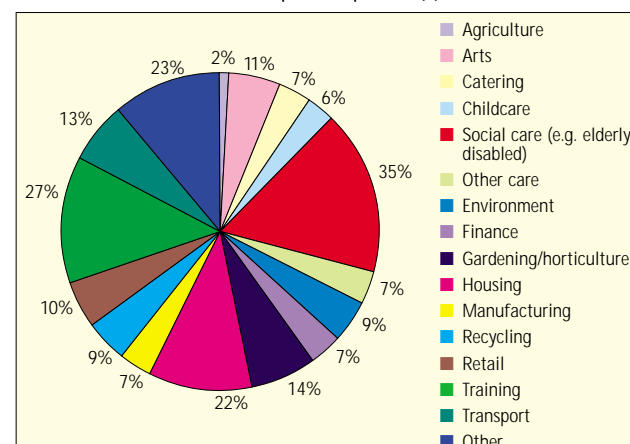


(a) Total number of respondents 171

5.6 Only 9% of the sample declared that they operated on a national level (Question 1.8). Of the rest, 79 were focused on the local (district/town or community) level, with 26 extending their operations to a county level and a further 17 that covered some or all of the Eastern Region (a number of respondents said they operate in more than one county within the region).

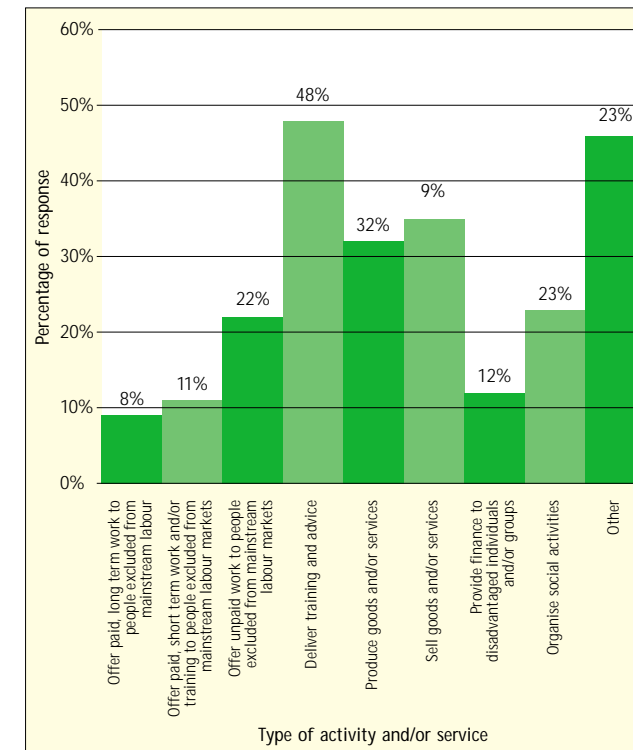
Trading Activities

Chart 2: Sector of social enterprise responses (a)



(a) Social enterprises may be operating in a number of different sectors and thus the results do not sum to 100%

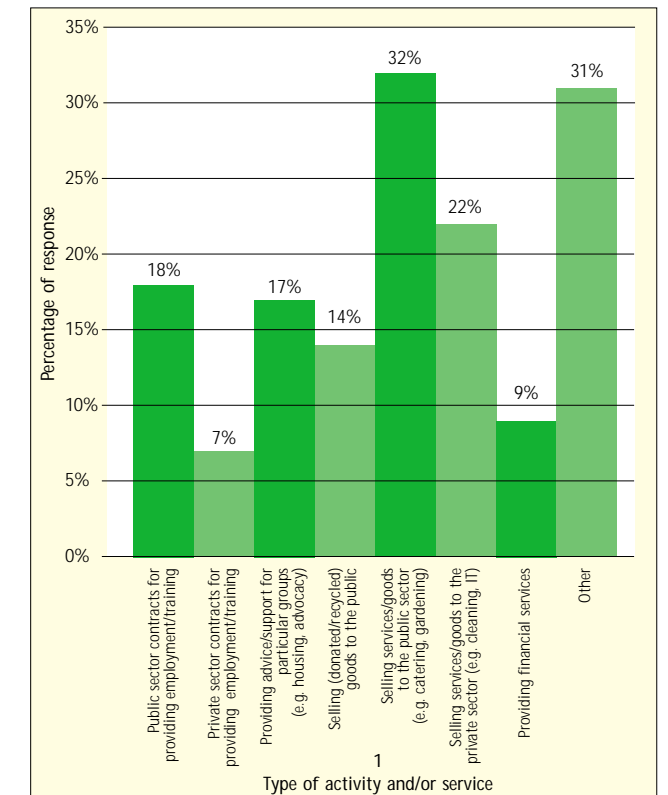
Chart 3: Types of activities and services provided by the social enterprise sample (a)



(a) Respondents were able to give one or more response

5.7 48% reported that they were operating within the care sector, with 22% in housing and 27% in training services (Chart 2). Only a minority reported operating in the retail, manufacturing, finance and the environment. However 67% reported that they produced and/or sold goods and services (Chart 4), with 19% providing subsidised employment, work experience and/or training within the intermediate labour markets (Chart 3).

Chart 4: Activities and services from which respondents raise income (a)



(a) Respondents were able to give more than one response

5.8 According to the questionnaire returns about a third of the organisations reported raising an income from some kind of trading activity (Chart 4). There is some confusion amongst some social enterprise organisations about what activities constitute trading. This often creates a difficulty in being able to validate some of the figures given in postal questionnaires. We have attempted to triangulate the data by asking more than one question on this issue and comparing the answers given. The answers given to this question and questions 2.1 and 2.2 (Section 6) suggest that this is an under-estimation of the true figure.

5.9 According to the responses given in the telephone survey, most of the sample group viewed their organisations as growing. Turnover is increasing and this increase is more likely to be gradual and steady rather than large step changes. However, there is a tendency of some in the social enterprise sector to underestimate the level of trading activity they undertake. Some interviewees required prompting to see income from rents or contracts with public authorities as trading.

5.10 Social enterprise does appear to be a growth sector. The Bank of England study of social enterprises⁸ showed that 65% of social enterprises said that their income from trading had increased over the past three years, compared to 45% of traditional SMEs.

⁸ The Financing of Social Enterprises: a special report by the Bank of England, Bank of England, 2003.

Section 6

Sources of Finance

5.11 The issue of public sector contracts or so-called Service Level Agreements (SLA) is a complex one. SLAs were introduced in 1989 in the legislation, replacing a longstanding system of grant aid to organisations delivering support services. When SLAs were first negotiated with agencies, many of the contracting departments in local authorities and other agencies attempted to treat contracts as just a different way of providing grant support. Many local authority departments, particularly those providing care support preferred not to think of this as a commercial transaction. This encouraged many of the organisations to which they contracted to behave in the same way.

5.12 In addition to this culture of denial of the reality of the contracting relationship there is also the issue of tax to be considered. The Customs and Excise department has agreed that for the purposes of V.A.T. these contracts should not be categorised as trading. So there is a real disincentive for social enterprises, in particular those from the voluntary sector to think of their activities as trading.

Potential to increase trading activity and diversification

5.13 All respondents were aware of the potential to increase trading activity, typically through diversification into related markets or better penetration of existing ones. Expansion of trading activity was desired almost universally on account of the following factors:

- The limited manner in which grant finance could be applied.
- Feeling compelled to deliver services that met funding agency need, not clients needs. Client need is not necessarily related to the aims of statutory funders.
- Growing uncertainty/limited availability of grant finance.
- Grants and service level agreements are typically time limited and thus mitigate against long-term strategic planning and service development.
- Delays in receiving grant funding.
- The impact on time and resources in making grant applications.
- The impact on time and resources in securing matched funding.
- The desire to become self-sustaining for its own sake.

5.14 However, a small number of respondents expressed reservations due to:

- Services being deliberately targeted at financially disadvantaged/commercially non-viable beneficiaries. There was thus seen to be an inherent conflict between meeting these needs at the lowest possible cost and generating surpluses.
- A belief, not widespread, that organisations could be 'too successful for their own good.' Exceptional success in

trading would make it more difficult, perhaps impossible to access grant finance, perceived as a familiar and 'safe', if troublesome way of generating revenue.

5.15 Despite these reservations, The Bank of England⁹ study did show that a significantly higher proportion of social enterprise (84%) than SMEs (63%) were looking to expand their trading activities over the next 3 years. Even 42% of those currently not looking to expand said they would be prepared to do so if external finance was made more readily available.

5.16 In summary, it can be said that there is a growing awareness amongst social enterprises of the need to increase their trading activities. There is also awareness of unmet demands for services they either do or could deliver. A significant prohibiting factor to this potential for growth is the attitude towards finance of key decision makers.

Diversity of Response

5.17 It must be acknowledged that whilst the aim with statistical data is to try to draw out certain trends in response that represent a wider population, in reality, it is very hard to make generalisations that are entirely inclusive in this way. Using a microanalysis of the community transport sector, the great variations between individual organisations, which are more or less involved in similar activities, can be illustrated.

5.18 The different legal structures that the community transport organisations operated under is a key example here. 4 of the organisations out of the overall 13 were solely registered as charities. 4 ran under the company structure limited by guarantee but also had charity status. 5 organisations were Industrial and Provident Societies but only one of these organisations also had charity status.

5.19 In terms of the income the organisations had received, 9 of the respondents operating in the community transport sector said that they earned some of their income through their trading activities. This left 4 organisations that felt none of their income was generated through trading. Confusing, as this may seem, that those contracted to deliver transport do not believe this to be trading, it highlights the great variation in organisational perception within the sector. Furthermore, whilst the main usage of trading income was to cover running costs, there was great dispersion in other ways that the income was put to use. 1 organisation said that they used some of their trading income to cover their start-up costs. Another had used some of this income for investment in property and equipment, and 1 had used some of it for training.

5.20 Consequently, these examples demonstrate immediate contrasts between organisations which fundamentally undertake similar work, but organisations that considerably differ in how they operate. This small-scale diversity, like the diversity of the social enterprise sector as a whole, makes it difficult to distinguish and account for all organisations individual needs.

⁹ The Financing of Social Enterprises: a special report by the Bank of England, Bank of England, 2003.

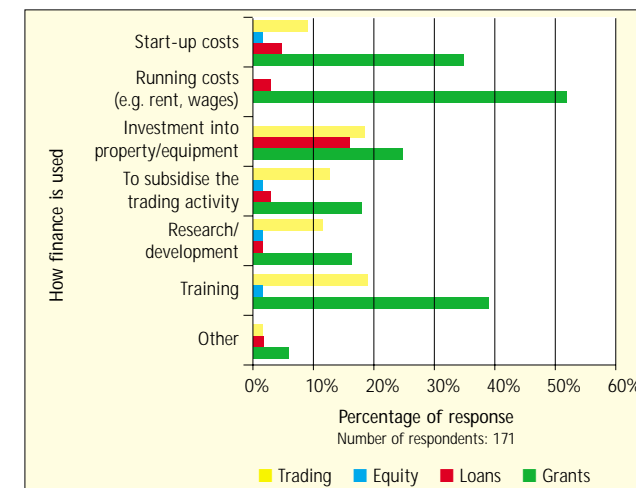
6.1 This survey has identified that social enterprises access three main sources of finance:

- Grants
- Loans
- Trading income

6.2 Other forms of finance used in the commercial sector such as equity finance, business angels and venture capital, are not being used to any significant degree by our sample group. Some high growth social enterprises in other parts of the country are known to have used these methods but from the evidence we assume this is not the case in the East of England. The telephone interviews showed evidence of social enterprises generating income through building an asset base.

6.3 The different forms of finance were used by the respondents in the following ways.

Chart 5: Breakdown of the types of funding the sample of social enterprises received and how this finance was used (a)



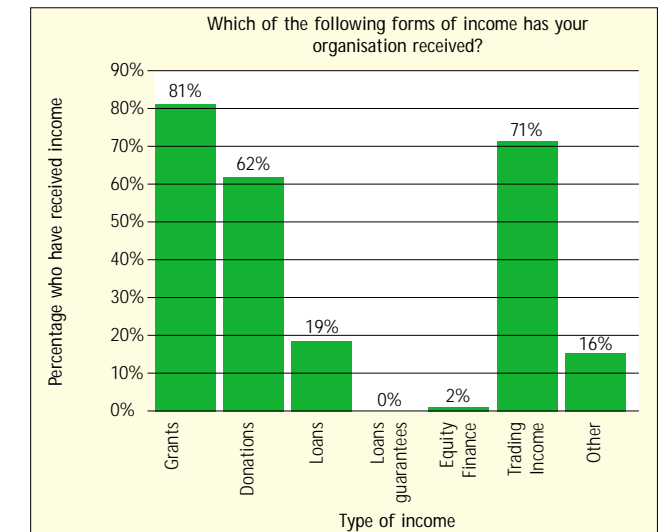
(a) Respondents were able to give one or more responses

Grants

6.4 81% of the sample group had received grant funding. We attempted to find out which were the main sources of grant funding supporting the sector but the answers to the question have not enabled us to do so. We asked respondents to indicate the types of agencies that were supporting them (e.g. local authorities, charitable trusts, ESF) and to provide figures of the amounts of money they had received. This would have enabled us to identify the main investors of the sector in relation to grant support. Unfortunately the majority of respondents merely ticked all the boxes that were relevant to their business. It is our assumption that giving us actual amounts would have required that they spend additional time on the questionnaire and did not wish to do so.

6.5 This figure of 81% represents significantly the largest source of finance for social enterprises.

Chart 6: Breakdown of the forms of income the respondents received (a)



(a) Respondents were able to give one or more responses

6.6 In general the findings show that there remains a high degree of dependence on grants by a large number of the respondents. The telephone interviews show that the uses of grant finance by the respondents and in particular the relationship to earned income is a complex one.

6.7 Use of grant funding in relation to earned income

- Reliance on grant funding for start-up costs and thereafter an increasing reliance on trading income as organisations evolve.
- Grant finance limited to specific projects/activities/purchases.
- Trading income used to subsidise delivery of service level contracts or fund non-eligible services.
- Trading income to build up defensive cash reserves.
- Trading income, not grants, to develop new services.
- Grants for one-off capital purchases.
- However, a significant number of organisations also said that all funding went into a 'central pot' with no differentiation on its form of origin.

6.8 An interesting theme that emerged from The Bank of England study of social enterprises¹⁰ was of the impacts that grant funding might have on the organisations willingness or ability to seek loan finance. Some main difficulties included:

¹⁰ Ibid.

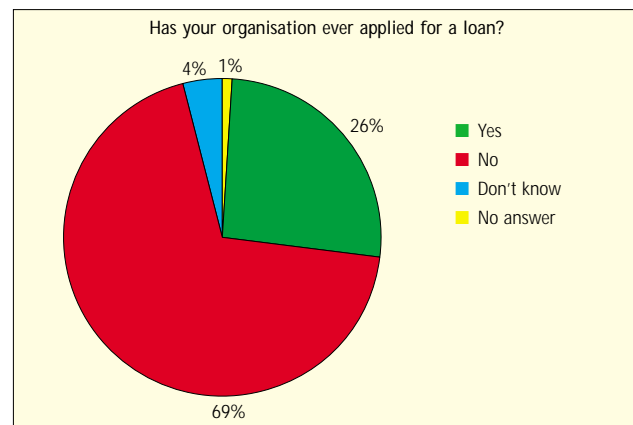
- Certain grants, such as the European Social Fund, are designed to reimburse actual expenditure. As a result, the organisations have no ability to organise their finances in a manner that would leave surplus with which they could build up reserves or an asset base to secure loan finance in the future.
- Grants funding is often short-term. This can make it difficult for an organisation to prove they have sustainable income.
- The skills required for applying for grant finance, where the social impact of the proposal is of principle interest to the funder, are very different from applying to a loan, where the ability to repay is critical.

6.9 This shows that whilst grants may have the benefit of being non-repayable, which is particularly important to social enterprises that are at start-up or working in a difficult market, they still impose a number of constraints that inhibit social enterprises ability to access other external financial products when and if needed.

Loans

6.10 The postal questionnaire identified that 42 respondents (26%) had applied for a loan in the past.

Chart 7: The number of organisations who had applied for a loan



6.11 Of these 42 respondents, 41 had been successful. 37 of these organisations (88%) had borrowed from high street banks or building societies. Only 3 organisations (6%) had borrowed from specialist social enterprise lenders.

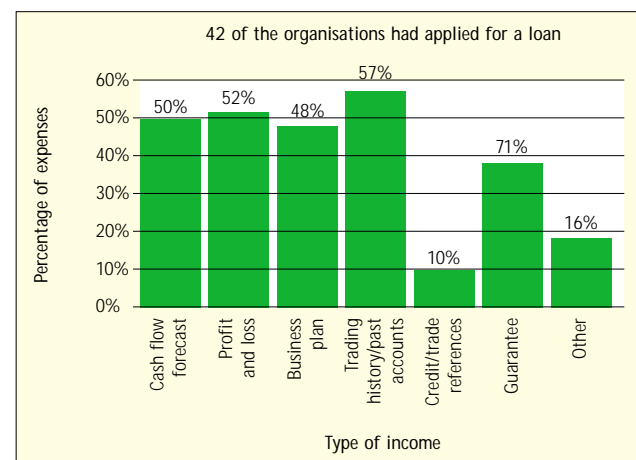
6.12 60% of those that had taken a loan had borrowed over £100,000. 7% had borrowed less than £5,000. The telephone survey showed that this is likely to be because the main purpose to which borrowed money is put, is investment in major capital projects, specifically the purchase of and/or refurbishment of premises.

6.13 The Bank of England Study¹¹ compared responses between social enterprises and SMEs, in terms of their reasons for taking out their most recent loan. The largest difference was the greater proportion of social enterprises (32%), which had taken out their most recent loan to buy a building, compared with SMEs (7%). This may be because in the current property climate, purchasing buildings is seen as relatively low risk expenditure in terms of financial return compared with other expenditures. However, the sample sizes for this particular analysis were small and should only be taken as an indication of behaviour. In addition, because respondents were only asked about their most recent loan, this may just reflect that the SME sample already had mortgages and had taken out loans for other purposes.

6.14 When asked if their organisation needed to provide a guarantee for their loan, only 13% of those respondents who have applied for a loan had not been asked. The analysis showed that of those asked to provide a guarantee over half were actually able to provide one.

6.15 52% of those organisations that had borrowed money had done so at full commercial rates. 38% (16) had received preferential rates. We asked what evidence the lender had asked for, in order to release the loan.

Chart 8: What the sample had to provide the lender in order to access the loan



6.16 Of the total number of respondents to the postal questionnaire, 56% (90) had never considered applying for a loan. We asked what had prevented the organisation applying for a loan and the following answers were given:

Chart 9: Breakdown of the reasons which prevented some organisations applying for a loan



6.17 The telephone interviews identified that loans had been considered and rejected as an option by a larger number of groups than is suggested by the postal questionnaire. We pursued the reasons that had prevented groups applying for loans. Key responses included:

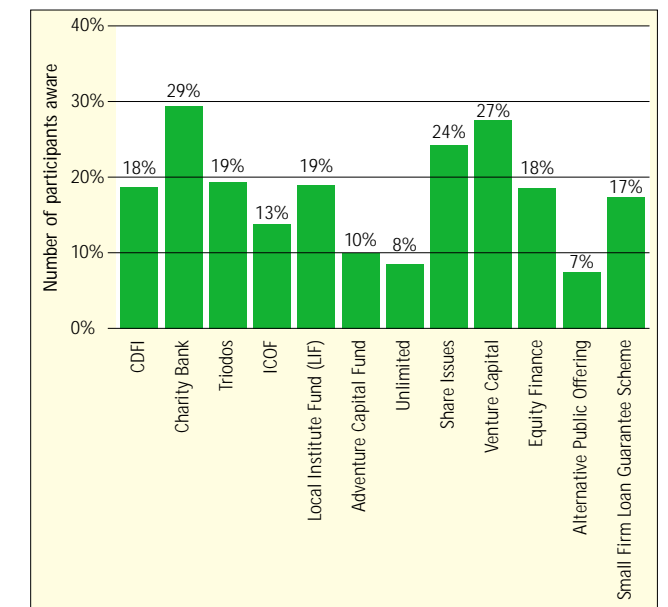
- Conservative, risk-averse trustees, particularly in relation to personal guarantees.
- Loans required matched funding, or large deposit, a particular barrier to small organisations.
- High cost of borrowing.
- Future uncertainty of grant finance not compatible with long-term financial commitment.
- Fears about the lack of robustness of business plans.
- Lack of information about sources of finance.

6.18 The Bank of England report of social enterprises finance indicates that, larger social enterprises and those with a higher proportion from trading have a greater demand for external finance than those social enterprises with a turnover of under £50,000 and those with less than 25% of income from trading¹². This appears to suggest a relationship between the growth and profits of social enterprises and their capacity to cope with the cost and risks involved with taking a loan.

6.19 From the Mapping of the Social Economy in the East (2001) study, conducted by The Guild on behalf of the EEDA, it was possible to identify, from those that gave estimated figures on their annual turnover, a very large range in the sample in terms of size and turnover. The figures from this current survey also indicated varying proportions of income generated from trading in the sample. Taken that the Bank of England's findings are representative of the sector, it can be assumed that this diversity in size and income from trading activities might contribute to the demand and use of loan borrowing of social enterprises in the east.

6.20 The postal questionnaire asked respondents to indicate their knowledge of the forms of finance available to them by showing of which forms of finance they were aware. The range of source options that was typically considered was very small. The lowest cost was the key criteria for choice.

Chart 9: Breakdown of the financial sources that the social enterprise sample were aware of (a)



(a) Respondents were able to give one or more response

6.21 The choices listed include a mixture of established social enterprise lenders, new initiatives and generic forms of finance. The knowledge that these forms of finance exist cannot be said to indicate that the respondents understood what these options were or would consider using them in their organisation.

6.22 Some of the highest positive responses were given to generic sources of finance such as venture capital.

6.23 Under one third of all organisations surveyed declared any knowledge or awareness of specific services, institutions and instruments available for the social economy sector. Of those that were recognised the Charity Bank and Triodos scored well (29% and 19% respectively). Over a quarter of respondents were aware of share issues and venture capital though this is not necessarily specific for the social economy.

Trading income

6.24 71% of respondents said that they earn some of their income through their trading activities. 44% of respondents said that they were using their trading income to cover their revenue costs. We opted not to ask respondents to provide us with a detailed breakdown of their income sources so we are not able to quantify what proportion of respondents' income is earned

¹¹ Ibid

¹² Financing of Social Enterprises Report, The Bank of England, 2003.

Section 7

Financial Management Capacity

through trading activities. However, the recent Bank of England survey of social enterprise finance¹³ showed that 56% of social enterprises earned over 50% of their income through trading (excluding grants but including public sector contracts) with 47% earning 75% or more of their income.

6.25 Our sample group in the telephone survey showed a growing awareness of the need to diversify sources of funding and to earn a higher proportion of their income through trading activities. The sample included several organisations that were wholly reliant on trading income. However, the majority were reliant on multiple sources of income.

- It is possible to discern a specific response towards the management of future risk through the development of strategies that set out to diversify both the activity base and also sources of revenue.

"We have a strategy in place to manage future risk by diversifying our activities and diversifying our sources of income." (Voluntary Organisation, Peterborough)

¹³ Ibid.



Future Income

6.26 Generally, there was widespread uncertainty and trepidation regarding future grant income caused by:

- Internal changes of priority/structure particularly local authorities.
- Time limited agreements.
- Perception that grant finance will be less widely available in future and will have more onerous delivery/monitoring criteria.

6.27 However, a small, but marked number of respondents felt their grant income was very secure. Longer agreements were described, in one case of up to ten years. Closer partnerships with funding bodies were described and a clearer understanding of their aims and how to meet them were mentioned.

7.1 Existing evidence of the social economy sector shows that the capacity of organisations is varied. It covers large and successful trading organisations that employ often large numbers of people with a range of specialist skills, to small, voluntary organisations that have just begun to earn some income through trading. We wanted to identify what the level of financial management skills were in the sample group. The evidence, in particular of the telephone survey, showed that organisations could be averse to taking the kind of risks that would be deemed necessary in the mainstream business sector. It seemed likely that perceptions of risk would be related to the levels of knowledge and skills in the organisation.

7.2 We asked respondents through the postal questionnaire who was responsible for managing finance in the organisation? We particularly wanted to identify how many organisations had a dedicated finance officer. Some 26% of the organisations surveyed employed a dedicated financial officer. And in a further 22%, the director or Chief Executive was responsible for financial operations. In the remaining organisations, financial operations were carried out by the general administrative staff or volunteers (board members and others). Approximately 40% of organisations that have a dedicated finance officer or whose finances are managed by a board member with an accountancy background have taken out a loan – suggesting that a certain level of expertise may be needed in the organisation before they feel able to manage this level of risk.

7.3 The Bank of England also identified this issue:

Some research points to a lack of business experience among management and trustees, which may mean that they are not confident about assessing the costs and benefits associated with debt or equity finance¹⁴.

7.4 One example of this inexperience is how many organisations surveyed in a study in Merseyside (2002)¹⁵, regarded the cost of an overdraft as a disadvantage (*"it costs us about £10K per year, which isn't a bad salary for someone"*). Such a view does not equate these costs against the benefits that an overdraft might offer in terms of the financial buffer and/or the flexibility around money, which might be needed when debit and credit payments, generated through trading, become unbalanced.

7.5 The telephone survey identified a range of issues relating to the financial aspirations of the organisations and the level of skills that were needed within the organisation in order to respond to opportunities. We asked about current skills, sources of external advice and future training needs.

¹⁴ Ibid.

¹⁵ Northwest Development Agency (2002) Merseyside Social Enterprise Initiative.

Use of external agencies/advisers to give advice

7.6 Two organisations had received help from social economy specialists (support in accessing loan finance from ICOM – application was not successful) and the Charities Aid Foundation. The Charities Aid Foundation has a fund that eligible groups can bid into for development support provided by CAF's approved consultants.

7.7 The key source of external help was from private sector accountants/auditors. This was seen as useful, but out of touch with the sector's needs. Business Links were also giving advice. Again, advisers were not seen as having a sufficiently developed knowledge base of how the sector differs. Specialist advice relevant to the social economy would have been welcomed, both by organisations already receiving advice from auditors/accountants and by those not currently receiving any external advice. However, several organisations made the point that they would not be prepared to pay for that advice.

"The advice we received from a mainstream company to integrate our unit for the learning disabled into our other work made total financial sense but it totally negated the philosophy of how we work and would have left a group of very vulnerable people without the support they need." (Social Enterprise Sudbury)

Training needs

7.8 Only a very small minority of organisations felt that there would be no benefit from additional support/training relating to financial management.

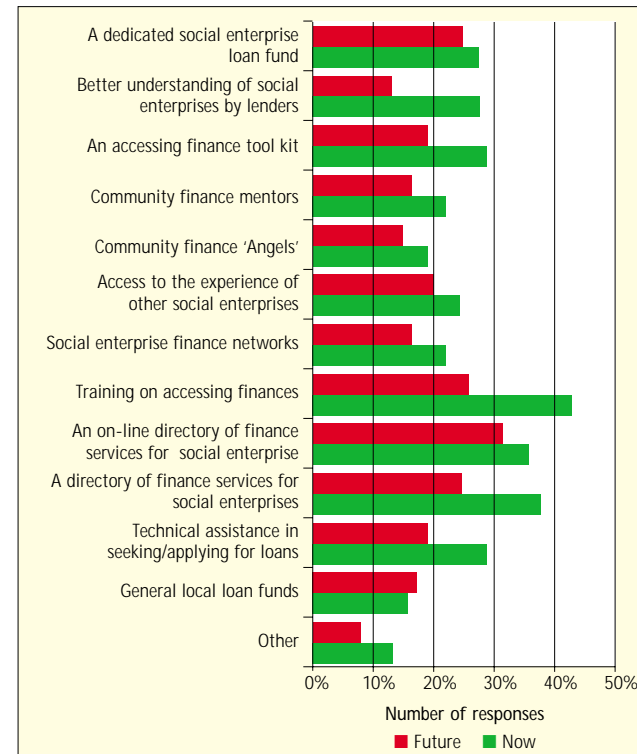
- The key requirement is information and awareness of different sources of finance available of all types – deposit funds, loan finance.
- However, for maximum effect, greater awareness of loan finance should also be accompanied by training in assessing financial risk, the financial feasibility of projects/services and business planning.
- How to launch trading arms/develop commercial social firms were mentioned as specific needs.
- A number of respondents also talked about the need for a cultural shift and the development of a stronger commercial ethos, both within their own organisations and the sector as a whole.
- Better mechanisms for disseminating financial information generally.
- Advice on local funds.

This is reinforced by the findings of the postal questionnaire, which show that the following support would be useful to the respondents.

Section 8

Experience and Perceptions of Commercial Finance Providers

Chart 10: Breakdown of the financial services that the respondents would find useful (a)



(a) Respondents were able to give one or more responses

7.9 There is a clear negative correlation between levels of trading income and the propensity to adopt a defensive stance to questions about financial sustainability. Organisations with limited trading income are more likely to be using trading surpluses as a protective reserve against future hardship. It is noteworthy though that several organisations were identified that have traditionally used surpluses in this way but are now becoming more adventurous and earning a proportion of surplus for organisational development.

7.10 Organisations that are already trading successfully are more likely to have the confidence to use surpluses to try out new ideas and develop new services.

Finance use in relation to stages of development

7.11 As organisations evolve, there is a clear shift towards a desire to increase reliance on trading income.

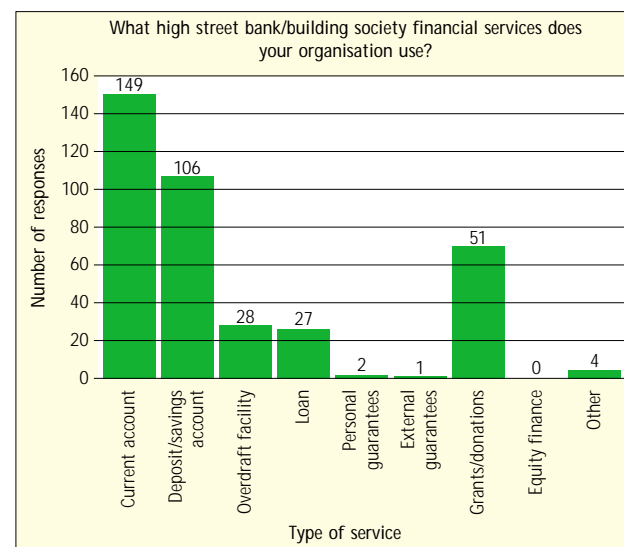
"We are constantly striving to increase levels of self-generated income. It is the only way we will find the freedom to develop new services." (Voluntary organisation King's Lynn)

7.12 Once this approach is fully adopted by the organisation, the approach to finance appears to develop. Better integration of financial management into other aspects of the organisation takes place, along with a more rigorous approach in evaluating financial sustainability. This results in the diversification of funding sources, including maximising trading income.

8.1 Both the postal questionnaire and telephone interviews sought to identify to what extent social enterprises are using mainstream financial services, if they receive any preferential rates in recognition of social benefits or the lack of individual benefit for the directors and what were their opinions of the commercial sector.

8.2 93% of respondents to the postal questionnaire have a current account with a high street bank or building society. 66% have a deposit account with a mainstream financial services provider.

Chart 11: Breakdown of the high street bank/ building society financial services that respondents used (a)



(a) Respondents were allowed to give one or more responses

8.3 Of the 41 organisations that had successfully applied for a loan, 64% had borrowed from a bank and 24% from a building society. 38% of these borrowers had received preferential rates for the loan. According to the Bank of England survey, social enterprises are twice as likely as traditional SMEs to have been offered a capital or interest repayment holiday¹⁶.

8.4 Social enterprises are less likely than traditional SMEs to use overdrafts as a form of debt finance. The Bank of England's research shows that 26% of the social enterprises they studied had an overdraft facility compared with 41% of SMEs. The samples showed that 58% of social enterprises had no debt finance at all, compared to 49% of SMEs.

8.5 Additional evidence was also sought in The Bank of England¹⁷ study from banks on borrowing by social enterprises. The purpose was to gain additional information on the terms and average values of loans to social enterprises. The main findings included:

- The banks surveyed reported a total of £14.8 million held in deposit by 163 social enterprise organisations.

¹⁶ Ibid.
¹⁷ Ibid.

- They revealed a very large range in the sample in terms of size (defined by turnover), from small organisations with a turnover below £10,000 to large enterprises with multi-million pound turnovers.

- They identified 35 customers with agreed overdrafts and 26 with outstanding overdrafts. The total value of outstanding overdrafts was £1.3 million, of which about 60% of the agreed overdraft had been drawn down. Average facilities varied from £20,000 up to £105,000, while average overdrafts outstanding varied between £2,000 to £63,000.

- 25 organisations had outstanding business loans, with a total value of £14 million. But this may represent a few very large loans to large organisations. The majority of these loans were at least partially secured. Approximately 75% of these loans had an outstanding value over 10 years suggesting they were commercial mortgages.

- The average margins on overdrafts and loans were ranged between 2% and 4% over base. This is on average in line with margins on small business lending, although the sample did not exclusively consist of small social enterprises (as noted above).

8.6 These figures do suggest that social enterprises are making use of commercial borrowing and banking facilities. It also appears that social enterprises do not pay excessively high for their borrowing. However, they do not appear to show the different needs between social enterprises and SMEs, nor the different needs within social enterprises (relative to size, security and financial skills) have been recognised.

Attitudes to mainstream financial service providers

8.7 Respondents to the telephone survey were asked about their experience of and attitudes to the financial service providers they used.

8.8 Typically organisations were using mainstream banks for all banking needs. Although a small number of respondents had deposit funds with social finance economy institutions (Charity Bank and COIF), or loans from other sources, these tended to be relatively small.

8.9 Larger organisations felt they had a much stronger position from which to negotiate preferential rates for loans/overdrafts/mortgages if all monies were banked together. Moving deposit funds would jeopardise that relationship, even if it meant securing better rates for deposits, this would be outweighed by the overall loss.

8.10 Experiences of mainstream banking institutions varied dramatically. Smaller organisations tended to be most critical – feeling that banks have slow, cumbersome procedures, they have experienced difficulties with multiple cheque signatories,



Section 9

Experiences and Perceptions of Social Enterprise Financial Providers

BACS procedures, lack of flexibility, non-preferential rates, high deposits for mortgages and requests for personal guarantees.

8.11 Larger organisations with stronger balance sheets and those undertaking more complex transactions were most likely to report positive experiences.

"They offer us a first class international service in relation to letters of credit and we have an overdraft facility at 2.5 % over base. ICOF would have charged much more". (Co-operative, Cambridgeshire)

8.12 Some of these respondents saw it as a synergistic relationship. They were receiving preferential rates whilst banks benefited from being able to demonstrate social/ethical integrity. For respondents of all types, a local presence and personal contact were very important in determining levels of satisfaction.

8.13 A high level of inertia was apparent amongst those who banked with mainstream providers.

"We have always banked with them"

"The Treasurer is an ex Bank Manager with Barclays."

Table 2: Opinion of mainstream providers

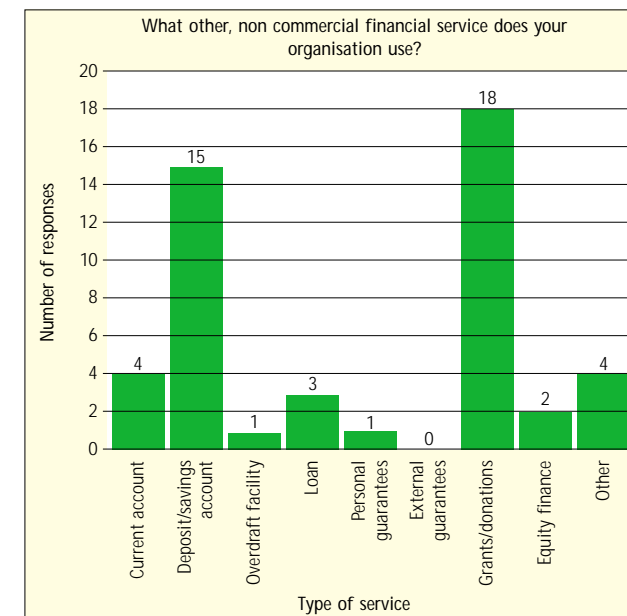
Positives	Negatives
Brand strength. Seen as financially stronger, more robust and trustworthy.	Requirement for matched funding
Complex transactions managed with ease.	High deposits sought
Local presence	Not designed for needs of charities
Confidence of local authorities, trustees	Fair weather friends
International/export experience	Profit making motive incompatible with social economy.
Seen as cheaper than social economy specialists	Not geared up to deal with alternative legal structures i.e. co-operatives
Good personal relationships	Out of touch with sector needs
Preferential rates/low charges	High charges

8.14 One of the main barriers to social enterprises borrowing from banks is the requirement to provide personal guarantors for loans. In many cases directors or trustees of social enterprises are unwilling to become guarantors. In some cases this appears to relate to the individuals' lack of financial management knowledge and being unwilling to take such a risk. In other cases individuals have felt that they should not be treated the same as directors of commercial companies because they do not stand to make a profit out of the business and should not be expected to take a loss. They feel on principle that the banks should recognise other signs of commitment to the business than money, such as 'sweat equity' (investing time and energy into a project).



9.1 Only a small proportion of social enterprise respondents in our postal questionnaire had any direct experiences of using social enterprise financial service providers. 9% used social enterprise providers for holding deposit or savings accounts, while 3% had borrowed from a non-commercial lender.

Chart 12: Breakdown of the non-commercial financial services the respondents had used (a)



(a) Respondents were able to give one or more responses

9.2 Of those respondents who had borrowed money, only one organisation had borrowed from Charity Bank and one had borrowed from ICOF. This does not correlate with the findings of the Bank of England survey, which identified that social enterprises were more likely than mainstream businesses to borrow from a wider range of lenders including Community Development Finance Initiatives (CDFIs). This may suggest that in other parts of the country social enterprises are more likely to use social enterprise finance providers than in the Eastern Region.

9.3 However the telephone survey reinforced the findings that few social enterprises had an unmet demand for social enterprise finance.

Typically respondents had no experience at all. Whilst they were vaguely aware that such organisations existed, they had not worked with them. Opinions thus formed on scanty knowledge base.

Opinion of social economy finance institutions

9.4 The following statements are a selections of participants opinions of financial institutions:

- A strong ethical stance is less important than availability of preferential rates.

9.5 *"I see Tridos as the voice of the future, but we wouldn't sign up to their ethical code as it would restrict our members activity too much."* (Agricultural co-op, Essex)

- Some resistance to the concept of specialist social economy institutions, especially from those with a strong commercial ethos.

9.6 *"It is part of our ethos that we are an ordinary business and we want to bank as such."* (Social enterprise, Cambridge)

9.7 *"Their focus is on organisations that are 'dead ducks'. They are mitigating against the development of successful commercial enterprises."* (Social enterprise, Cambridgeshire)

9.8 *"They wouldn't work with us because 100% of our income is derived from trading."* (Co-operative, Cambridgeshire)

Table 3: Opinions of social economy finance institution

Positives	Negatives
More ethical	Narrow product range
Geared to sector needs	Highly fragmented
Dynamic	Weak brands
Help financially weakest	Poor marketing & communication
Give better deposit rates.	High Street gives better rates
Will help organisations that the High Street will not consider	Better suited for large organisations, small organisations should not be encouraged to get into debt
	Weaker financial base
	Out of touch with 'grass roots'
	Very rigid lending criteria e.g. expensive time-consuming feasibility studies demanded
	Only work with certain organisations i.e. ICOF & co-operatives
	Unresponsive – long lead times.

10.1 The various elements of what is now called the social enterprise sector, have for many years, been supported by a range of financial organisations. The co-op sector, traditionally the most commercial end of the social enterprise spectrum, has been supported by well-established financial organisations. These include the Co-operative Bank, ICOF, which has been lending money to co-operatives for 30 years and local funds such as that run by Cambridge Co-operative Development Agency for 21 years. However, the number of organisations now offering finance to businesses on a non-commercial basis and the ways in which they operate have grown substantially in the past three years.

10.2 This is as a result of the findings of the Treasury's Social Investment Task Force, which reported to the Chancellor of the Exchequer in 2000. The Task Force was charged with identifying:

10.3 How entrepreneurial practices can be applied to obtain higher social and financial returns from social investment, to harness new talents and skills to address economic regeneration and to unleash new sources of private and institutional investment. In addition, the Task Force should explore innovative roles that the voluntary sector, businesses and government could play as partners in this area¹⁸.

10.4 The report made five proposals to increase access to finance and to maximise business involvement. These were:

- A community investment tax credit to encourage private investment in community development. The resulting investment of £1 billion over the programme duration would be invested in both profit-seeking and not-for-profit enterprises in under-invested communities.
- Community Development Venture Funds. We suggest a match funding partnership between government on the one hand and the venture capital industry, entrepreneurs, institutional investors and banks on the other. Initially, we suggest that £100 million be made available by government on attractive terms in matching funding over the programme's duration.
- Disclosure of individual bank lending activities in under-invested communities. This should, if possible be done on a voluntary basis, but if voluntary disclosure is not made, legislation should require disclosure.
- Greater latitude and encouragement for charitable trusts and foundations to invest in community development initiatives, even when these include a significant for-profit element.
- Support for Community Development Financial Institutions, including Community Development Banks, Community Loan Funds, Micro-loan Funds and Community Development Venture Funds. This requires action by the

Government and its agencies (such as the Small Business Service), the private sector and the voluntary sector¹⁹.

10.5 In the 2002 Budget, the Government announced that it would introduce the Community Investment Tax Credit (CITC) to generate the finance for investing in disadvantaged communities. It is administered by the Small Business Service and directed through accredited Community Development Finance Institutions (CDFIs). This has resulted in a large increase in providers of loan finance becoming established in the past two years, to take advantage of this money when the tax credit became available in January 2003. Now called the Community Investment Tax Relief (CITR), this enables investors to claim 5% per annum on the amount contributed to CDFIs, for a minimum of five years.

10.6 CDFIs lend to social enterprises and traditional small businesses and also to individuals in disadvantaged communities.

10.7 We have identified all the CDFIs and other organisations that finance social enterprises that are operating specifically in the East of England and national bodies to which social enterprises from this region can apply. This has included lenders that do not specifically target social enterprises but where the criteria do not exclude social enterprises from applying. We conducted a series of semi structured telephone interviews with the lenders (see appendix 4). We also interviewed the Chief Executive of a well-established local CDFI not based in this region and the Foggia regional representative of Banca Etica, the leading Italian social enterprise financial institution.

10.8 We identified three categories of lender:

- National organisations lending to businesses
- Regional and sub-regional organisations lending to businesses
- Organisations lending to individuals

10.9 Some of these organisations lend to social enterprises only, some lend to all types of business but target social enterprises and have specific processes to process social enterprise applications, others lend to all businesses, including social enterprises but with no specific criteria. Organisations lending to individuals do so in order to provide people with access to finance that mainstream lenders deny them. In some cases this is specifically for the purpose of starting a business, in others loans can be for personal use.

10.10A full summary of the size and conditions of the loans can be found in appendix 5.

National organisations lending to businesses

ICOF

10.11 ICOF is the oldest established social enterprise lender, having been running for thirty years. It lends specifically to co-ops and more recently to social enterprises. It targets the whole of the mainland UK but also manages some local funds. It is about to launch a fund for the Eastern Region. ICOF is owned by a board of trustees, comprising of representatives from the co-op and social enterprise movement, including; borrowers, investors, the Co-op Band, Co-operatives UK etc...

10.12 ICOF charges an average interest rate of 8.5%, but this varies on what the level of risk is considered to be. High-risk loans are deemed to be those to new start businesses and lending to cover cash flow. Loans can be for up to ten years and the average is five years. The maximum size of a loan is £50,000 and the minimum is £5,000. ICOF's default level on loans is approximately 5% of lending per year. The fund is sustainable, covering all of the management overheads. ICOF sometimes works in partnership with other lenders, especially the newer providers as this is believed to grow the market, and it is recognised that:

The demand side wants stimulation

Charity Bank

10.13 Charity Bank is the only social enterprise lender with the full status of a bank. It grew out of the Investors in Society fund, managed by the Charities Aid Foundation and was launched as Charity Bank in 2002. Many of the staff are those with up to six years experience working on the IIS fund and many of the assessors have mainstream banking experience.

10.14 Charity Bank lends to charities, non-profit-distributing companies limited by guarantee or organisations with charitable objectives. The bank lends to organisations throughout the UK and Northern Ireland and will lend for a period of up to twenty years for property purchases but the average loan period is three to five years. Charity Bank also provides guarantees for clients using mainstream lenders. Charity Bank charges 6% interest and a 1% administration fee. The accountable body for the fund is a credit committee, which is in turn, accountable to the full board. Two people assess all applications.

10.15 The borrowers need to have a certain level of financial management in place before they would be in a position to borrow and this tends to favour older groups rather than new start social enterprises. Charity Bank regards the financial knowledge within the lender organisation to be more important than security for a loan. Repayment levels are good; the bank has just incurred its first bad debt and has a loan loss reserve of 3%. The aim is to intervene if lenders encounter problems and it will offer routes such as repayment holidays.

10.16 As a bank, the organisation receives money from depositors where they pay up to 2% on funds into the loan fund and any interest that philanthropic individuals do not claim. The fund is not currently sustainable but aims to be so within five years.

10.17 Charity Bank is keen to work with other, local CDFIs, where they can contribute larger loans based on the local knowledge of their partners. The view of lending at present is that:

10.18 Grant funders give grants to people who could get loans, whereas they could be giving grants to those who can't borrow.

Local Initiatives Fund

10.19 The Local Initiatives Fund (LIF) runs a national fund and in most areas a regional fund. The Eastern Region is one of only two areas where it does not run such a fund. The aim is to run regional funds for smaller loans (between £10,000 and £100,000) and to link with the national fund for larger loans (between £25,000 and £250,000). The target market is social enterprises, particularly community businesses in areas of market failure and regeneration and the aim is to move clients into mainstream borrowing. The fund has been running for eight years. Regional funds have their own councils of management comprising public and private sector funders, clients, community representatives, community networks and local networks.

10.20 LIF charges interest of between 3.5 and 4% over base rate with an up front fee of between 1.5 and 2%. LIF do ask for security on loans but not from directors or trustees; they will normally ask for security on a building or the value of contracts held by the lender. LIF also has a provision for 3% default on its loan book each year although in practice it is lower than that. The fund is not currently sustainable and still depends on grants – when regional funds reach the value of between £800,000 and £1 million then they become sustainable. The aim is to take the mystique out of loans.

Regional and sub-regional organisations lending to businesses

Cambridge Co-operative Development Agency

10.21 CCDA runs the only loan fund in the Eastern Region that is specifically targeted at social enterprises. The fund itself is small, just over £20,000 and loans are for amounts between £1,000 and £4,000 although there is a specific priority for lending to new organisations to cover the cost of registering a business and this can often be less than £1,000. The fund has been in operation for twenty-one years and was originally established from local authority grants. Over the years they have also received investment from EEDA, interest payments and £5,000 from a local co-operative. The target group is for co-ops and social enterprises where there is a specific social need in Cambridgeshire.

¹⁸ *Enterprising Communities: Wealth beyond welfare, Social Investment Task Force, 2000.*

¹⁹ *ibid.*



10.22 Decisions on loan applications are made by a panel of board members – which is elected from the CDA membership of individuals and social enterprises. The interest rate on loans is 5% but loans for incorporation costs are interest free. Over the lifetime of the fund the default rate has been 22%, although this is reducing and last year there were no write offs.

10.23 Those loans are offered as part of the CDA's package of business support and cover both start-up and business growth. Some borrowers use the loan for re-financing commercial loans to reduce the cost of borrowing. CCDA works in partnership with ICOF to support groups needing bigger loans. The main weakness in the loan service is that the CDA can take up to three months to make a decision and this is recognised as being too slow.

Suffolk Regeneration Trust

10.24 This is a new initiative that will be operational from January 2004. The aim is to manage a fund of approximately £400,000 that will support businesses and individuals. Not all of the procedures have been agreed to date but there is a business plan that outlines the overall direction of the project. Suffolk Regeneration Trust (SRT) will begin by financing businesses including social enterprises within the county. After the first year the aim is to expand the project to lend to individuals.

10.25 Business loans will be targeted at start up businesses and are likely to be for between £3,000 and £50,000. There may be separate criteria for social enterprise borrowers, such as not having directors provide personal guarantees. The marketing of the fund to social enterprises will be different although the charges will be the same as traditional business borrowers. The repayment rates are anticipated to be better from social enterprises than mainstream businesses. The interest rates have not yet been agreed but will be set at a commercial rate.

10.26 The SRT will be a mutual fund owned by funders, and people in Suffolk that want to be members. The aim is to offer a public share issue late in 2004. The aim is for the fund to be sustainable in seven years. However, it is recognised that additional development support might require grant funding.

Enterprising Communities/In Credit

10.27 Enterprising Communities is a project sponsored by the Phoenix Development Fund in Stevenage. It is about to launch a revolving loan fund in November 2003, known as In Credit. A further offshoot of the project is to establish a CDFI called In Credit Ltd. in March 2004.

10.28 The current project, the revolving loan fund provides loans of between £50 and a maximum of £1,500 for a first loan and £2,500 for a second loan. It is available to any type of business and the priority groups for loans are young people and women. Beneficiaries from these two groups can be from anywhere in Hertfordshire. The aim of the project is to support

business start up. The work with young people is delivered in partnership with the Prince's Trust. The programme includes training as well as loans and borrowers are expected to have completed the training, which produces a business plan and cash flow forecast. The interest rate charged on the loans is 3% above base rate with an additional 3% as an administration fee, which is refunded if the loan is repaid in full and on time.

10.29 Decisions on loan applications will be made by a steering group of the co-ordinator, a business consultant and a banker or accountant.

10.30 The In Credit CDFI will target new start businesses, expanding businesses with fewer than five employees and social enterprises in Stevenage and North Hertfordshire. Loans will be for a minimum of £1,500 and a maximum of £7,500. Social enterprise borrowers will have to demonstrate additional social impact, such as inter-trading with other social enterprises and employing local people (the latter will be applicable to all businesses). It has not yet been decided how the social impact will be measured. Many of the processes will be similar to those of the revolving loan fund. Issues such as interest rates have not been agreed yet.

10.31 This is a new fund that hopes to be established as a CDFI and aims to be operational from April 2004. At the time of the interview the promoters were awaiting the results of an application to the Phoenix CDFI fund. Along with contributions from ERDF objective 2 funding for parts of Norfolk and the Waveney district, funds from Business Link Suffolk and other expressions of interest, the Phoenix money will make the value of the fund up to £1 million. The fund will cover all of Norfolk and Suffolk although some of it will be ring fenced within the Objective 2 areas. The fund will lend to start up businesses, early stage businesses that are likely to grow and social enterprises. It is anticipated that 5% of the fund will be ring fenced for social enterprises although there will be no specific criteria in the application process or changes of the evaluation system for measuring social impact. The criteria for defining social enterprises have not been identified.

10.32 The CDFI will be established as an Industrial and Provident Society and membership will consist of investors, including individuals who have shares in the IPS. Charges are likely to be equivalent to commercial rates and there will be an administration fee although this has not been agreed to date. The anticipated default rate on loans is 3.5% of capital per annum. The target for loans is to lend 70% of the capital in the first 30 months, at which point the fund will be sustainable.

Business and Community Enterprise Project

10.33 This project is based in the Marsh Farm area of Luton and is funded by the New Deal for Communities. It is run directly by

the Development Trust that is managing the whole New Deal project. The project currently offers small grants of up to £2,000 to start up businesses in the area. It enables new businesses to undertake a trial trading period, at which point they can apply to a bank with a trading record, or it can be used for equipment for start up.

10.34 The target groups are residents of Marsh Farm, non-residents who can prove direct benefits to Marsh Farm, such as creating jobs or providing services, and in particular people from the Black and Minority Ethnic Community. The project is keen to support social enterprises although most of the beneficiaries to date have been sole traders. The project also links beneficiaries with business training, provided by the project or other partners. There is also a business mentoring project at Marsh Farm that provides mentoring support for the first two years of trading. To date the project has supported thirteen businesses.

10.35 A new project is being developed to set up a loan fund that can lend up to £10,000 but this is likely to be a separate project. New Deal is also funding a Credit Union to support individuals.

Organisations lending to individuals

Full Circle

10.36 WEETU runs a Microcredit programme called Full Circle, targeting socially and/or financially excluded women, helping them to start small businesses. The beneficiaries are most likely to set up as sole traders but could potentially start social enterprises. Many of the businesses do have some social benefits. WEETU is based in Norfolk and the programme runs in Norfolk and parts of Waveney district and Mid Suffolk. There is a programme running in the New Deal for Communities area of Norwich that targets men as well as women.

10.37 The programme lends up to £1,000 on the first application and then second and potentially third loans of up to £2,000. The third loan is discretionary and it is normally assumed that the business will have a trading and credit history and can apply to a mainstream lender. The project also runs a smaller initiative targeted at childminders. If they are members of the Norfolk Childminders Association, they can borrow as little as £60 to meet the requirements of becoming a registered childminder, such as buying safety equipment for their home or having health checks. WEETU encourage these women to stay involved in the programme, accessing training and ensuring their business is more sustainable.

10.38 Full Circle has been running since 1998 and the programme includes business training, which the women will normally have completed before they borrow money. The participants set up 'lending circles' that provide mutual support and help

each applicant to develop her business plan. The lending circle decides if the application should receive a loan and only when that lender has begun to pay back her loan can the next member of the circle apply. The circle itself takes on the loan and the applications are almost always ratified by Full Circle's loan committee, although sometimes further information is sought. This model is based on the Grameen Bank developed in Bangladesh by Professor Mohammed Yunus.

10.39 The loans are charged at 3% over base rate and there is also a 3% charge on the capital. If the borrower repays the loan with no problems (and incurring no costs) then the charge is refunded. Normally loans can be taken out for up to two years and people can negotiate a repayment holiday if they can demonstrate that is in the interest of the business. To date the default rate on loans has been between 3% and 6% although it is improving over time. One person has been taken to court for non-repayment. 9.3% of the loan portfolio is at risk because there is a one month delinquency rate on repayments, but in most cases this is a temporary state of affairs. The fund is run by an Industrial and Provident Society and was established from the Phoenix Fund, Natwest Bank, a charitable trust, two district councils and the New Deal for Communities.

10.40 WEETU considers the loan fund to be sustainable in its own right but is run as part of a wider programme which will continue to be grant funded. Although only one third of the participants in the programme currently take out a loan, according to WEETU, those that do:

10.41 Provide feedback that the loan is important. It contributes to the solidity and progress of the business and that small element of risk helps sharpen up their thinking.

Prince's Trust

10.42 Although the Prince's Trust is a national organisation, the business support programmes operate at a regional level. In the Eastern Region there is a fund of approximately £500,000. Both grant and loan funds are run by the trust, targeting young people between the ages of 14 and 25 years old. In particular the programme targets young people who are regarded as disadvantaged such as underachievers at school, leaving care or ex-offenders. Increasingly, they have found that, graduates who cannot access bank loans owing to the level of debt with which they leave university are seeking business loans.

10.43 Initially the trust offers a test marketing grant of up to £250. They are then expected to produce a business plan and can use it to apply for a grant of up to £1,500 or a loan of up to £5,000, or a combination of the two. The trust also offers development grants of up to £250 to help people into work not just business start-up. The repayment period on loans is up to three years and 3% interest is charged. The trust normally writes off 40% of loans a year. It is recognised that

Social Enterprises as Financial Institutions

the borrowers are often high-risk individuals. The reasons for non-payment of loans are a combination of business failure, changes in personal circumstances or that the young people move and are not traceable.

10.44 The Prince's Trust aims to support approximately 240 businesses per year in the region. The funding for the programme is increasingly to be raised by the region with head office expecting them to be self-sufficient by 2004/5. The loan fund is not sustainable and the trust will continue to apply for money from public sources.

Other sources of finance for social enterprises

Grants for businesses

10.45 A small number of local authorities in the region provide small grants for business start-ups but many of these are tied to particular activities such as training. The National Learning and Skills Council funds a business start-up grant scheme, New Entrepreneur Scholarships, run by Norfolk and Waveney Enterprise Services in the East of England. In 2003/4 it will allocate £283,500 in grants of up to £3,500 per business. It is available only to start-up businesses but can be used for a wide range of purposes including training, working capital or equipment.

Global Grants

10.46 This is part of the European Social Fund Objective 3 programme. It enables small grant funds to be set up to support small, voluntary sector projects access money to help overcome barriers to employment for disadvantaged people. There are six funds, operated at sub-regional level in this region and some specifically target start-up social enterprises. Grants are normally for a maximum of £10,000. All the Global Grants programmes in the region can potentially support some social enterprises:

- Acorn Grants - Norfolk
- Key Fund – Essex
- Cambridgeshire Global Grants
- Key Fund – Hertfordshire
- Community Development Fund – Suffolk
- Aspiration/Community Finance Initiative – Bedfordshire & Luton

10.47 Grants are most likely to be available for groups starting a social enterprise rather than those that are already trading.

Development Grants

10.48 The Adventure Capital Fund is a new programme to assist the development of social enterprises to help them become more financially sustainable. It particularly targets community based businesses and is run nationally by the Development

Trusts Association (DTA), the Scarman Trust and the New Economics Foundation and funded by the Active Communities Unit of the Home Office. There is a national fund that supports 'Patient Capital' investments of up to £400,000 per business and a bursary or development grant fund that provides up to £15,000 per business. The Patient Capital awards are a combination of deferred payment loans, straightforward loans at a 1% interest rate and non-repayable grants.

10.49 The East of England has been one of the pilot areas for the development grants and they have been funded by the East of England Development Agency. No 'patient capital' awards were made to projects in this region in the first year of operation. Eight development grants were awarded to growing projects in year one and the Fund is awaiting the results of a second bid to EEDA for the 2004/5 period.

10.50 The development grants in the region were awarded to eight organisations, each of which received £13,700. They were all new organisations or existing groups developing their first trading activity and the aim of the programme is to help them become more sustainable. In addition, the development grant is to help smaller groups to become investment ready, enabling them to access the main fund for a substantial investment.

10.51 The timetable for the launch of the programme has not allowed any group to access both funds at this point. The initial evaluation of the programme does not show the impact of the development grants as several recipients are only just drawing down the money. The anticipated benefits of the programme will be evaluated at a later stage.

Regeneration and Renewal funding

10.52 Some social enterprises have been established through funding received from central government or the European Union to regenerate specific disadvantaged areas. These have included the Single Regeneration Budget, New Deal for Communities and Objective 2 funds. The capital investment has been of benefit, especially for community based asset development such as development trusts. The New Deal programme in Marsh Farm, Luton, is taking social enterprise development as a major priority for the sustainable development of the community.

Other financial services

Finance Redirect

10.53 A new project is being set up to provide insurance and other financial services for voluntary organisations and social enterprises. It will use the services of underwriters and ultimately have a team of people to develop its own product range based on realistic assessments of risk, joint purchasing for economies of scale and use the profits generated by the service to give grants to social organisations.

11.1 In addition to those institutions that provide finance for social enterprises in the forms of grants or loans, this research also aims to examine the role of those social enterprises that act as financial institutions. This includes many of the organisations described in Section 10. However, there are also a number of these organisations that provide financial support not to businesses but to individuals for their personal use. In some cases we have identified that these lenders are indirectly helping people to start or maintain businesses, but that is not their primary purpose. This section of the report describes a number of social enterprise projects in the region that aim to lend money to socially and/or financially excluded individuals.

Credit Unions

11.2 Credit Unions are the oldest established forms of community finance organisations. There are 488 in operation in the UK²⁰ and 23 in the East of England. They are structured as mutual organisations, owned by the people in the community (of place or interest) that the Credit Union serves. This community is united by a 'common bond' that defines the community and must be accepted by the Financial Services Authority when the Credit Union is registered. Common Bonds are most often places where people live and/or work. Some are based on religious affiliations; one of the largest in the region is based on membership of Co-operative Societies in participating areas.

11.3 Credit Unions enable people to save and to develop the habit of saving, from which point they can borrow money, based on the level of savings in their account. Interest paid on loans is low and individuals are not credit checked as the lending principle is based on the likelihood that people will repay their friends and neighbours. Credit Unions enable people to borrow small amounts of money, cheaply, when many people would have few options other than exploitative marginal lending agencies. They also enable people to save small amounts of money that mainstream financial institutions would not find cost effective.

11.4 We conducted interviews with six credit unions based in the region. We identified a mixture of large and small organisations, those in target regeneration areas, rural areas and more affluent parts of the region. We focused on those credit unions that had been in operation for a period of at least two years in order that there would be a sufficient track record of activity to contribute to the findings. All of the selected sample group were community based rather than workplace credit unions, as we wanted to identify the impact the credit unions had on financial exclusion. The first interview was treated as a pilot and conducted as a face-to-face meeting in the credit union office. The remainder were conducted by telephone. The interviews were semi-structured based on the attached questions (see appendix 3). A summary of the main findings can be found in appendix 6.

²⁰ Members of the Association of British Credit Unions Limited, although there are other credit unions not associated with this body.

11.5 Most of the credit unions that were able to say, estimated that the proportion of members that were financially or socially excluded was between 40-100%. Many were unemployed or on a low income. The biggest credit unions we spoke to were in the two New Deal for Communities areas in the region, in Norwich and Luton and had both received New Deal funding. Both of these estimated a very high level of excluded members. However, a credit union in Hertfordshire was also successful in recruiting members and providing finance to a much more mixed community and without substantial external resources. In the more excluded communities it was estimated that a high proportion of members has past experience of debt problems and had used loan sharks. One respondent pointed out that debt problems are not necessarily related to low wages.

11.6 None of the credit unions we spoke to felt they offered additional access to finance based on geographic proximity. Limited resources means that they are often unable to provide access at a number of locations in the community. Many communities still have access to a local post office and the increasing presence of automatic cash machines at sites such as petrol stations and in local shops has increased access for many people. The rural credit union would like to offer a mobile collection point in a minibus in the future. One respondent thought that although people had geographic access to other sources of finance, the choices were still limited on the basis of cost.

11.7 All the credit unions thought that the capacity to save was as important or more important to members than the ability to access cheap loans. This was particularly true in the most disadvantaged communities. The process of saving even a small amount, such as £5 per week, gave people a greater sense of control over their lives and the ability to manage their finances for the first time. Members would not be able to afford to use banks in the same way because the amounts involved were so small.

11.8 The most common reasons for members to save and borrow were given as:

- Holidays
- Buying a car
- Children's clothes and shoes

11.9 Other reasons given were:

- To start a small business
- To pay fines
- To pay for car insurance

11.10 Most of the credit unions were not lending a high proportion of the assets they held. One said that members used the credit union as a Christmas Club – only taking out what they had already saved. This is problematic for the credit unions because they earn money and achieve sustainability through the interest they earn on lending.

11.11 All credit unions are heavily dependent on volunteers, although this presents a bigger problem for the smaller ones with no paid staff. The volunteers in a credit union must be highly skilled, take on a high level of responsibility and be very committed. It is difficult to recruit such volunteers and in some credit unions a small number of people take on a high proportion of the work. The respondents knew of other credit unions in the locality where in practice only one person takes on the work for the credit union. This level of activity results in it being harder for the credit union to provide a sufficient level of service to attract new members.

11.12 Other benefits offered by one or more of the respondents include:

- Developing good networks with other agencies in the community, in particular those dealing with debt problems.
- A guaranteed loan scheme enabling new members referred by debt counselling agencies to have instant access to a crisis loan.
- Young people's saving schemes to increase financial literacy and management skills.
- Opening accounts for people to pay in their salaries because they have been turned down by banks.
- Keeping more money in the local community.

11.13 The common bond used by the majority of respondents was of people living or living and working in the area. One respondent has a common bond of people who are members of the Co-operative Group (i.e. their local co-op society). All the respondents had either considered a merger with another credit union or in one case had merged during the past year. Although many felt under pressure from the Financial Services Authority (FSA) to become bigger through mergers, it was admitted by some that they had to either merge or close. Some were unhappy about the pressure to merge because they did not feel that they knew the community they were being asked to join.

11.14 It is difficult from this small sample group to make any broad generalisations about the key success factors for credit union. However, this would be a valid question for future research. We can raise the following questions:

- Does in depth knowledge of the community and its credit problems lead to the ability to recruit members?
- How can regeneration programmes learn to recognise the benefits of a healthy credit union and make a substantial investment to ensure that this happens?
- At what level of membership and at what proportion of borrowing is a credit union sustainable?
- How can mergers be promoted and managed without detriment to community ownership and the common bond?

11.15 The respondents identified the following as critical to their future development:

- Paid staff – to increase membership and provide a better service
- Premises – to increase the credibility of the credit union and give it a solid presence in the community
- More volunteers
- Better publicity – letting people know what a credit union is

11.16 The last matter was raised by every respondent. The biggest barrier they face is the lack of understanding of the benefits of the services they offer. They recognised that as tiny community based organisations they are not in the position to get this message across. Significantly, one credit union we spoke to that serves a large Irish community had few problems in recruiting members because credit unions are so widely known and used in Ireland. People from the community joined regardless of their financial status because credit unions are recognised as a valuable community resource and a cost effective way of managing money.

New Horizons Saving and Loans Scheme

11.17 New Horizons was set up by Cambridge Housing Society (CHS) in partnership with Cambridge Building Society in 1997. Cambridge Housing Society is a Registered Social Landlord and the Building Society is a locally owned mutual. CHS deposited £25,000 with the Building Society. This money underwrites loans made by the building society to CHS residents, contributes to a joint pot of money alongside the residents' own savings to enhance the interest they can earn on their savings and earns interest. So residents saving in the scheme earn an additional 2% interest on their savings because it is calculated on the total amount of money in the pot currently around £50,000.

11.18 People can borrow from the Building Society at base rate plus 0.95% and the Building Society will in principle lend up to four times the amount deposited by CHS. The scheme enables people to borrow immediately they sign up to the scheme, as many participants are likely to need 'crisis loans'.

11.19 The New Horizons scheme is managed by a staff team that provides support and advice to applicants and can help identify financial literacy issues, provide Welfare Benefits advice, and help with loan applications. Participants are described as financially excluded, 65% of CHS new residents are in receipt of housing benefits, 49% have an annual income of less than £8,500 and a third are on disability or long term sickness benefits. Some people self-exclude from mainstream financial services based on bad experiences in the past.



11.20 Like credit unions the lending process is based on principles of trust. The loan assessor is part of the team at CHS and will identify areas of risk. They will not approve a loan to someone with more than three weeks rent arrears. The main way in which risk is minimised is to establish a principle of openness and honesty. CHS will do credit checks on people but will not turn down a loan because someone fails the check – only if they have not been open about it. It is believed that this process reduces the risk of bad debts. In 2002/3, CHS had to put £200 into the arrears fund.

11.21 Cambridge Housing Society is currently developing a franchise model for this project.

Suffolk Regeneration Trust

11.22 As described in section 10, SRT is in the process of launching a business loan fund. Once the initial business support process is established, they plan to develop a personal loan fund. People will be able to borrow without having to save and there is likely to be a cash repayment point for collecting money. The aim is to lend money for relatively small purchases such as school shoes, rent deposits and debt consolidation.

11.23 Suffolk Regeneration Trust is an Industrial and Provident Society.

Personal financial exclusion

12.1 The most recently available research reports show an improvement in income poverty and favourable trends in education and housing. However, financial exclusion is highlighted as an area in which no improvement can be demonstrated over recent years. In 2000/2001, one in five of the poorest households still had no form of bank or building society account, the same proportion as in 1994/1995²¹.

12.2 The consequences of operating on a cash-only basis are to exacerbate levels of poverty. 4 million people pay up to 40% more for their gas and electricity. Two thirds of those without bank accounts rely for credit on check traders, moneylenders and pawnbrokers, whose average rate of interest exceeds 200%²².

12.3 Currently, 1.5 million households in the UK lack any mainstream financial products at all. They have no bank or building society account, have no savings or investments, no private pension, mortgage or insurance²³.

12.4 However, some researchers take a broader view of financial exclusion. The typical indicators include²⁴:

- Whether a household is currently or previously in debt, in the sense that they have been behind in the payment of bills within the past year, such as for rent, utilities, council tax, TV licence.
- Experienced disconnection from utilities such as water, gas, electricity and/or the phone because they could not afford to pay.
- Whether they have had to borrow money from sources other than a bank within past year.
- Households without access to a bank account.
- Households unable to save a small sum, at least £10 a month to offset future hardship or towards retirement.
- Whether the household has contents insurance. Research has shown that households in this category are three times more likely to be burgled than the average and replacement of contents can be virtually impossible.

12.5 The proportion of households experiencing the above forms of exclusion varies from 35% of households with no savings, to five per cent of households that have experienced disconnection. However their characteristics tend to be the same.

Who is financially excluded?

12.6 Individuals are more likely to be financially excluded if they can be described as one or more of the following:

- Households with no workers
- Lone parent households
- Non-white households, particularly Pakistani and Bangladeshi
- Households receiving Income Support or Job Seekers Allowance
- Households with younger respondents, particularly those who left school at sixteen or before.
- Households living in social housing
- Households in more densely populated areas.
- Households in certain geographical areas. Households in Scotland, Wales, Greater London or one of the 50 most deprived local authorities in England and Wales are twice as likely to be financially excluded as those living elsewhere.

12.7 The largest group of people who make no use of financial services are householders who have never had a secure job. Other significant groups are elderly people over 70 who are part of a 'cash-only' generation, young householders who may yet make use of financial products and women who became lone mothers at an early age²⁵.

Reasons for financial exclusion

12.8 Causes are complex and there is no singular or straightforward reason. Several studies differentiate between those who have disengaged from financial services after falling into financial difficulties resulting in the withdrawal of services and a majority who never have engaged in the first place owing to barriers inhibiting their take-up of services²⁶.

Reasons given commonly include the following:

12.9 Products are too expensive. As an example, home contents insurance premiums are frequently higher for people living in deprived areas²⁷.

12.10 Conditions can be attached to products which make them inappropriate. Examples might be a current account without a chequebook, cheque guarantee card or cash point card²⁸.

12.11 Some government policies can encourage or reinforce financial exclusion. For example, payment of means-tested social security benefits by giro or order book encourages cash budgeting by recipients²⁹.

12.12 Financial institutions deliberately target higher income groups. Consequently there is a lack of marketing and information for the more vulnerable³⁰.

12.13 Limited or non-existent access to services. Changes in the structure of the retail-banking sector have led to the closure of 25% of local branches. Whilst affluent customers have been targeted with telephone-banking and on-line banking, many households in deprived areas no longer have access to any form of service³¹.

12.14 Access to mainstream banking services can be restricted by identity requirements that poorer households may be unable to comply with on account of their exclusion in other areas. They are, for example, less likely to hold passports or driving licences³². Yet under the 1994 Money Laundering Act bank staff and the financial institution could be prosecuted if accounts are opened where there is any suspicion of money laundering making it difficult for forms of identification to not be required.

12.15 Poor financial education, beginning with a lack of basic instruction within the school curriculum, also difficulties in understanding the complexities of compound interest rates payable on arrears making the poor especially vulnerable to loan sharks. Research has shown that 17% of those taking up credit did not know how much it was costing them³³.

12.16 Studies have shown that many adults have limited knowledge of the alternatives to mainstream banks such as credit unions. Not every household lies within easy access of Britain's network of 600 Credit Unions and because they have a requirement for members to build up a savings account before they can borrow, they do not provide instant access to money in a crisis for new members³⁴.

12.17 There has been a slow response from the Government in revising the Consumer Credit Act 1974. As a result, British consumers are particularly vulnerable to extortionate lending practices and the well documented activities of lenders who are acting illegally as well as high cost lending by some mainstream providers. The Government has recently published a consultation document with a view to creating a more equitable legal framework ensuring access to affordable credit for all³⁵.

12.18 Many people have a fear and mistrust of personal banking institutions, in particular a fear of inadvertently becoming overdrawn and thus incurring high charges³⁶.

12.19 Failures of the Social Fund. Some success is acknowledged in providing assistance for the poorest and most vulnerable. However, criticism has been made on the grounds that grants are not provided often enough resulting in a large refusal rate

and too many people turning to Social Fund loans or high cost lenders, often before even attempting to apply for a grant. When loans are granted, repayment lowers income and can therefore encourage a descent into greater poverty³⁷.

Suggested measures for combating financial exclusion

12.20 Extensive face-to-face research with people who had no access to financial products suggested that the two main areas of unmet need were for services to help with day-to-day money management and for help in accumulating long-term financial security³⁸. It was concluded that the needs of financially excluded people are far from impossible to meet and should include:

- A simple banking account that would allow them to retain tight control of their money. It would offer basic facilities for money transfer and spreading the cost of bills. Ideally, it would not provide access to an overdraft and would not depend on credit scoring. It would, however, have a 'buffer zone' allowing the account to go into the red for small amounts over a short period without incurring charges. Basic Bank Accounts have been adopted by many lenders but do not provide a buffer zone for short-term debt.
- Simple and transparent schemes offering long-term financial security based on regular and automatic saving. Products would be flexible enough to adjust to times of hardship and capable of being used as collateral for small loans.
- Affordable home contents insurance (such as second-hand replacement indemnity rather than 'new for old') with options for spreading payments across the year.
- Affordable short-term credit in the form of small, fixed-term loans with fixed, automatic repayments.
- Financial products that are compatible with the Islamic faith.
- The ability to deal with intermediaries, such as the Post Office, which are perceived as trustworthy and user-friendly.

12.21 The 'Debt on our doorstep' coalition also highlights the need for the following measures:

- Legislative change to end extortionate and irresponsible lending and punitive debt recovery methods.
- Reform of the Social Fund.
- The promotion of credit unions, community banks and other community finance initiatives

21 *Monitoring poverty and social exclusion*, Palmer, G., Rahman, M., & Kenway, P., 2002.

22 *Ibid*.

23 *Kept Out or Opted Out? Understanding and combating financial exclusion*, Kempson, E., & Whyley, C., 1999.

24 *Poverty and Social Exclusion Survey Britain, Working Paper No.8, 1999.*

25 *Kept Out or Opted Out? Understanding and combating financial exclusion*, Kempson, E., & Whyley, C., 1999.

26 *Ibid & The Processes and Consequences of Financial Exclusion*, Kempson, E., & Whyley, C., 1999.

27 *Meaning Choices: The policy options for financial exclusion*, Donovan, N., & Palmer, G., New Policy Institute, 2001.

28 *Ibid*.

29 *Kept Out or Opted Out? Understanding and combating financial exclusion*, Kempson, E., & Whyley, C., 1999.

30 *Ibid*.

31 *Withdrawal of private sector services*, Joseph Rowntree Foundation, 2000.

32 *Tackling Financial Exclusion: An area based approach*, Collard, C., Kempson, E., & Whyley, C., 2002.

33 *Financial Literacy, Empathy, Understanding and Research*, Preston Road New Deal Communities, 2001.

34 *Tackling Financial Exclusion: An area based approach*, Collard, C., Kempson, E., & Whyley, C., 2002.

35 *Church Action on Poverty is campaigning vigorously through the Debt on our Doorstep campaign to introduce an end to the charging of interest on a compound basis, with restrictions on charges and fees, especially in relation to arrears.*

36 *Tackling Financial Exclusion: An area based approach*, Collard, C., Kempson, E., & Whyley, C., 2002.

37 *Church Action on Poverty, National Policy Forum, March 2001.*

38 *Kept Out or Opted Out? Understanding and combating financial exclusion*, Kempson, E., & Whyley, C., 1999.

- Highlighting the social responsibilities of high street banks.

Current measures to combat financial exclusion

12.22 The New Economics Foundation has been working over a number of years to support the development of the community development finance sector in the UK, and thus increase access to finance for people with the greatest need for it. Key activities include:

- Research and analysis of CDFI activities.
- Initiate and support policy measures to support the growth of community development finance - such as the Social Investment Task Force and the Community Investment Tax Relief.
- Introduce and promote performance measurement, quality standards and good practice among CDFIs in partnership with the Community Development Finance Association.
- Innovate new CDFI models and financial products and services, such as the London Rebuilding Society and the Adventure Capital Fund.
- Increase awareness and understanding of community development finance among both the public and private sector with an aim of increasing the level of investment in CDFIs.

12.23 A number of local initiatives have emerged such as 'Fat cats & flabby imps', launched in 2002 in Preston Road, Hull. This programme, launched in 2002 and aims to improve access to financial services and residential use, tackle poverty and debt. By employing a co-ordinator, they will support the development of HERCU, devise and pilot financial literacy programmes and services and ideas for projects such as Time Banks, LETS Schemes and bulk purchasing³⁹. As another example of good practice, Cambridge Housing Society has deposited a lump sum with a building society to provide a loan guarantee against which tenants can borrow. This also attracts a higher interest for tenants' own savings than they would attract on their own (see section 11).

12.24 There is also evidence that some housing associations are starting to offer inclusive rent and home insurance deals to tenants⁴⁰. In 1999, it was announced that the Association of British Insurers would work with DETR (now the ODPM) and the Housing Corporation to further these initiatives⁴¹.

12.25 There is evidence that mainstream service provision is improving, but it is too early, or too little has been done, to reach quantifiable results⁴². Other recent measures include:

- In 2001, the Treasury announced that all high street banks now offer basic bank accounts – easy to understand with no overdraft facilities and free to open and run.
- The treasury was exploring the feasibility of a Universal Bank but this idea has now been scrapped, as it could not gain funding. They have managed to get high street banks and building societies to sign up and make their basic accounts available through the Post Office. The 'Post Office Card Account' allows an individual to pay their benefits and tax credits into it.
- The government has committed itself to setting up a Central Services Organisation, which will provide services, support and advice to credit unions. However, this has been put on hold as they similarly are struggling to find funding for it.

Financial exclusion in the East of England

12.26 Extensive research has been undertaken to identify where poverty and social exclusion exist in the region. The national Index of Multiple Deprivation has identified that the most serious concentrations of deprivation in the region are in the districts of Great Yarmouth, Luton and Norwich, areas which are beneficiaries of New Deal for Communities and/or Neighbourhood Renewal funding. Research has also shown that there are areas of rural deprivation, particularly in the North Norfolk and Fens areas, as well as problems in declining coastal towns.

12.27 Figures supplied by the East Anglian Citizens Advice Bureau⁴³ (CAB) identify the primary areas in which present clients with debt problems are situated as the following:

Table 4: Top ten regions of consumer debts

District	Figures
Norfolk Money Advice*	1,854
Norwich and District	1,534
Watford	846
Broxbourne	782
Luton	516
Basildon	387
Bedford	385
North Herts and District	378
Colchester	373
Fenland	318

Table 5: Top areas of housing debt

District	Figures
Norwich and District	336
Norfolk Money Advice*	142
Luton	101
Watford	96
Bedford	72
North Herts and District	69
Peterborough	62
Dunstable	62
Basildon	59
Fenland	55

*A countywide service taking in a wider constituency than other Bureaux

12.28 These figures relate to returns provided by local CABx and where there may not be consistency in the size and opening hours or in the processes of filling in and returning forms. However, they indicate where individuals have requested support with problems of debt.

Financial literacy

12.29 A small number of programmes are being delivered in the region to tackle financial literacy. Some CABx are running small local schemes in schools. The New Deal for Communities programme in Marsh Farm Luton is working with the New Economics Foundation to deliver the latter's 'Plugging the Leaks' initiative. This involves local people, businesses and service providers identifying where money is spent in the area and the impact this has in the local economy. It will lead to an action plan in which initiatives such as social enterprises can be developed in order to retain wealth in the community. In the process, participants will develop an understanding of how their local economy works.

Welfare system

12.30 One of the issues regarding access by financially excluded groups to financial services, particularly loans for un-anticipated crises such as fines, sudden bereavements, unemployment, or life cycle related expenditure such as children, marriages and funerals is the way in which the benefit system regards additional income coming into welfare dependent households. Although precise interpretation of the regulations is often determined at local level, benefit offices have traditionally regarded any money flows into the household as being available for immediate consumption and therefore as a substitute for the income support entitlements of individuals or families. For example in some areas, even in-kind income such as that derived from LETS (Local Economic

Trading Systems which operate on the basis of mutuality in exchange of goods and skills) have been afforded a monetary value which is deducted from benefit payments.

12.31 One model of dealing with this need for excluded groups facing this financial services issue has been the development of community-based Credit Unions where loans are transparent, allocated for specific purposes, and related to the amount the borrower has already saved in the Credit Union (See Section 11). However, as the research indicates the loans available through Credit Unions are small scale and the system is not geared to making credit available for potential entrepreneurial activity, though a minority of loans have been made for this purpose.

12.32 The question that then arises is the way in which the welfare system facilitates or obstructs the socially and financially excluded. For a number of years the UK government has recognised that "[s]mall business creation is so important to the success of local economies" (Speech of Chancellor of the Exchequer to the Centre for European Reform, Church House, London 10/3/2003) and that encouraging marginalized groups into self-employment is central both because it moves people from welfare to "work" and because it fosters an enterprising economy and contributes to sound local communities.

12.33 At present the two main policy approaches to deliver welfare to work objectives are -

- 1 The various "New deal" initiatives
- 2 The fast evolving tax credit packages.

12.34 Each has potential of supporting self-employment for the financially and socially excluded but each also contains contradictions, which act as obstacles to the success of such initiatives by potential micro entrepreneurs requiring both income to support themselves and their families, and finance for recurrent and investment expenditure in their proto-businesses.

The New Deal initiatives

12.35 The New Deal for the Self Employed (NDSE) is the "self employment" option for the long-term unemployed.

However

12.36(a) There is a long duration before people can join the NDSE programme; clients need to be claiming Job Seekers Allowance for 18 months before they can go onto the NDSE. Whilst many Job Centre Plus offices have little focus on this possibility for future income generation, others, such as the Leicester programme use this period for business and personal training and preparation.

12.37(b) The way in which the programme is designed offers minimal client interface (1 meeting with an adviser every two weeks, and does little to build peer relations. Contrast this with the peer support based programmes like Full Circle which

³⁹ Financial Literacy, Empathy, understanding and Research, Preston Road New Deal Communities, 2001.
⁴⁰ www.renewal.net
⁴¹ www.renewal.net

⁴² Access to Financial Services, Report of Pat 14, HM Treasury, November 1999.
⁴³ October 2003

recognise the centrality of peer support in addition to credit for community level Business start-ups.)

12.38(c) The very low level of the benefits disregard (welfare waiver) is an ongoing disincentive for clients to actively seek to succeed in the self employed sector. The amount people can earn without it affecting their benefits has not increased in more than 20 years; it is currently £5 per week for individuals or £15 for families.

12.39 This means that the possibility of an individual starting, maybe on a part-time basis which research indicates is the pattern of any women, is made problematic; any successful income generation would be discounted against current income benefits, with the possibility of also losing other entitlements (free school meals, prescription and optician charges, housing benefit etc).

12.40(d) The test trade period on NDSE is only 6 months; this means that the client has just 26 weeks to develop a business from nothing to the point at which it is successfully generating income which would match the JSA or other income support equivalent s/he is receiving. Because of the income disregard rule and because of the double jeopardy risk of losing additional benefits, this is a great disincentive for welfare recipients to seek the self-employment New Deal route.

The Working Tax Credit system

12.41 WTC is designed to support working households on very low incomes by topping up their earnings. However for WTC to be effective for the self employed it has to take into consideration the volatility and inconsistency of their income, and to be able to respond to the blips in income that the self employed experience, particularly when starting a business from week to week and from month to month.

12.42 Although no evaluation of the way in which the WTC system, including recent reforms, has affected the NDSE programme the figures do not look encouraging. In 2002/3 127,000 families, where the main earner is self employed received WFTC in 2002/3 (average award was £113.39 per week including child care costs). However most recent figures indicated that there were only 1600 people in total on the NDSE scheme, indicating its lack of effectiveness for encouraging people to move from welfare dependency to self employment in spite of the benefits this can have for excluded individuals, households and communities.

12.43 The need for an Income Bridge to Encourage people on benefits into Enterprise (See "Full Circle's Proposal for an Income Bridge to Encourage People on Benefits into Enterprise, WEETU June 2000).

12.44 The way in which the welfare system operates can be said to present specific barriers to individuals within it wanting to move to self-employment. Many of these obstacles are based on the fact that the "norm" against which such policies are

designed is regular wage labour in the formal economy. Under this model income streams are regular and predictable, and the benefit system is designed to provide a safety net in the absence of income from employment or to complement low incomes. All income is therefore treated as being available for household consumption purposes, and the system has little flexibility for the needs of community start ups to access finance to provide essential assets or working capital, or to meet the exigencies of the unpredictability of income derived from self employment as opposed to wage labour.

12.45 Research by WEETU's Full Circle programme indicated that 1999-2000 the benefits system was the main barrier preventing them from launching their businesses. Whilst the Social Exclusion Policy Action Team 3 report on 'Enterprise and Exclusion', which defined an income bridge as a guaranteed level of income for start up phase of self employment, argued that 'an income bridge for the self employed would help alleviate (i) the disincentive of giving up benefits [and a regular income]; and (ii) concerns regarding income uncertainty there is still no nationally agreed system for providing this to all excluded individuals wishing to take the self employment route out of welfare dependence.

12.46 Some LSCs operate an "Enterprise Rehearsal system which offers 13 weeks of "test trading", with benefits fully protected, and the NDSE extends this to 26 weeks, (there are also different arrangements for ND for Over 50s, and for those on Working Families and Disabled tax credit which fix supplementary payments for 6 months).

12.47 However, many people are not eligible for either the Enterprise Rehearsal or the New Deal benefits, and there are difficulties about the Working Tax Credits described above. Moreover it is unlikely that such businesses will be self-sufficient in 26 weeks, let alone 13 weeks. Other research indicates that most small businesses that fail collapse within the first 2 years of trading.

12.48 Proposals have been made to extend the "enterprise rehearsal" period and allowing people to remain on IS or JSA for up to 12 months while they start their business. In addition, a case has been made that people should be entitled to take income from the business up to the normal disregard without affecting their benefits; any other business income must be re-invested in the business and business assets up to the value of £3000 could be accumulated without affecting the benefit claim.

Sources of finance for socially excluded individuals

12.49 In addition to the barriers to individuals engaging in self-employment presented by the benefits system, there are also problems for such individuals accessing finance for working capital or business-related assets. We have already reviewed the general position regarding individual financial exclusion and their access to financial services. These issues are also

replicated and magnified when it comes to individuals from such groups seeking finance for entrepreneurial activities.

12.50 The reasons which make it difficult for these groups to access business finance are:

- No current or good credit rating
- No business experience
- No skills in preparing business plans or loan applications
- No collateral
- Small scale of loans makes it "unprofitable" for commercial lenders (because of high transaction costs relative to income generated)
- Client group is risk averse.

12.51 Moreover it is worth taking into account which individuals within this general category are likely to be seeking modest finance to initiate small-scale businesses, particularly within low-income communities. Much of the research indicates that many of these individuals face particular barriers to participation in the waged labour market, because they need to work near their homes or to have very flexible working hours because of particular domestic responsibilities; this would include parents (often mothers) with sole responsibility for children, parents of children with special needs (disabled or chronically sick children), and carers of elderly or chronically infirm adults. Experience with many of the community based business finance projects described in Section 10 indicates that the majority of these individuals are women.

12.52 Other groups are excluded from the wage labour force for different reasons; ethnic minority groups may be discriminated against; there may be language difficulties or issues concerning the transferability of non-UK qualifications to the domestic labour market. The important point here is that many of these groups are not the lumpen excluded groups resident in deprived neighbourhoods which is often the stereotype depicted in many discussions; many of these individuals have skills and motivations to succeed in self-employment if they are able to access the appropriate finance, and achieve a modicum of income security.

12.53 UK experience has indicated that the finance needs of such individuals are varied and that provision needs to be tailored to the specific requirements of different client groups such as the successful programmes for low income women (Full Circle), the young unemployed (Princes Trust), ethnic communities (Stevenage Enterprising Communities). There are also geographically based initiatives such as the Suffolk Regeneration Trust and Business and Community Enterprise Project, Luton, and the proposed CDFI in Norfolk and Waveney which are targeted at low income communities and provide business finance for individuals as well as social enterprises in their areas.

Saving and lending

12.54 Most of the discussion and the provision of finance for enterprise in excluded areas and groups focus on the provision of loan finance. Certainly as Credit Unions have demonstrated, loan finance is essential in meeting the financial needs of financially excluded individuals, both for life cycle and for crisis purposes. Enterprise start-up schemes such as Full Circle or the Princes Trust also demonstrate that there is a demand for loan finance for business start-ups in marginalised areas or by marginalised groups (crisis and lifestyle).

12.55 However the importance of savings facilities should also be considered in terms of the provision of financial services to such groups or activities. Credit Unions loans are based on a multiple of the savings account of members; the Individual Development Accounts (IDAs), whilst being an American concept, is where the government match funding against individuals savings. In the UK, a similar idea is currently being tested called 'Saving Gateway'. Eligible savers are able to get their money matched by the Treasury £1 for £1, up to a maximum match of £375. Cambridge Housing Society is one of the pilot organisations for this scheme. The recently announced "baby bonds" are a mirror version of IDAs, whereby individual families can supplement the initial savings account facilitated by government and to be held in a ring fenced account until the infant is 18 years old.

12.56 Our interviews with credit unions and other providers also indicate an unmet demand for a range of other financial services including house and property insurance, life assurance, funeral funds and accessible banking. One example was given by a credit union that they are increasingly being asked to allow members to pay their wage cheques into the credit union in order to cash them, as high street banks have refused their current account facilities. It is easy to think of social enterprise lenders as helping individuals to overcome one barrier – the ability to access affordable loans. In fact they offer a wide range of associated services that no other financial service providers appear to be able and willing to provide.



- 13.1 We attended a transnational meeting as part of the EQUAL programme run by the SSEER partnership (Supporting Social Enterprise in the Eastern Region). One aspect of the programme is to compare initiatives relating to social enterprise access to finance, of which this research is a part. Also in attendance were two officers of Banca Etica and we were able to arrange some time to conduct an interview in order to compare the Italian experience with that of the UK. Michele Gravina and Rita De Padova work for the bank in Foggia and are working with Clips, the transnational partner from the region.
- 13.2 Banca Etica (Ethical Bank) was launched in 1999, emerging from an established mutual – the equivalent of a building society. It operates throughout Italy as a fully fledged bank. Anyone can open a bank account there but most are held by social enterprises. The bank is owned by its members, which are mostly the main customer groups plus supportive individuals. The bank serves four sectors:
- Social co-operatives (those that provide social services)
 - Associations (voluntary organisations)
 - Environmental organisations
 - International co-operation (supporting development work)
- 13.3 The general area of work of the bank is specialisation in social and non-profit distributing organisations. It aims to expand into the field of banking for what are regarded as commercial co-operatives (worker co-ops or member co-ops providing housing or construction in the open market place). The main characteristic of the bank is its transparency – all customers know exactly how their money is used.
- 13.4 By mainstream banking standards Banca Etica is very small; last year it generated _300 million and lent _100 million. Through its surpluses, the bank has generated _20 million of what it calls social capital.
- 13.5 Banca Etica must, by Italian law only lend to account holders. The lending policy is that clients must meet first the ethical criteria then prove financial viability. The view is that because most banks in Italy only focus on financial criteria, they only lend to organisations that are already profitable. Banca Etica lends to organisations based on what they are trying to achieve in the wider social context. Although these would appear to be higher risk loans, as in the UK, social enterprises have a much lower default rate on loans (1% as opposed to 6% of other SMEs). This is one way that the bank minimises risk.
- 13.6 The other system the bank is beginning to develop to minimise risk is through guarantee schemes. The first social enterprise guarantee fund is being established in Foggia as part of the Clips access to credit programme. They are establishing a loan guarantee scheme to enable them to lend to social enterprises. Through public funds and donations from other co-ops they have raised they are able to lend up to 20 times the amount guaranteed. The guarantee fund covers any defaults and is able to provide such a high leverage ratio because of the statistically proven low default rate of social enterprises.
- 13.7 Another approach to social enterprise lending is to lend to organisations that are part of local or regional co-op consortia. This provides a further level of mutuality, the networks acting as a sort of 'common bond'. In Italy there is a culture of strong sector based networks, with the consortia able to negotiate contracts for members and help their organisations to grow. This is accepted as a conduit for financing social enterprises by agencies such as Banca Etica. Individual social enterprises must make their applications for the loans supported by the guarantee fund through the local consortium.
- 13.8 Banca Etica raises funds for international development in addition to its domestic agenda. It obtains a guarantee either through public sector agencies or an appeal to its investors and shareholders. The money provides a guarantee for small banks working to support the development of communities in the southern hemisphere. So far they have set up projects in Honduras, Ecuador and Benin.
- 13.9 Banca Etica is a founder member of the European Federation of Ethical and Alternative Banks and Financiers (FEBEA). It is considered by the European Union to be a model of ethical banking. The bank is also sharing its experiences with leaders of developing countries, particularly in South America. Charity Bank from the UK is a member of FEBEA.
- 13.10 One of the most fundamental differences between the co-operative/social enterprise sector on Italy and the UK is that the sector in Italy is far better established and consequently is more self-sufficient. Co-ops are defined in Italian law and there is currently a strong lobby to get social enterprises similarly recognised. Co-ops receive substantial tax advantages over traditional businesses and the sector generates wealth that it re-invests. A proportion of the profits made by co-ops are paid into a general co-operatives finance fund that can support the development of new co-ops and help others to grow. This means that a significant part of the co-operative infrastructure is self-sufficient and not dependent on public funds. Local groups access this support through the consortia.
- 13.11 The culture of generating support through the sector enables initiatives like Banca Etica's to succeed. The sector is clearly defined and the bank is able to trade on its strengths, even though they are not recognised in the commercial sector.

International models - Range of different experiences

- 13.12 There is considerable international experience of finance within a broadly defined social economy context – both from North America and from the developing countries in the global South. Whilst some observers have attempted to generalize experience from a particular context (e.g. the dissemination of micro credit schemes as the anti-poverty policy for low income households), current research indicates that such approaches need to be context specific and to fit into the precise requirements of the institutional, fiscal, welfare and policy structures of different locations. Some of the main lessons from international experience are detailed below:
- 13.13 Providing small amounts of credit for low-income households has been enthusiastically adopted by major international policy institutions such as the World Bank as a primary anti-poverty programme. The most well known model is that developed by the Grameen Bank in Bangladesh, under the leadership of the charismatic Professor Mohammed Yunis. This is a policy approach which sees the lack of working credit as a major missing link in the ability of rural and urban poor to convert their only productive asset – labour – into an income substantial enough to lift them out of chronic poverty. The argument is that poor households are unable to get finance for proto micro businesses from the mainstream financial institutions because they lack collateral, they have irregular income streams, the size of loans are very small and therefore attract high transaction costs, they have no experience of formal financial institutions and vice versa. Many such households were therefore at the mercy of commercial money lenders who were accused of charging exorbitant interest rates.
- 13.14 The Grameen approach, which has been adapted and replicated all over the world is to set up a specific loan fund for such borrowers, that might be attached to an existing financial institution or might be an NGO (Non-Governmental Organisation) or a community group, self-help group or trade union. The project would then recruit borrowers and collect them in "borrowing circles" within specific localities. The circles were grouped together in local centres, which delivered training programmes and inducted borrowers into the norms and values of the loan project. The innovative idea was to establish group liability; each member of the borrowing circle would provide mutual collateral for the other members against payment default. In order to try and ensure a high level of repayment, the circles were deliberately constructed in a manner which encouraged peer pressure for repayment.
- 13.15 In order to deliver this micro-credit programme not only was it necessary to establish a loan fund and a (quasi) financial institution to manage it; it was also necessary to create an organizational infrastructure which consisted of central staff

and field workers who would organize the training, monitor the loans, set up the groups and organize repayments, the circle and centre meetings. Typically a programme such as the Grameen had some (grant) funding from development or government institutions and the rest of their income was derived from the interest paid by borrowers on loans.

- 13.16 There is considerable research that indicates that such programmes are successful in allowing poor households at least to achieve consumption smoothing and to rationalize other forms of indebtedness. Recently, it became clear that the majority of the borrowers were women and claims have been made about the role of micro-credit in improving women's status in the household, the community, and of enhancing women's income generating role for their families. However, there is also considerable debate about whether such schemes should be "financially sustainable" – i.e. all their costs should be met from interest payments or whether it is legitimate to subsidise the social policy aspects of such initiatives from other funds.

- 13.17 The principle of micro-credit was enthusiastically endorsed by the Micro-Credit Summit held in Washington in 1997, and supported by both the Clintons. There has been considerable enthusiasm for adapting the micro-credit approach to socially excluded individuals within the developed world, most notably in the UK, Canada, the USA and Western and Northern Europe – and more recently in Eastern Europe and the former Soviet Union. However the dissemination of this model has been limited and varied. In the UK, there are some innovative models which range from the Full Circle Fund run by the Norwich based Women's Employment, Training Unit (WEETU) for low income women (either are unemployed or in low paid jobs) who are interested in starting a small business, to Street UK itself an adaptation of a USAID funded project in Poland, which is aimed at people already running a small (and maybe off the books) business, with a range of other projects run by community groups, local authorities, New Deal for Community areas. These projects join the long established initiatives such as the Prince's Trust which provides financial support and advice for young people's business start-ups, by providing both loans and grant money.



13.18 In the USA, Canada, France and the Nordic countries a similar range of projects exist. In the USA in particular there are some very large projects such as WSEP Chicago. Which are able to take advantage of economies of scale and cover (most of) their operating costs from interest repayments. However, in Europe the scale of micro-credit schemes has been limited. The major reason for this is that in the USA there are large sections of the socially excluded population which have no access to/or entitlement to welfare benefits or income support and whose only option is to engage in petty trading or production of some kinds. The range of immigrants, including recent migrants means also that there is a much larger group of people who are familiar with the notion of survival through entrepreneurial trading. However in the UK and other parts of Europe the existence of an (albeit diminished) welfare state means that borrowing money and/or trading to earn income risks jettisoning a range of entitlements which could put family survival at risk. It is not surprising that in the UK the majority of micro-credit projects which have thrived have been those which are targeted at marginal groups of the population which are excluded from mainstream labour markets – such as single (women) parents of small children, carers of disabled adults and/or children, ethnic minorities, refugees – who may have a range of experience, skills and resources which are not reflected in their labour market access.

13.19 It should also be noted that the majority of the micro-credit projects in the North provide credit to individuals rather than groups; the mutual liability model has proved to be less successful in more individualized societies, though some projects - notably WEETU's Full Circle and Norwegian people's aid – appear to have adapted to this.

13.20 As far as finance for social enterprises is concerned the relevant experience is in the Northern countries. In developing countries, where the majority of the economy and the workforce are located in the unregulated and informal sectors, funding is available to a range of social and development projects, mainly from international cooperation and aid funding as well as national government sources but this is generally direct grant funding rather than any kind of repayable loans.

13.21 In the USA, however, the existence of the Community Reinvestment Act, which requires private corporations to reinvest in local communities, has supported the development of a range of community oriented finance institutions. One example is the Boston based ShoreBank, which offers finance for housing and for informal enterprises rehabilitating apartment buildings in low-income areas. Calmeadow based in Toronto Canada pioneered micro-credit for small enterprise both in Canada and in partnership with social projects in Latin America. In Canada it targeted first national communities and

supported households engaged in income patching (i.e. making ends meet by a combination of micro enterprises, social assistance and seasonal and part time employment).

13.22 Other schemes exist in France and in the Netherlands which bridge marginalized and would be micro entrepreneurs with sources of funding from the government and private sectors. In Norway grants for enterprises from minority groups and a range of credit schemes and community loan funds servicing individual and social enterprises can be found. Another good example of adaptation from global South to North – e.g. Grameen model of peer based micro lending, is seen in the example given earlier of Banca Etica, in Italy.

13.23 The Irish Loan Fund initiated in the early 19th century is a well established example of a hybrid credit union/enterprise development scheme; and in fact Credit Unions very widely disseminated in Ireland where there are also a number of government supported matched savings and asset accumulation schemes in operation.

13.24 Through looking at this research on a selection of different international models of finance, we can see a number of ideas and practices that may be transferable to the UK market. However, underpinning any hastiness to generalise these models from one country to the next, there is the need to contextualise products in order to fit the precise requirements of the market they are entering. Any such attempt to do so would first require a meta-analysis of current research on international models that have proven impact, and secondly would require an evaluation of the models of delivery currently within the UK; looking at both strengths and weaknesses. Such research would identify to us possible new models and services that could be established in the East of England.



14.1 It is useful to return at this point to first principles.

- What forms of finance do social enterprises want and/or need?
- What finance is available to them?
- What forms of finance will best ensure that social enterprises achieve financial sustainability?

14.2 It seems most likely that any organisation wanting to earn money by trading must first and foremost seek to do this effectively. Trading organisations need to earn more money by trading, through increasing sales and profit margins. If any business looks for an injection of cash to achieve these objectives, then it will first seek out free money in the form of grants. Economic Development officers in local authorities and Business Link advisers report that many individuals setting up mainstream businesses will first approach them seeking a business start-up grant. This is not peculiar to social enterprises, they are just better at seeking grants and there are more sources of grants for socially beneficial activities.

14.3 The policy context of social enterprise finance is a contradictory one. On the one hand social enterprises are encouraged to be more like traditional businesses. As a means of minimising the use of public sector grant finance they are offered the opportunity to borrow money, either from commercial or social enterprise lenders. Tax incentives have been put in place through the Community Interest Tax Relief to generate private sector investment in Community Development Finance Institutions. On the other hand most regeneration funding is not being used in a way that helps set up sustainable social enterprises (although Community Interest Companies will help these organisations to maintain a regeneration funded asset base). Furthermore, grant funders in regeneration programmes and elsewhere are keen to link to national policy objectives and support social enterprises. The consequence is that as public sector funding becomes more and more limited it is being targeted at the organisations that have the potential to earn income – thus impeding their motivation to do so – whilst simultaneously depriving the organisations that remain grant dependent because they do not have the capacity to earn.

14.4 There is a great deal of common experience between social enterprises and traditional business start-ups – most commonly as sole traders. Many first approach support agencies because they need a source of money to invest in the business. Business advisers have then helped them to prepare a business plan including a cash flow forecast to help secure a loan. Many businesses are unwilling to take the risk of borrowing money. This is particularly the case before they have any proven ability to repay because they have not yet started trading. Some businesses must start with a major investment of capital but many; particularly those operating

in the service sector do not. The preferred approach is to keep overheads low and build up their earnings. This is achieved by slowly building the market and ensuring that the business is profitable and the methods of delivery are cost-effective. This is the area in which most businesses need business advice. Once the business is established, opportunities for growth are identified and income levels have been demonstrated, then borrowing for investment becomes a realistic option.

14.5 Once social enterprises have identified the need to raise money to invest in the business, it is more important to recognise the differences between them and traditional businesses. Like any business a social enterprise can borrow from a commercial lender – a high street bank or building society. However, if a social enterprise applies to a commercial lender they will often be asked, like any other borrower, to offer security for the loan. In traditional businesses the owners will be asked for a personal guarantee, normally offering the value of property or other capital assets as security. The owners can reasonably be expected to do this in most circumstances because it is they who will be financially rewarded if the business expansion is successful. This is not the case in a social enterprise where there is no equivalent balance of risk and reward. The owners of a social enterprise – the trustees or directors – will not make any profit from the business and, not unreasonably, are not prepared to stand the risk if the enterprise fails. Furthermore, in a traditional business the owners will have direct control over how a business performs. In many social enterprises, control will be exercised by paid employees, operating at arms length from the board.

14.6 If we look at other issues relating to social enterprise borrowers and what they require from lenders, we can see where the latent demand for borrowing can be met by specialist social finance lenders. Many of these specialist agencies recognise that social enterprises present as low risk borrowers because the credit history of the sector shows a low level of default on loans (2% in social enterprises compared with 12-15% in SMEs according to the Aston Reinvestment Trust).

14.7 Evidence of the research demonstrates that social enterprises should have the following expectations of a lender:

- Social enterprises should in general be treated as low risk borrowers.
- Social enterprises should be borrowing against additional criteria – so that the lender can understand the wider social impact of the loan.
- However, they need to justify the need for a loan in the same way as other businesses, providing a cash flow forecast, a business plan and showing how they can repay the loan.

- They need more hands on support from the lender or from another adviser with financial skills.
- They need relationship based lending so that they can discuss any problems that arise and negotiate solutions such as repayment holidays etc.
- They need to use finance more creatively and understand when to use overdrafts, loan guarantees, loans and grants.
- They need to recognise the difference between mainstream lenders and social enterprise specialist lenders.
- They need to build their own capacity, in particular in financial management skills so that they have a real understanding of and capacity to manage risk.

14.8 All the research into social enterprise finance shows that social enterprises are risk averse – often undertaken by people who have never taken on a large loan on the basis of unpredictable future earnings. It seems important therefore, to state that:

BEING RISK AVERSE IS RATIONAL

- 14.9 Social enterprises do need to recognise the opportunities available to them to develop and grow and how to finance that growth. There are too many contradictory messages emerging from policy agencies and business advisers. Too many people seem to be advising social enterprises to apply for more grants. A change of emphasis is needed from voluntary sector, business advice and public sector agencies so that these organisations can start to develop growth through successful trading. Grants and loans can then be used strategically to enhance and support this work.
- 14.10 Although it is an important policy objective to ensure that appropriate lending facilities are available to social enterprises, it should not become the main driver for social enterprises borrowing money. There is a plethora of new CDFIs and a number of well-established providers encouraging social enterprises to borrow. The evidence of this research shows that many social enterprises are far from being able to manage a loan. It is the view of Steve Walker at the Aston Reinvestment Trust that the solution to this problem is to put in place sufficient, high quality development support. Without this social enterprises will never develop the capacity to be financially sustainable for the sector to make a significant impact in social cohesion, service delivery or business competitiveness.
- 14.11 Investment – whether grants or loans must be tied into long-term sustainability and must be seen as secondary to the value of a social enterprise being able to fund its own growth through trading.

Implications of the findings

- 14.12 There are a number of issues and implications emerging directly from the findings of this research. There are also some wider implications relating to the position of the social enterprise sector as a whole and how its future development can be supported.
- 14.13 The social enterprise sector is in transition – things are changing fast and the findings we present here are a snapshot of a particular point in its development. The Social Enterprise Unit has just published an update of its strategy after around two years of concentrated promotion and development opportunities. More and more new or existing social enterprises are feeling the impact of this strategic support and will have undergone change as a reaction to it. In this research we have identified a wide range of specific needs for financial services but also a high level of ignorance about what is available. A large proportion of social enterprises in the region do not know what financial options there are or how to seek them out.
- 14.14 Specifically there is a lack of knowledge about social enterprise sector lenders. To some degree this relates to the large number of new lenders setting up in response to the government's CDFI initiative. However, there are some well-established organisations that do not appear to have made inroads into this growing market for enterprise finance with a social purpose. Those organisations that are aware of social enterprise lenders do not appear to be disposed to use them owing to a lack of trust and experience. Many respondents that have borrowed have used mainstream commercial lenders because the name and the security of the organisations are guaranteed. There appears to be a reluctance to engage with financial institutions that are not household names.
- 14.15 At present there appears to be an oversupply of loan finance in the region. According to national lenders and the take up in other regions, there is evidence of a particularly low use of loans in this region. With the advent of CDFIs, a number of new organisations will be offering loans to social enterprises and this should be observed and reviewed in the short and medium term. We have certainly not identified the need that more loan finance should be made available at this time.
- 14.16 As the new CDFIs become operational, social enterprises – as potential borrowers – must be able to develop confidence that these organisations provide sustainable sources of finance. There has often in the past been some confusion as to whether the sustainability of the fund or of the businesses it supports is paramount. Lenders are building up their funds from a wide variety of sources, including the Phoenix Development Fund, other public sector grants, private sector investment, loans, tax credits and earned interest. Money owned by the fund and donated by public funders is of course

cheapest as there is no interest charged. This makes the fund more sustainable because any income charged on the loan generates surplus for the fund. In some cases there are real benefits to loan funds being set up with public funding – especially if it is ring-fenced money for loan funds such as Phoenix. However there is some concern that in order to support agencies that cannot depend on grant funds, the lenders are competing with potential borrowers for the very same pots of public money. The co-operative sector has worked on more of a mutuality principle and bigger organisations have donated surpluses into the sector to help newer agencies. This model also works successfully in Italy.

- 14.17 This research has not set out to explore the relationship between social enterprise lenders and commercial lenders. However it is clear that in practice many social enterprise lenders aim to help borrowers to develop a credit history that will enable clients to move on to using commercial lenders and that some social enterprises have well developed business relationships with their banks and have no need of specialist services. In many ways the issue is not about commercial versus social lending but partnerships and spectrums. Small lenders can link up with bigger lenders – often these would be local and national organisations – this process would in turn lead people to commercial lenders. Partnerships of this kind will help the commercial lenders to identify the specific kinds of risk assessment they need to undertake with social enterprises and appropriate ways of providing security against the risk. Commercial lenders have addressed this issue at national and strategic levels but there is a lack of impact at local branch levels.
- 14.18 As identified above, there is a potentially negative impact of grants on social enterprises. Some social enterprises will always be dependent on a level of grant funding. Those enterprises that employ people who would not be expected to gain employment in the mainstream labour market might need a subsidy against a lower productivity level, relating to the additional benefits this work brings to individuals, communities and, indirectly to the state because of reduced social costs. However, funders, especially public bodies should be aware of the difference between this position and that of giving grant funds to those with the potential to earn.
- 14.19 There is a wide recognition that the nature of grant funding is changing. Those social enterprises at the voluntary sector end of the spectrum often approach trading as a necessary evil, to be embarked on in the absence of being able to secure grants. This is particularly the case with regard to 'core costs' – the overheads relating to the costs of keeping the organisation going from day to day, including wages, premises, utilities, etc. Nevertheless, these organisations are reluctant to take on the risk of borrowing. One of the main messages that the social lenders will need to communicate to these potential customers is that they will not lend to any

organisation that would not be able in their considered and professional judgement, to make regular payments to repay the loan and to maintain the social objectives of the organisation.

- 14.20 It is clear that one reason for social enterprises' unwillingness to borrow money is the lack of the financial management skills required to run a business. Many voluntary sector agencies have developed a wealth of knowledge and experience in planning budgets, fund-raising and monitoring expenditure. However, these are not the same as the skills needed to run a trading enterprise. This accounts for the negative feedback on using services such as overdrafts and the lack of awareness of opportunities such as using loan guarantee facilities.
- 14.21 Development support is needed in order that social enterprises can develop their business skills and identify appropriate ways of generating income to deliver services. The development support must be of good quality, consistent and must not be related directly to finance. It might be more productive if lenders develop partnerships with development agencies rather than provide their own support. This would disaggregate the provision of finance from advice. It would also isolate the loan fund and facilitate the evaluation of its potential financial sustainability. It would also encourage the providers of the various support systems to develop working partnerships. Furthermore, if development support is loan driven – that this is regarded as the main source of support for social enterprises – then how do the ones that want technical support without borrowing gain access to services?
- 14.22 Across the range of partners and stakeholders that aim to support social enterprises, it is vital that good information systems and sign-posting are put in place and that at all levels, from the strategic to the grass roots delivery agents, everyone learns from what works and seeks to implement successful initiatives.
- 14.23 The initial reaction to the findings of this research is likely to be that many social enterprises are risk averse and unwilling to borrow. At face value this is true but we have attempted to identify why this is and how the approach to providing finance for social enterprises needs to be a cautious one. Any initiatives must bear in mind the following issues:
- There is not a single model that is appropriate to all social enterprises at all points in the life cycle of the business
 - Research into social enterprise finance has highlighted the complexity of the sector. Rather than the traditional distinctions in terms of types and legal structures, in the case of financial needs it is more helpful to sub-divide enterprises into categories relating to the extent of their trading activity and the development stage of the organisation, as follows: traditional voluntary sector

Section 15

Recommendations

organisations, non-profit distributing businesses with government contracts, wholly grant dependent groups, those generating income to help cover costs, not to grow or develop, commercially based organisations with democratic structures

- There is increasingly an assumption that all social enterprises must grow and that even social enterprise lenders will regard every potential customer as small, proto commercial enterprise rather than value driven organisations based on relationships, trust and reputation.
- Social lenders do assess risk differently to commercial lenders but still need to be aware of which sub-sectors in the market they are supporting and what range of support needs these might have.

14.24 There is a range of financial services and products that needs to be available to social enterprises. There is also a whole range of financial products that are not being taken up by social enterprises such as venture capital. There is a clear lesson from the experience of the financial services available to financially excluded individuals, that it is often beneficial for saving and lending to be linked together. For individuals this means the increased promotion of credit unions and other initiatives that encourage people to save. In the field of social enterprise lending it means the development of wider banking services that help social enterprises to build up a reserve, access a wide range of financial products and develop a sustainable mutual model for the sector to invest in itself.

Financing Social Enterprise Matrix

	Making Do	Stable	Growth
	Beliefs and Values		
Start-up	Grants	Grants & Loans	Grants & Loans
Development	Grants	Grants & Trading & Loans	Trading & Loans
Growth	Grants & Loans	Trading &	Loans

14.25 This matrix illustrates the different points at which finance streams are needed by social enterprises. We have identified three life cycle points:

- Start up
- Development
- Growth

And three categories of need:

- Making do – where there is insufficient money in the organisation and there may or may not be a desire to change this status.
- Stable – there is sufficient money to guarantee survival and explore options.
- Growth – a positive intent to expand the organisation.

14.26 There may be a progression between these stages but it will not necessarily be the case. Underpinning the potential for progression is the moral code or value system that dictates how the organisation will behave and how the rest of society expects it will behave.

14.27 We should also ask if funds for individuals and social enterprises can be linked in order to be more effective? There are different regulatory structures and different client groups but the result could provide complementary and a wider range of more sustainable services.

14.28 In general there is less competition between social enterprises than in the commercial sector and more scope for sharing problems and experiences. Some solutions that would not be appropriate in the mainstream business sector or the traditional voluntary sector could be uniquely effective here.



- 1 Development support and financial services, including loans for social enterprises must be linked.
- 2 Technical advice must be available to social enterprise with or without the requirement to borrow.
- 3 Resources must be invested into a more comprehensive financial and technical support facility – not just loan funds; ultimately to be run by the social finance sector not by statutory bodies. Social enterprises themselves should own the resources.
- 4 There needs to be an evaluation of initiatives such as the Suffolk Regeneration Trust – which is offering loans to both social enterprises and individuals – to see if this model of working with individuals and enterprises is viable.
- 5 There must be more dissemination of information about credit unions – what they are and how they work; plus better promotion about how to access the credit unions that currently exist. There should also be support available in the region for existing credit unions particularly helping them to diversify services.
- 6 There must also be a promotion of the benefits of linking savings and lending - as in credit unions, and the New Horizons programme plus an exploration of how savings can be introduced to existing individual micro credit and loan schemes.
- 7 There should be better promotion of the banking services of social lenders (TROIDOS, Charity Bank, Ecology Building Society, Co-op Bank, locally based mutual building societies).
- 8 We should find ways of facilitating risk sharing regarding loans and development, developing a more creative use of finance between social enterprises and government agencies (such as EEDA). This requires more research into what is both feasible and appropriate. There appears to be further important lessons to be learned from the experience in Europe and North America.
- 9 Funding agencies must clarify under what circumstances they will support grant funding and lending to social enterprises in order to promote the financial sustainability of the enterprise.
- 10 Social lenders in the region should develop partnerships to ensure that services do not overlap, that they explore all opportunities for joint promotion and other cost saving activities.
- 11 Business advice agencies should adopt a more informed approach to the financial options given to social enterprises that aim to grow – including how to trade more efficiently in order to finance their own growth.
- 12 A Finance sub-group should be established within the regional social enterprise network (SEEE) to oversee future strategic planning.

Action Plan

This Action Plan is based on the recommendations we have made as part of this report. It aims to identify a series of actions that can facilitate the delivery of services within the region. It does not aim to identify actions relating to the direct delivery of services but rather how strategic planning can enable and facilitate local delivery actions. The action plan recognises that there is a wealth of local experience and good practice that exists within the region and that this provides the foundation for future development.

There are four areas of action:

- Existing provision
- Sustainable support for future development of the social enterprise sector
- New products and services – social enterprise finance
- New products and services – finance for excluded individuals

The four areas contain some specific actions that meet the needs identified in the report. Figures in brackets refer to the relevant recommendations. Potential partners are listed after each action.

In order to develop, facilitate and monitor the following actions a finance sub-group or advisory committee of the regional social enterprise network (SEEE) should be established. (12)



Existing provision

- Disseminate information about sources of finance that are available for social enterprises, organisations that support social enterprises in accessing and managing finance and enabling individuals to overcome financial exclusion. This information should also be made available to policy makers to inform their decisions. (5, 11)

EEDA
SEEE
Local partners and development agencies
Small Business Service

- Enable social enterprises and excluded individuals to have access to development support and financial services through the provision of good quality, consistent and on-going development support across the whole region. (1, 2, 7, 10, 11)

EEDA
SEEE
Local partners and development agencies
Local authorities
Government Office
Business Links

- Training should be developed to meet the specific needs of social enterprises identified in this report. Business advisers should be made aware of the availability of the training. Support should be made available for financial literacy training for individuals that are, or may be at risk of being, financially excluded. (3, 11)

EEDA
Government Office
SEEE
Social enterprise finance/training specialists within the region
Social lenders to individuals
Community development agencies and organisations

- Promotion of Credit Unions and other savings based models through a regional campaign to let the general public know about the benefits of Credit Unions and other models. Also to promote other models such as the New Horizons project and the Regeneration Trust model to potential partners such as Registered Social Landlords and local, mutual building societies. (5, 6)

EEDA
SEEE
Local development agencies
Sustainable support for future development of the social enterprise sector

- Set up/support a regional network of social enterprise advisers. (1, 3, 10, 11)
- Develop/implement qualifications and quality standards relating to social enterprise business support – in particular relating to finance. (11)

SEEE
Business Links

SEEE
Business Links

- Develop priorities with regional and sub-regional funders to identify how support can best be given to social enterprise development and how to set social enterprise criteria in bidding frameworks. (9)

EEDA
Government Office
Regional Assembly
Local Government Association
SEEE

- Develop and promote a forum for social enterprises to exchange knowledge of financial management systems and sources of finance etc. (11, 13)

SEEE

- Production of materials (directory, web site, newsletter) with current information on sources of finance. (10, 11)

SEEE

New products and services – social enterprise finance

- Research new models of finance for social enterprises, based on findings from international models and the requirements to contextualise products for the UK market. These can include innovative forms of working capital, human resources and expertise development in social enterprises and insurance products. Also to identify models of delivery from elsewhere in the UK with proven impact that could be established in the East of England. (8, 13, 11)

EEDA
SEEE

- Link commercial banking products with social enterprise lenders to increase the availability of mainstream finance to social enterprises and access knowledge and expertise of lenders within the sector. (3, 7, 9, 10, 11)

EEDA
SEEE
Local Economic Partnerships
Social enterprise lenders
Business Links

- Promote and implement the Corporate Social Responsibility agenda including the use of social auditing tools. (8)
- Develop an impact evaluation tool for all funded CDFIs lending to social enterprises and other social enterprise lenders to measure the impact upon business sustainability of social enterprises in the region. (4)

EEDA
Chambers of Commerce
Local Economic Partnerships
SEEE

EEDA
SEEE
New products and services for individuals

- Promote the importance of matched savings to lending, linking current government policy with models of good practice within the region and creating opportunities and incentives to save. (6)

EEDA
Small Business Service
SEEE

- Develop models of crediting volunteering and other social action for pension contributions and other financial benefits. Lobby for the opportunity to pilot models within the region. (8)

EEDA
SEEE

- Promote the benefits of commercial providers working with and through social enterprise organisations to overcome financial exclusion and deliver fully accessible models of finance. (6, 7)

SEEE

- Improve networking and signposting so that individuals can access appropriate services. (8, 11)

SEEE

- Test the viability of backroom services and support system for credit unions, especially smaller organisations.

SEEE
EEDA





Section 1
About your organisation

1.1 Organisation Name _____

1.2 Contact Name _____

1.3 Address _____

Postcode _____

1.4 Tel _____

1.5 Fax _____

1.6 Email _____

1.8 What area is covered by your trading activities?

Area	Tick here	State where
A local community / neighbourhood	<input type="checkbox"/>	_____
A town or city	<input type="checkbox"/>	_____
A district (including unitary authorities)	<input type="checkbox"/>	_____
A county	<input type="checkbox"/>	_____
Eastern Region	<input type="checkbox"/>	_____
The UK	<input type="checkbox"/>	_____
Other	<input type="checkbox"/>	_____

DATA PROTECTION

Data will be processed in accordance with the Data Protection Act 1998. The information you provide on this questionnaire will be used for the purposes of mapping the Social Enterprise finance in the Eastern Region and will not be made available to any commercial organisations but may be passed on to organisations providing support to Social Enterprises.

If you do not want your data to be passed on in this way please tick the box.

1.9 In which of the following sectors do you operate? (tick all that apply)

Agriculture	<input type="checkbox"/>
Housing	<input type="checkbox"/>
Arts	<input type="checkbox"/>
Manufacture	<input type="checkbox"/>
Catering	<input type="checkbox"/>
Recycling	<input type="checkbox"/>
Childcare	<input type="checkbox"/>
Retail	<input type="checkbox"/>
Social care (e.g. elderly, disability)	<input type="checkbox"/>
Training	<input type="checkbox"/>
Other care	<input type="checkbox"/>
Transport	<input type="checkbox"/>
Environment	<input type="checkbox"/>
Other (please state)	<input type="checkbox"/>
Finance (e.g. credit unions)	<input type="checkbox"/>
Gardening / horticulture	<input type="checkbox"/>

1.7 What is the legal status of your organisation? (tick all that apply)

Company limited by guarantee	<input type="checkbox"/>
Development Trust	<input type="checkbox"/>
Company limited by share	<input type="checkbox"/>
Co-operative	<input type="checkbox"/>
Industrial and Provident society	<input type="checkbox"/>
Community Enterprise	<input type="checkbox"/>
Registered Charity	<input type="checkbox"/>
Credit Union	<input type="checkbox"/>
Unincorporated Association	<input type="checkbox"/>
Social Firm	<input type="checkbox"/>

Section 2
About your finances

1.10 What activities and services do you provide? (tick all that apply)

Offer paid, long term work to people excluded from mainstream labour markets	<input type="checkbox"/>
Offer paid short term work and/or training to people excluded from mainstream labour markets	<input type="checkbox"/>
Offer unpaid work to people excluded from mainstream labour markets	<input type="checkbox"/>
Deliver advice and training	<input type="checkbox"/>
Produce goods and/or services	<input type="checkbox"/>
Sell goods and/or services	<input type="checkbox"/>
Provide finance to disadvantaged individuals and/or groups	<input type="checkbox"/>
Organise social activities	<input type="checkbox"/>
Other (please state)	<input type="checkbox"/>

1.11 Which of these activities/services do you raise an income from? (tick all that apply)

Public sector contracts for providing employment/training	<input type="checkbox"/>
Private sector contracts for providing employment/training	<input type="checkbox"/>
Providing advice/support for particular groups (e.g. housing, advocacy, debt)	<input type="checkbox"/>
Selling (donated/recycled) goods to the public	<input type="checkbox"/>
Selling services/goods to the public sector (e.g. catering, gardening)	<input type="checkbox"/>
Selling services/goods to the private sector (e.g. cleaning, IT)	<input type="checkbox"/>
Providing financial services	<input type="checkbox"/>
Other (please state)	<input type="checkbox"/>

2.1 Which of the following forms of income has your organisation received? (tick all that apply)

Grants	<input type="checkbox"/>
Donations	<input type="checkbox"/>
Loans	<input type="checkbox"/>
Loan guarantees	<input type="checkbox"/>
Equity finance	<input type="checkbox"/>
Trading income (including rents)	<input type="checkbox"/>
Other (please state)	<input type="checkbox"/>

2.2 If you use more than one type of funding, please indicate how the finance is used

	Grants	Loans	Equity	Trading
Start-up costs	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Running costs (e.g. rent, wages, etc.)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Investment in property/equipment	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
To subsidise the trading activity	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Research/development	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Training	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Other (please state)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

2.3 What financial services does your organisation use? (tick all that apply)

	High Street Bank/ Building Society	Other, commercial source
Current account	<input type="checkbox"/>	<input type="checkbox"/>
Deposit / saving account	<input type="checkbox"/>	<input type="checkbox"/>
Overdraft facility	<input type="checkbox"/>	<input type="checkbox"/>
Loan	<input type="checkbox"/>	<input type="checkbox"/>
Personal guarantees (people within the organisation)	<input type="checkbox"/>	<input type="checkbox"/>
External guarantees (other organisations, e.g. public authorities / guarantee schemes)	<input type="checkbox"/>	<input type="checkbox"/>
Grants / donations	<input type="checkbox"/>	<input type="checkbox"/>
Equity finance	<input type="checkbox"/>	<input type="checkbox"/>
Other (please state)	<input type="checkbox"/>	<input type="checkbox"/>

Section 3 Loans

3.1 Has your organisation ever applied for a loan?

Yes No Don't know

(If no, or don't know, please go to question 3.10)

3.2 Was the loan application successful?

Yes No Don't know

3.3 To which organisation was the application made?
(tick all that apply)

High Street Bank
 Building Society
 Credit Union
 Charity Bank
 ICOF
 Triodos
 LIF
 Other (please state)

3.4 How much was the application for? (tick one)

£0 - £5,000
 £5001 - £10,000
 £10,001 - £50,000
 £50,001 - 100,000
 £100,000+

3.5 Was your organisation asked to provide a guarantee?

Yes No Don't know

3.6 Was the organisation able to provide a guarantee?

Yes No Don't know

3.7 Were the terms of the loan?

At full commercial rates
 At preferential rates
 Don't know

3.8 What did you have to provide the lender in order to access the loan? (tick all that apply)

Cash flow forecast
 Profit and loss
 Business plan
 Trading history / past accounts
 Credit / trade references
 Guarantee
 Other (please state)

3.9 Did you receive any help to produce these? (tick one)

Yes
 No – but would have liked help
 No – not needed

3.10 Has your organisation ever considered applying for a loan?

Yes No Don't know

3.11 What prevented the organisation applying for a loan?

Received funding from elsewhere
 Did not need the loan
 Loan thought to be too risky
 Did not think we would be successful
 Other (please state)

Section 4 Grants

4.1 Have you ever applied for grants?

Yes No Don't know

4.2 From which of the following sources? (tick all that apply)

	Where from?	Amount Successful – yes or no	
Local Authority	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Other public authority	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Lottery	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Charitable trusts	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
European funding	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Business	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Learning and Skills Council	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
East of England Development Agency	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Government Office	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Development Trust	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Other (Please state)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Section 5 General

5.1 Who is responsible for managing the financial operations in your organisation? (tick one)

Dedicated finance officer
 General admin staff
 Director / Chief Executive
 Board member (accountant)
 Board member (non finance specialist)
 Volunteer
 Other (please state)

5.2 Are you aware of any of the following sources of finance? (tick all that apply)

Community Development Finance Initiatives (CDFI)
 Charity Bank
 Triodos
 ICOF
 Local Initiatives Fund (LIF)
 Adventure Capital Fund
 UnLimited
 Share issues
 Venture Capital
 Equity finance
 Alternative Public Offering (e.g. the Ethical Property Company)
 Small Firms Loan Guarantee Scheme

Thank you for taking the time to fill out this Questionnaire

Appendix 2

Social Enterprise Finance

5.3 Which of the following services would you find useful?
tick all that apply)

	Now	Future
A dedicated social enterprise loan fund	<input type="checkbox"/>	<input type="checkbox"/>
General local loan funds	<input type="checkbox"/>	<input type="checkbox"/>
Technical assistance in seeking/applying for loans	<input type="checkbox"/>	<input type="checkbox"/>
A directory of finance services for social enterprises	<input type="checkbox"/>	<input type="checkbox"/>
An on-line directory of finance services for social enterprises	<input type="checkbox"/>	<input type="checkbox"/>
Training on accessing finance	<input type="checkbox"/>	<input type="checkbox"/>
Social enterprise finance networks	<input type="checkbox"/>	<input type="checkbox"/>
Access to the experience of other social enterprises	<input type="checkbox"/>	<input type="checkbox"/>
Community finance 'Angels'	<input type="checkbox"/>	<input type="checkbox"/>
Community finance mentors	<input type="checkbox"/>	<input type="checkbox"/>
An accessing finance tool kit	<input type="checkbox"/>	<input type="checkbox"/>
Better understanding of social enterprise needs by lenders	<input type="checkbox"/>	<input type="checkbox"/>
Other (please state)	<input type="checkbox"/>	<input type="checkbox"/>

Please return by Friday 29th August in the self-addressed envelope.

Nicky Stevenson
The Guild
Burlington Buildings
11 Orford Place
Norwich
NR1 3RU

(Tel) 01603 615200
(Fax) 01603 613500

Telephone interview guide

Name of organisation

Name of interviewee

1 Where is your organisation now?

Is it currently growing/staying the same/getting smaller?

Do you own assets – such as:

- Buildings (freehold or long lease)
- Land
- Plant/equipment
- Equity
- Other financial investments

Do you trade – i.e. earn some or all of your income from selling goods and services?

What proportion of your income is earned through trading?

Could this be increased – how? If not, why not?

How do you use grant funding in relation to earned income?

- As a retrospective way of covering a deficit when we don't earn enough through trading
- As a costed subsidy to our trading activity
- For specific activities, such as training or marketing
- Our earned income is a nice bonus to what we get in grants but we can't rely on it

2 How you manage money in your organisation?

Where do you get money from now?

Where will your next amount of money come from?

If you had a cash crisis where would you go first for money? Then where?

Do you ever need additional money for any of the following?

- Advertising
- Research/fund-raising
- New equipment – including IT
- Premises – buying, leasing, refurbishing
- Bridging for retrospective funding grants
- Cash flow
- Managing finances
- Training
- Guarantees
- Purchasing stock

Have you ever considered, applied for or taken on a loan for these purposes?

Who manages the finances in your organisation?

What qualifications/experience?

Do you use anyone external to your organisation to advise on financial issues?

Specific knowledge/experience?

Do you feel that your organisation would benefit from additional advice or training in managing finances – maximising the impact and efficiency of the money you have?

Has your organisation used different types of finance (grants/earned income/loans) at different stages of its development (start up/running costs/expansion)?

3 Your views on financial services

What is your experience of financial service providers, e.g. banks?

What is your opinion of the commercial banking sector?

Have you any experience of social economy financial institutions, e.g. CDFIs, Charity Bank, ICOF, etc.?

What is your opinion of social economy financial institutions?

4 Your views on borrowing/credit

What is your experience of loan finance?

What is your opinion of loan finance – as a means of generating money for your organisation?

Appendix 3

Interviews with Credit Unions

1 About the Credit Union

How long has the CU been going?

How many members does it have on the books?

How many of these are 'active'?

What is the current size of the CU asset?

How much do you have out on loan?

2 About the members

Are a significant number of the member's people who could be described as financially excluded?

In what way?

What are the main reasons that members join the CU?

- Cheap loans
- Lack of access to banking
- No credit with mainstream lenders
- Debt problems
- Opportunity to save
- Being part of the community
- Using 'ethical' finance
- Other

To what extent do members have a choice of financial services to use?

3 Other forms of finance

How far away is the nearest bank/building society branch?

How far away is the nearest cash machine?

How far away is the nearest post office?

Can you say what proportion of your members are likely to have debt problems?

Can you say what proportion of your members are likely to have used a loan shark?

Can you say what proportion of your members are likely to use forms of credit such as buying from catalogues?

4 Impact

Can you identify whether the CU has made a difference in the community?

If so, in what way?

5 Future development

In the next 2 years is the CU likely to get larger / get smaller / stay the same?

What will be the main contributing factors to this?

What will be the main barriers?

Have you ever considered a merger with other CUs?

Are you likely to merge with other CUs in the next 12 months?

Appendix 4

Interview questions for support organisations

Funders/lenders

How much money is in the fund?

How is it issued (grants/loans)?

What size of grants/loans?

What is the target group?

Where is the target area?

Any other priorities?

Criteria re social enterprises?

How long has it been running?

Who decides on applications?

Who are they accountable to?

Interest rates / other conditions?

What is the period of the loan?

Repayment level /bad debts?

How is the fund promoted?

Number of loans/grants issues in a year?

Ultimate source of the fund (government/trusts, etc)?

Is it sustainable (does interest cover administration costs)?

Impact

Do you look for ultimate financial sustainability of beneficiaries?

How?

Do you measure how money is spent in the locality?

How?

How does your funding relate to trading activities?

Reserves

Surpluses

Member involvement

Funding for individuals

Does the money you issue go directly to individuals?

What for (personal use or business)?

Can it be used for business purposes?

What are the repayment terms?

What outputs/outcomes are you trying to achieve (for the individual/community)?

How does the money contribute to social cohesion?

Compatibility with other funds?

Appendix 5

Social Enterprise Lenders – November 2003

	Area Covered	Target Group	Amount in Fund Loan/ Grant	Amount of	Interest Rates	Provide Guarantee/ Conditions	Repayment Period
Charity Bank	UK and Northern Ireland	Charities, non-profit-distributing companies Ltd by share or organisations with charitable objectives. Do not lend to individuals.	£3-4 million approx.	Loan of between £5,000 - £250,000.	6% interest is charged and a 1% administration fee.	Must provide quarterly management and financial management information. Borrowers level of financial knowledge is more important than security. But there are various conditions dependent on loan e.g. insurance, securing property.	Try to offer a flexible package. Normal unsecured loans have a repayment period of 5 yrs. Secure loans have a repayment period of 10yrs and property loans 20yrs. Can have repayment holiday if needed and there are no penalties for early repayment.
ICOF	Mainland UK	Specifically co-ops, more recently SEOs. Do not lend to individuals.	£1.5 million.	Loan of between £5,000 - £50,000.	Average rate 8.5% but this varies depending on what level of risk is considered.	Conditions vary but these can include; securing a lease, grant, or copy of planning permission. They are also asked to produce quarterly management accounts.	Up to 10 yrs. Average 5 yrs. Can have a repayment holiday if needed.
CCDA (Cambridge Co-operative Development Agency)	Eastern Region	SEOs, co-ops, social firms.	£20,000.	Loan of £1,000 - £4,000. For a new organisation for business registration can offer loan under £1,000	5% interest on loans but loans for incorporation costs are interest free.	No.	Repayment period unknown but if payment difficulties arise, rescheduled payments and payment holidays can be arranged.
LIF (Local Initiative Fund)	Runs a national fund and most areas regional fund but not in the Eastern region	SEOs, community businesses in areas of market failure and regeneration.	Not currently sustainable and still dependent on grants.	Regional funds for small loans – £1,000 - £100,000 Link with national fund for large loans – £25,000 - £250,000.	3.5% - 4% over base rate with an up front fee of 1.5% and 2%.	Yes – but not from the directors or trustees; they will normally ask for security on a building to the value of contracts held by the lender.	Regular fund lends up to 5 yrs. National fund lends up to 10 yrs.

	Area Covered	Target Group	Amount in Fund Loan/ Grant	Amount of	Interest Rates	Provide Guarantee/ Conditions	Repayment Period
Prince's Trust	Business support programmes operate on a regional level	Targeted at young people between ages of 14 –25 yrs. In particular young people who are regarded as disadvantaged. Increasing number of graduates who cannot secure loans due to large amounts of student debt.	£500,000.	Initial test marketing grant of up to £250. Then after a business plan is produced they can apply for a grant of up to £1,500 or a loan of £5,000. The trust also offers development grants of up to £250 to help people into work.	3% interest is charged.	No but a business plan must be produced.	Repayment is up to 3 year.
SRT (Suffolk Regeneration Trust)	County of Suffolk	Start-up businesses.	£400,000 approx.	Loans of between £3,000 -£50,000.	Same as traditional borrowers.	Yes but won't ask for personal guarantee and will provide support.	6 months to 10 yrs.
Enterprising Communities/ Revolving Loan Fund	Hertfordshire	Any type of business but its priority groups for loans are young people, women and ethnic minority groups.	£20,000.	£50 - £1,500 for first loan and £2,500 for a second loan.	Interest rate is charged at 3% above base rate with an additional 3% administration fee which is refunded if loan is repaid in full and on time.	Have to have completed the In Credit training programme, produced a business plan and cash flow forecast. They are not required to have been turned down by a mainstream bank.	1 st loan up 12months. 2 nd loan up to 24 months.
Enterprising Communities/ CDFI called In Credit (Aims to be in operation April 2004)	Stevenage and North Hertfordshire	New start businesses, expanding businesses with fewer than 5 employees and SEOs. SEOs will have to demonstrate additional social impact.	Initially £60,000.	Loans of between £1,500- £7,500.	Not yet agreed.	Not yet agreed.	Not yet agreed.
Business and Communities Enterprise Project	Marsh Farm area of Luton	Residents of Marsh farm, non-residents who can prove direct benefit to Marsh Farm, and black and ethnic minority community. Keen to support SEOs but at moment most beneficiaries are sole traders.	Unknown.	Grants of up to £2,000 to start-up businesses in the area. (A new project is being developed to set up loan funding for up to £10,000 but this is likely to be separate project).	Not applicable.	Have to do business plan but they can get training to do this through sources available at the Marsh Farm project.	Not applicable.

Appendix 6

Regional Credit Unions – November 2003

	Area Covered	Target Group	Amount in Fund Loan/ Grant	Amount of	Interest Rates	Provide Guarantee/ Conditions	Repayment Period
Full Circle Fund	Norfolk, parts of Waveney and Mid Suffolk	Socially and/or financially excluded women. Most likely to be sole traders but can be SEOs	£47,000.	Loan of up to £1,000 on the first application and then second and potentially third loans of up to £2,000. The project also runs a smaller initiative targeted at childminders, where they can borrow as little as £60 to meet registering requirements of a childminder.	Loans are charged at 3% over base rate and there is also a 3% capital charge. If the money is repaid with no problems then the charge is refunded.	This varies but those wanting to borrow have to integrate this with business support training.	Normally loans are taken out for up to two years but this can be flexible. Repayment holidays can be negotiated if it is in the best interests of the business.
The National Learning Skills Council grant scheme (Run by Norfolk and Waveney Enterprise Services)	East of England	Business Start-up	£283, 500 this year	Grants are available for up to £3,500 per business. They are working on introducing a loan scheme.			
Adventure Capital Fund	Runs at both national level and regional level	Community enterprises or those aspiring to develop their first trading activity.		The national fund supports 'Patient Capital' investments of up to £400,000 per business and a bursary development grant fund of up to £15,000 per business.			

	How long has the CU been Running	Number of Members	How Many Active?	Current Size of CU Asset	Amount in Savings	Amount Out on Loan	Type of members
Money Matters Credit Union (Merger of Lewsey and Lea-siders and Chalk Hill Blue Credit Union)	The CU is in its 9 th year.	1000 members.	The majority are active members.	£890,000	£490,000	£400,000	40% are financially excluded. Large % of Irish members due to their inhabitancy in the area.
Dacorum First Credit Union	The CU is in its 6 th year.	Approximately 400 – 500.	Most – probably about 400.	£160,000	£30,000	£130,000	50% are financially excluded.
Litchfield & South Town Credit Union Ltd	The CU has been running for 18 months.	60 members.	All are active.	£16,698	£12,345	£4,353	Not able to say whether financially excluded. All live and work in area.
South Norfolk Credit Union	The CU has been running for 18 months.	81 members.	Majority are active – about 70 have regular savings and/or borrowing.	£13,000	£10,000	£3,000	50% are financially excluded (unemployed, retired, literacy problems, social isolation).
Earlham Credit Union	The CU is in its 10 th year.	600 members (? adults and ? children 0-16).	280 are active members.	£132,687	£55,413	£77, 274	50% are financially excluded on benefits. Others include people with debt problems such as overdrafts and loans.
Rainbow Savers Anglia Credit Union	The CU is in its 4 th year.	319 members and 42 juniors.	80% are active members.	£56,000	£54,320	3 % = £1,680 (growing as initially set up as saving)	They are all members of a co-operative group. All from East Anglia. About 65-70% are financially excluded (deprived areas or rural).

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