Sheffield Hallam University | Centre for Regional Economic and Social Research

Evaluation of the Community Investment Enterprise Facility

First Annual Report

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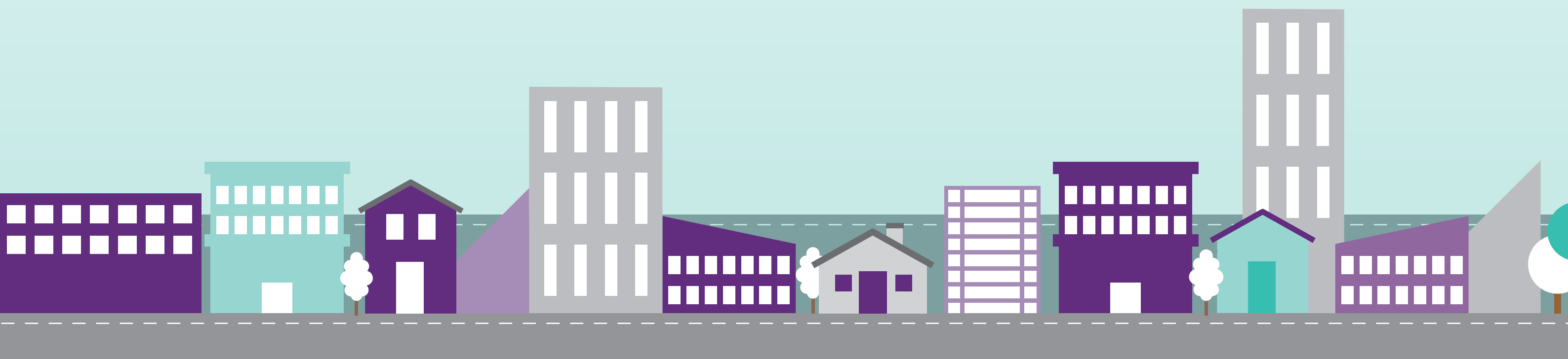
MAY 2020

Community Investment

BIG SOCIETY CAPITAL

SIS Social Investment Scotland



Contents

The analysis contained within this report draws on data collected prior to the outbreak of the COVID-19 pandemic. As such it has not been possible at this stage to explore the impact of the pandemic on the CIEF, the CDFIs making investments or the MSMEs in receipt of funds. Future evaluation reports will explore the effect of the pandemic on the CIEF investment profile, performance and potential for social impact as well as exploring how the pandemic has affected the practices and sustainability of the participating CDFIs. All three CDFIs covered by this report have participated in the Coronavirus Business Interruption Loan Scheme (CBILS) which helps small and medium-sized businesses to access loans and other kinds of finance up to £5 million, with the Government guaranteeing 80 per cent of the finance to the lender and paying interest and fees for the first 12 months. How long the pandemic lasts and the speed at which the economy recovers will ultimately determine the impact of the current crisis on the CIEF and its portfolio.

1. Introduction

This is the First Annual Report of the Evaluation of the Community Investment Enterprise Facility (CIEF) being undertaken by the Centre for Regional Economic and Social Research (CRESR) at Sheffield Hallam University. CIEF is a £30 million investment facility, established by Big Society Capital and managed by Social Investment Scotland (SIS). It aims to partially meet the capital needs of Community Development Finance Institutions (CDFIs), to build a better understanding of the financial and social impact of CDFI lending, and to test models of funding for CDFIs to attract other mission-driven investors.

CIEF will invest in up to five CDFIs across the UK between 2018-25 to help meet the needs of **underserved micro, small and medium-sized enterprises (MSMEs) that have a positive impact in the communities where they operate**. The first round of investment has been into three CDFIs with the intention to involve further CDFIs over time, through this facility or future initiatives.

Over the lifetime of the CIEF, the evaluation aims to:

A. Provide evidence on the financial performance of CDFI lending

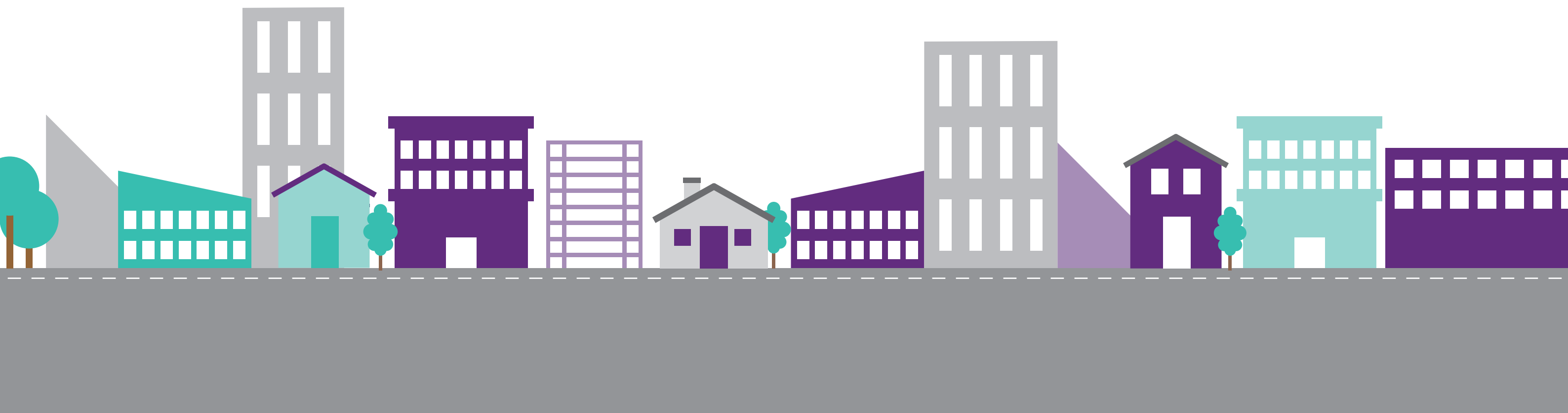
B. Provide evidence about the social and economic impact of CDFI lending at a community level and for individuals

C. Consider the change in the CDFI market over the life of the CEIF, including the impact of BSC's initiatives

D. Develop and model good practice in approaches to measuring the social and economic impact of CDFI lending

At this early stage in the lifecycle of the CIEF the purpose of this first annual report is twofold:

- To provide an overview of the types of investments that have been made by the CIEF during the first year of operation (January-December 2019)
- To begin to understand the potential for the CIEF to achieve social and economic impact



What is a CDFI?

Small businesses can play an important role in society by creating and sustaining jobs for local people and supporting local economic activity, especially in left-behind communities. Yet many sustainable small businesses in these communities cannot access mainstream finance and remain underserved.

Community Development Finance Institutions (CDFIs) are one solution to this problem. They offer the opportunity to transform how these small businesses access finance enabling them to survive and thrive. CDFIs have a social mission: to provide loans and support to underserved small businesses that are often based in disadvantaged communities or are led by disadvantaged groups.

'Disadvantaged' can mean areas or groups that are underserved and as a result do not enjoy the same level of social and economic benefits as other people and places. This might include factors like income, employment, education or health and safety.

CDFIs themselves are constrained by the lack of significant capital, and unable to meet their potential to support these underserved small businesses at scale. The CIEF was conceived as a means of addressing this challenge.[1]

An interactive online dashboard published alongside this report provides an opportunity to explore in more detail some of the data and findings discussed in the report. Both the report and dashboard draw on data collected by CDFIs from MSMEs in their CIEF lending portfolio. Baseline data provides information about the characteristics of MSME as the point when they received the loan alongside information about the structuring of each loan. Quarterly follow-up data provides information about the performance of each loan. Annual follow-up data will monitor MSME characteristics, such as staffing and access to other finance, over time. Additional data on each MSME has been obtained by linking to their record in Companies House and demographic data sources such as the Indices of Multiple Deprivation (IMD).

As the CIEF matures in terms of the number, value and term of investments, the focus of Annual Evaluation reports and other outputs will shift from describing fund performance and the investment portfolio, to understanding the social and economic impact of the CIEF, and the potential for wider change in the CDFI market.

1. For more information see: Scaling up Community Investment in the UK: The case for investing

2. An overview of CIEF lending

In the first full year of CIEF operation, between January-December 2019, the three CDFIs in receipt of funding through the facility:

LENT £12.97 MILLION TO MSMES

MADE 248 LOANS TO 243 MSMES[2]

LEVERAGED £6.7 MILLION IN ADDITIONAL INVESTMENT INTO MSMES FROM OTHER LENDERS

The CIEF CDFIs

FINANCE FOR ENTERPRISE	BCRS BUSINESS LOANS	bef Business Enterprise Fund
Finance for Enterprise (FFE) has been a key provider of business advice and finance in Yorkshire and Humber for over 30 years, supporting new start and established small and medium sized businesses that are not served by mainstream finance.	**BCRS Business Loans** supports small and medium sized businesses across the West Midlands that are unable to get loans from mainstream sources with the aim of making a positive contribution to the economic wellbeing of the region.	**Business Enterprise Fund (BEF)** has been lending to small businesses for 12 years and now operates across the North East, Yorkshire and Humber to encourage growth in the economy and provide a positive impact on job creation and communities.

Figure 1 demonstrates that the majority of these investments were made in the geographic areas in which the three CDFIs focus their lending activity:

- West Midlands (BCRS)
- Yorkshire and the Humber (FFE, BEF)
- North East (BEF).

The average (mean) size of the loans made to date is £52,285. The smallest loan is worth £5,000 whilst the largest loan is worth £100,000:

- Nine per cent of loans are worth £20,000 or less
- 27 per cent are worth between £20,000 and £40,000
- 31 per cent are worth between £40,000 and £60,000
- 11 per cent are worth between £60,000 and £80,000
- 23 per cent are worth more than £80,000

2. The analysis presented in this report is based on data about these 248 loans. Where possible we have presented descriptive analysis broken down by different investee characteristics. However, we would caution against reading too much into data that is presented at a granular level, particularly where the number of investees in a certain category is below 20.

The value of loans does not vary a great deal according to levels of deprivation:

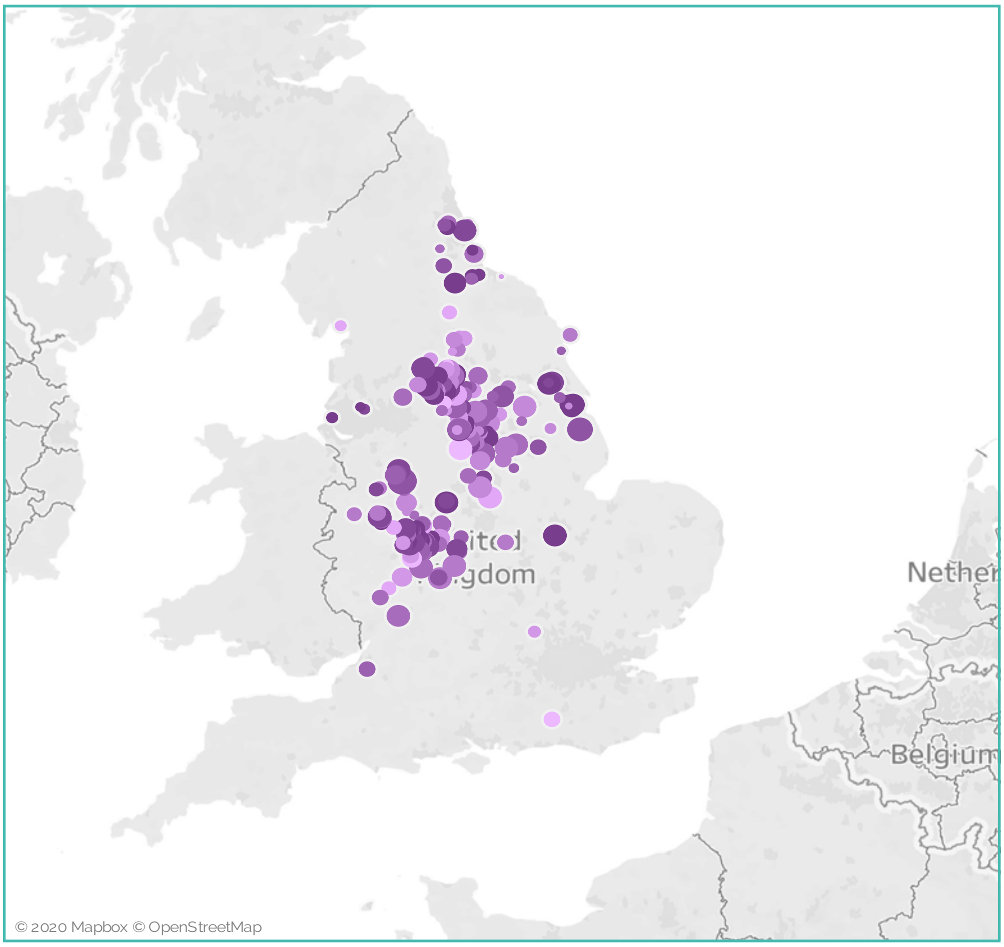
- The average value of loans in the 10 per cent most deprived areas is £54,898
- In the 35 per cent most deprived areas it is £55,018
- In the 50 per cent most deprived areas it is £53,560

The majority of loans (73 per cent) are for a term of 60 months and a further 23 per cent are for a term of 36 or 40 months. The most common interest rates for loans is between 13-15 per cent (70 per cent of loans are within this range) although some loans are offered at a higher rate (18 per cent have an interest rate of 16 per cent or more).

At this early stage the level of default within the CIEF portfolio has been relatively low:

- At the end of 2019 23 loans were in arrears (9.3 per cent of all loans). This means that £97,684 of repayments were overdue, around one per cent of all the capital invested through the programme
- Of those loans in arrears, however, nine were also in default (3.6 per cent of all loans). The total outstanding capital on these nine loans, which is now unlikely to be repaid, is £398,155, or three per cent of all the capital distributed
- No loans had been written off, meaning that recovery efforts had not been ruled out for any of the defaults
- On the other hand, 11 loans had already been repaid in full (4.4 per cent of all loans)

Figure 1: Location of CIEF investments based MSMEs address



Notes: Colour coding is by the Index of Multiple Deprivation decile for the MSMEs postcode (1, most deprived, dark purple – 10, least deprived, light purple). Size of the dots corresponds to the amount invested in each location.

3. Technical default is defined as repayments overdue by 90 days or more

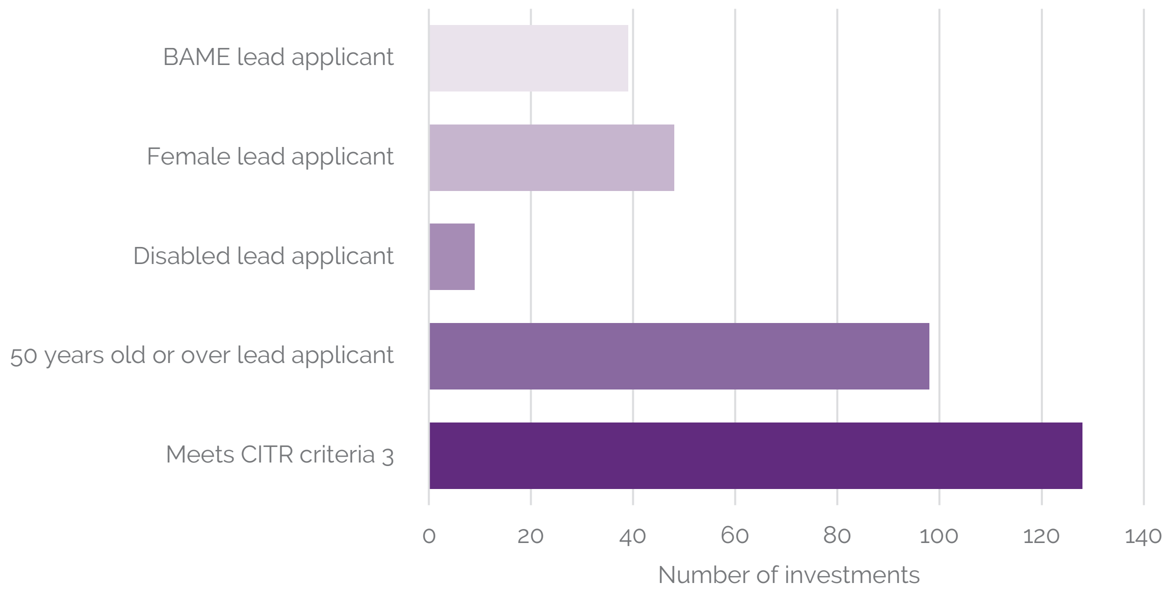
3. Characteristics of CIEF lending

The following section presents descriptive analysis of the characteristics of the CIEF lending portfolio during the first year of operation, focussing on the extent to which funds have reached underserved and/or disadvantaged communities of place and interest.

In terms of ***communities of interest***, there were:

- 39 loans worth £2,163,612 where the lead application was from a BAME background: 16 per cent of the CIEF portfolio (by no of investments)
- 48 loans worth £2,333,268 where were the lead applicant was female: 19 per cent of the portfolio
- 9 loans worth £363,000 where the lead applicant had a disability: 4 per cent of the portfolio
- 98 loans worth £5,611,564 where were the lead applicant was aged over 50: 40 per cent of the portfolio
- 128 loans worth £6,919,380 met CITR criterion 3[4]: 52 per cent of the portfolio

Figure 2: No of CIEF investments in underserved and/or disadvantaged communities of interest[5]

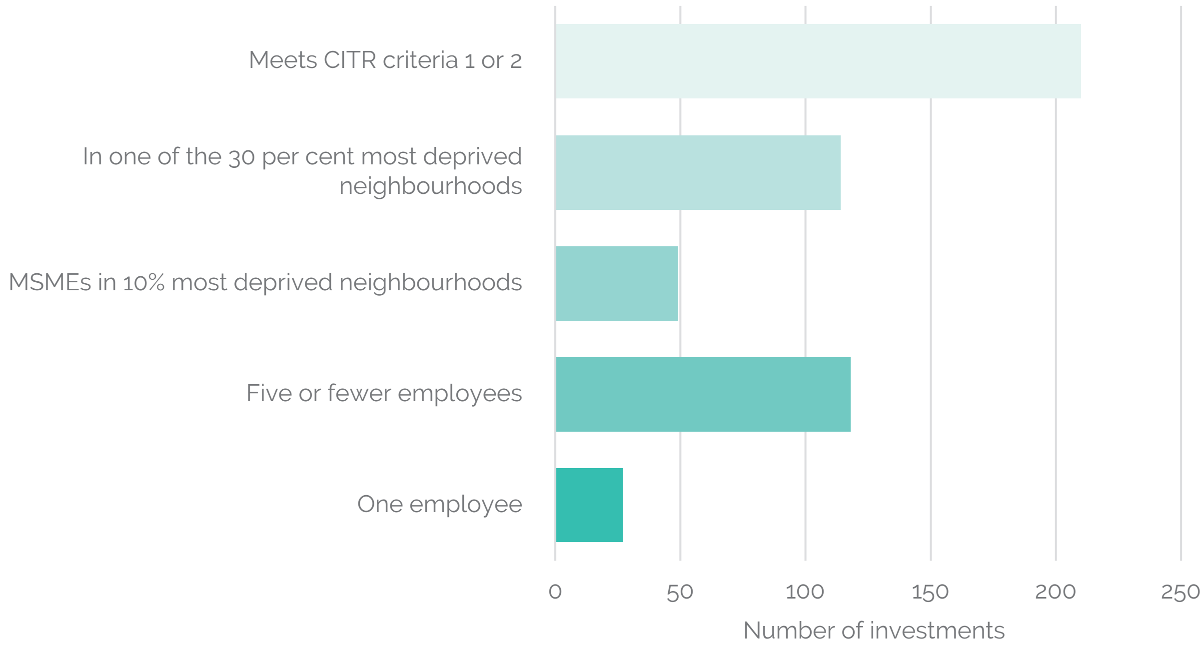


4. Which means that the owners, operators or customers belong to a potentially disadvantaged group (for example disabled people)
5. Note that none of the categories presented in this and subsequent charts are mutually exclusive i.e. it is possible that one MSME will be in one or more of these categorie

In terms of ***communities of place***, there were:

- 210 loans worth £11,124,644 where were the lead applicant met the CITR criteria 1 or 2[6]: 85 per cent of the CIEF portfolio (by no of investments)
- 114 loans worth £6,190,232 where the MSMEs were based in one of the 30 per cent most deprived neighbourhoods in England: 47 per cent of the portfolio
- 49 loans worth £2,719,000 to MSMEs based in one of the 10 per cent most deprived neighbourhoods in England: 20 per cent of the portfolio
- 118 loans worth £5,148,575 to MSMEs with five or fewer employees: 52 per cent of the portfolio
- 27 loans worth £973,575 to MSMEs with only a single employee: 12 per cent of the portfolio

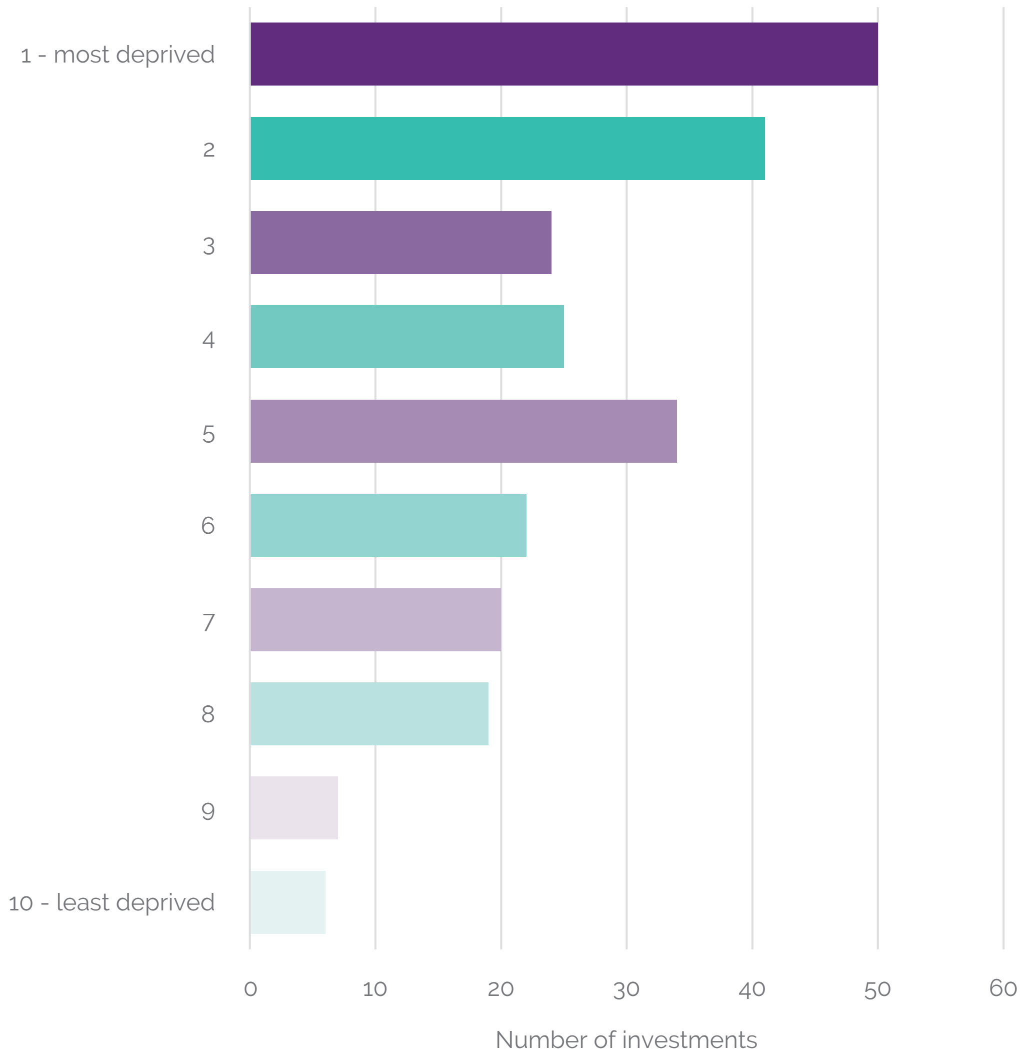
Figure 3: No of CIEF investments in underserved and/or disadvantaged communities of place



Focussing in more detail on the types of communities in which CIEF investees are based, figure 4 presents the number of CIEF investments by IMD deciles. It demonstrates the extent to which investment is flowing to the most deprived communities, with the greatest number of investments in MSMEs based in communities in the bottom two deciles (i.e. the 20 per cent most deprived communities) and the fewest investments in MSMEs based in communities in the top two deciles (i.e. the 20 per cent least deprived communities).

6. These both relate to the level of disadvantage in the area in which the MSME operates

Figure 4: No of CIEF investments by IMD decile



Further descriptive analysis explored CIEF investee characteristics according to the **industry sectors** in which they operate, the **development or growth stage** of the business, and the **purpose of the investment**.

The most common ***industry groupings*** (SIC 2007 divisions) in which investees were categorised were:

- Wholesale and retail trade; repair of motor vehicles and motorcycles: 53 loans worth £2,764,112 - 21 per cent of the CIEF portfolio (by no of investments)
- Manufacturing: 42 loans worth £2,224,000 – 17 per cent of the portfolio
- Construction: 29 loans worth £1,841,300 – 12 per cent of the portfolio
- Professional, scientific and technical activities: 24 loans worth £1,156,773 – 10 per cent of the portfolio

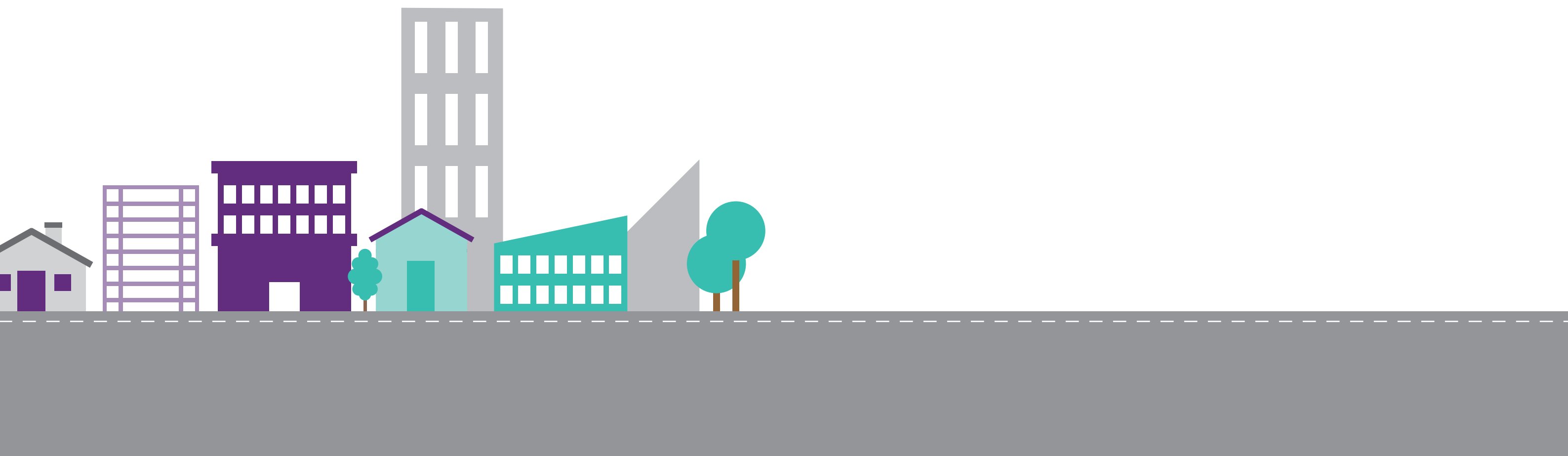
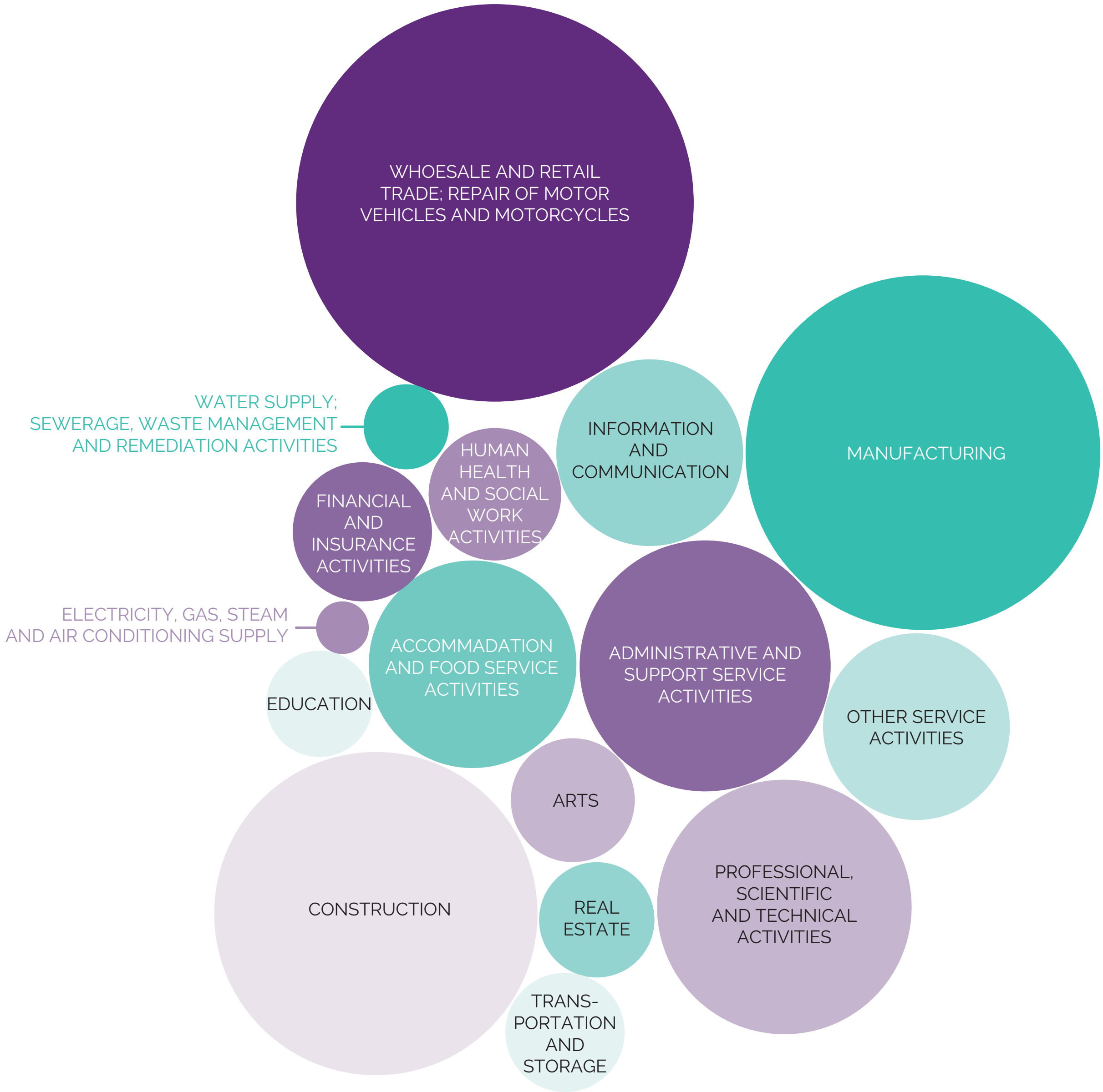


Figure 5: No of CIEF investments by industry groupings (2007 SIC division)

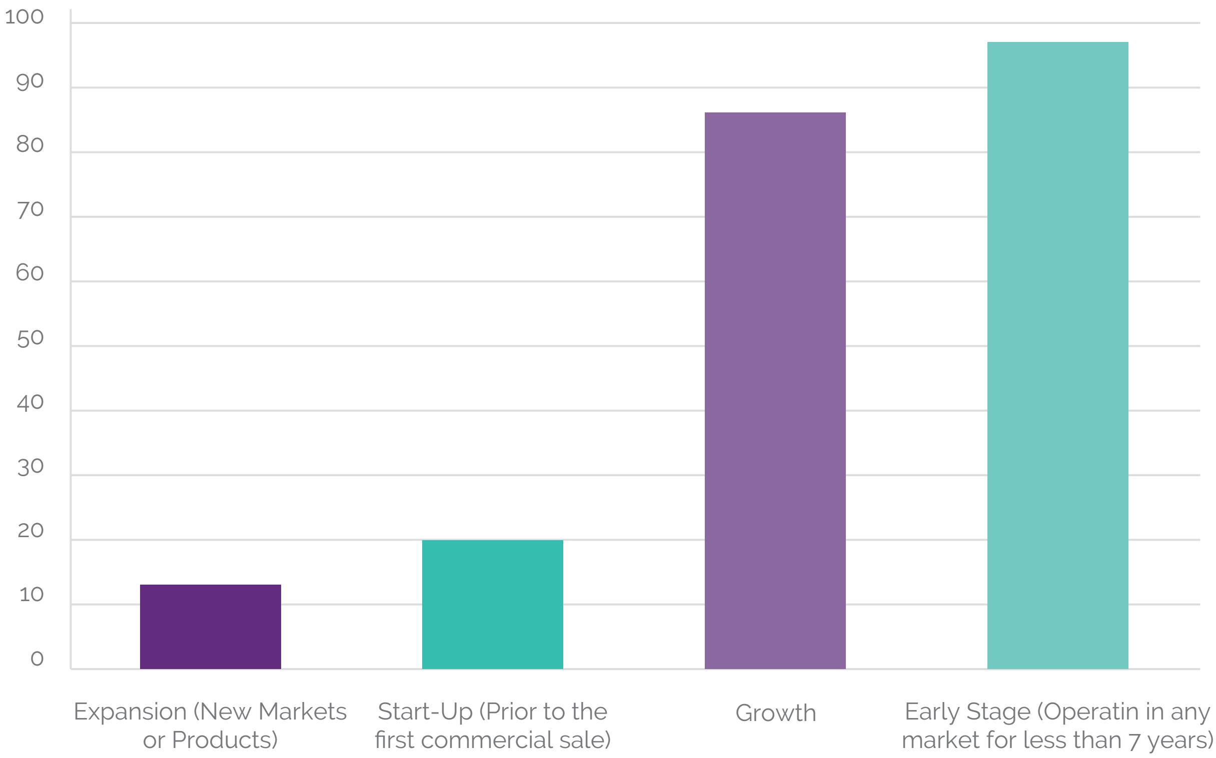


In terms of the ***development or growth stage*** of MSMEs in receipt of CIEF investment:

- 9 per cent were 'start ups'[7]: 20 loans worth £728,000
- 45 per cent were 'early stage'[8]: 97 loans worth £4,534,928
- 40 per cent were at a 'growth' stage: 86 loans worth £5,142,196
- 6 per cent were seeking to expand into new markets or with new products: 13 loans worth £670,000

7. Prior to their first commercial sale
8. MSMEs operating in any market for less than 7 years

Figure 6: No of CIEF investments by development or growth stage.



In terms of the ***purpose of the investment***, by far the most common purpose was 'working or growth capital' which accounted for 72 per cent of the CIEF portfolio (178 loans), worth £9,445,351.

The fact that most CIEF investees were at an early stage in their development or seeking to grow is reinforced by the ***number of people they employed***. 52 per cent of MSMEs employed fewer than five people and 34 percent employed between six and 15 people. This means that a large proportion of CIEF investees are classified as 'micro' enterprises[9].

Overall, the **MSMEs in receipt of CIEF investment employed 2,822 people**. A majority of these jobs were in MSMEs based deprived communities, reflecting the portfolio as a whole:

- 845 (30 per cent) were in the 10 per cent most deprived communities
- 1,691 (60 per cent) were in the 35 per cent most deprived communities
- 2,118 (75 per cent) were in the 50 per cent most deprived communities

The evaluation is also interested in exploring the employment patterns and practices of CIEF investees to consider how equitable they are. Of particular interest is the differential between the highest and lowest paid members if staff within an MSME. Initial analysis shows that the average (median) highest salary was £30,000 per year and the average lowest salary was £12,000 per year. This was broken down across the investment portfolio as follows:

- In 24 per cent of CIEF investees the highest and lowest paid members of staff earned the same amount (usually because they only employed 1-2 people): a ratio of 1:1
- In 31 per cent of investees the highest paid employee earned twice and much as the lowest paid: a ratio of 2:1
- In 32 per cent of investees the highest paid employee earned between three and five times more than the lowest paid: a ratio of between 3-5:1
- In 14 per cent of MSMEs the highest paid employee earned more than five times more than the lowest paid: a ratio of more than 5:1

9. In the UK Companies House defines a micro-entity as a business that meets at least two of the following conditions: turnover must be not more than £632,000; the balance sheet total must be not more than £316,000; the average number of employees must be not more than 10.

Additional exploratory analysis has explored whether key evaluation measures discussed in this section vary by level of deprivation to understand the extent to which CIEF investment is ***reaching the most underserved communities*** i.e. those for whom there is an intersection of deprivation by place and other key characteristics for which data has been collected. As table 1 illustrates, at this stage the findings are inconclusive. The distribution of investee characteristics does not vary significantly by level or degree of place-based deprivation. However, the relatively small number of investees in some categories means this pattern should only be considered tentative at this stage.

Table 1: No and percentage of investments according to place-based deprivation (IMD) and key investee characteristics

	10 per cent most deprived areas		35 per cent most deprived areas		50 per cent most deprived areas		All investments	
	N	Percent	N	Percent	N	Percent	N	Percent
INVESTMENT PURPOSE:								
Construction	0	0	1	1	1	1	2	1
Debt consolidation	0	0	0	0	0	0	2	1
Property purchase	1	2	2	2	2	1	7	3
Purchase	8	16	17	13	20	12	29	12
Renovation	2	4	8	6	10	6	12	5
Working/Growth Capital	35	71	92	72	127	73	178	72
ACCESS TO FINANCE:								
MSMEs who had been rejected for other finance in the past 12 months	20	42	59	48	77	46	101	43
MSME DEVELOPMENT/GROWTH STAGE:								
Early Stage	20	45	46	42	65	44	97	45
Expansion	5	11	9	8	10	7	13	6
Growth	18	41	41	38	56	38	86	40
Start-Up	1	2	13	12	17	11	20	9
RATIO HIGHEST-LOWEST PAID EMPLOYEE:								
1:1	13	31	27	25	36	25	50	24
2:1	10	24	28	26	39	27	63	31
3:1	4	10	13	12	20	14	27	13
4:1	2	5	11	10	13	9	18	9
5:1	5	12	12	11	15	10	20	10
Over 5:1	8	19	17	16	23	16	28	14
MSME LEADER/OWNER CHARACTERISTICS:								
Female	6	12	23	18	29	17	48	20
Male	43	88	104	82	143	83	196	80
BAME	9	18	24	19	31	18	39	16
Disability	3	6	6	5	7	4	9	4

4. Conclusion: understanding the potential for social and economic benefits

At this early stage in the lifecycle of the CIEF this first annual evaluation report has focussed on providing an overview of the types of investments that have been made by the CIEF during the first year of operation (January-December 2019). The analysis presented is largely descriptive, but it is possible to use these early findings to consider the potential for the CIEF to achieve social and economic impact in the longer term.

CDFI's potential for social and economic impact comes from the way that they provide loans and support to businesses, social enterprises and individuals who are unable to access mainstream finance from high street banks and elsewhere; the fact that they operate in deprived communities; and because they support entrepreneurs from disadvantaged communities of place and interest. Monitoring the extent to which CIEF investments reach these hardest-to-reach businesses will be key to understanding the social and economic impact of the facility in the longer term.

Using data from the most recent version of the UK Small Business Survey (BEIS, 2019)[10] it is possible to benchmark some of the characteristics of the CIEF MSME portfolio against the wider UK SME population, to gain some insights into the extent to which CIEF funds are being accessed by underserved and hard to reach groups:

- 19 per cent of investments had ***lead applicants who were female***. This is broadly aligned with the national picture in the UK, where the proportion of small businesses that are women-led was 17 per cent in 2018.
- 16 per cent of investments had ***lead applicants from BAME backgrounds***. This is a greater share than the national picture, where the proportion of small businesses that are majority led by ethnic minority groups was five per cent in 2018.
- 41 per cent had been ***rejected for finance elsewhere*** in the previous year. This is much higher than SMEs more generally. In 2018, of those SMEs who had applied for external finance in the previous 12 months only 24 per cent had not been successful: 10 per cent did not obtain any finance and for 14 per cent the outcome of applications was still pending.
- 20 per cent of investments ***were to MSMEs in the 10 per cent most deprived neighbourhoods*** according to the Indices of Multiple Deprivation (IMD). Furthermore, 85 per cent of CIEF investments met CITR criteria 1 or 2, meaning that they are in MSMEs based in the 35 per cent most disadvantaged neighbourhoods[11] and the 82 Local Authority Districts appearing in the top 50 of any of the seven most recent Indices of Deprivation measures. At this stage it has not been possible to benchmark CIEF investments against external data on the geography of SME population, but this figure does suggest that a significant amount of CIEF investment is going to economically disadvantaged areas.

10. 10 Longitudinal Small Business Survey: SME employers (businesses with 1-249 employees) – UK, 2018, Official Statistics
11. Lower Super Output Areas (LSOAs) are used in England and Wales to facilitate the reporting of small area statistics. They have a minimum population of 1,000 with a mean size of 1,500

Table 2: No and percentage of investments, and the amount and percentage of investments, going to potentially disadvantaged groups

	Number of investments	Percentage of investments	Amount invested	Percentage of total invested
BAME lead applicant	39	16	£2,163,612	17
Disabled lead applicant	9	4	£363,000	3
Female lead applicant	48	19	£2,333,268	18
Non graduate lead applicant	132	53	£6,575,439	51
Under 30 years old lead applicant	20	8	£829,180	6
50 years old or over lead applicant	98	40	£5,611,564	43
MSMEs in 10 most deprived neighbourhoods	49	20	£2,719,000	21
MSMEs rejected for finance in the last year	101	41	£5,808,700	45
MSMEs with no current external finance	101	41	£4,716,392	36
All MSMEs	248	100	£12,966,624	100

Overall, the **indications regarding the potential social and economic impact of the CIEF are positive**. There has been good **reach into BAME communities, MSMEs who have struggled to access finance elsewhere, and economically deprived areas**, particularly when compared to UK SMEs as a while. The one area where it appears CIEFs could reach further is MSMEs led by women.

Future CIEF evaluation reports will track these trends over time and explore other measures such as the financial growth and additional job creation of MSMEs in receipt of investment, to provide a more extensive assessment of the social and economic impact of the facility. They will also include further intersectional analysis into the reach into and impact of CIEF with MSMEs with two or more demographic or geographic characteristics that are known to inhibit access to finance.

Future reports will also explore the impact of the CIEF on participating CDFIs, to understand the extent to which it has enabled them to grow their lending and put their business models on a sustainable footing, including their ability to leverage additional and more diverse sources of capital.