Money-go-Round

Recycling Finance
Realising Potential
For a variety of reasons, many people and communities in the UK cannot access the finance they need on affordable terms. This means they either resort to loans with extremely high interest rates, or grants which are short term, difficult to secure and not always available.

This book introduces community development finance institutions (CDFIs) and demonstrates how they are addressing this problem. CDFIs provide loans and investments to disadvantaged communities. When this finance is repaid, it is re-loaned or re-invested. In other words, it is recycled again and again. In recycling money, CDFIs provide long-term support that truly enables people and communities to reach their potential.

The CDFI sector is new and emerging in the UK. Already it has financed 9,600 businesses, created 10,000 jobs and sustained 85,000 more. It has levered an additional £160 million into the businesses and households that it serves.

But behind these impressive statistics lie the very human stories of the people that CDFIs work with and support. This book captures just a few of them. Read on to discover more about those who are realising their potential through CDFI finance.
The Cawthorne Children’s Centre has moved to a new home after receiving funding from Key Fund (South Yorkshire)

Workers’ co-operative EcoSeeds is expanding its work growing and selling native wild flowers and seeds after taking a loan from Ulster Community Investment Trust

Three Manchester women have been able to fulfil their vision of a new and exciting bar thanks to support from The Enterprise Fund

Social Investment Scotland’s backing has enabled a new wind farm to be created on the Isle of Gigha

Fair Finance helped Christiane Victorin take her clothes shop from the brink of bankruptcy to success

Triodos Bank has sponsored and co-promoted Cafédirect’s very first share issue

The Clean Break theatre company has been helped by Charity Bank to continue its work in helping women steer clear of crime
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IT is unbelievable to think we could have achieved all this so quickly,” says Anita Sharland, business manager of the Cawthorne Children’s Centre. “We have been overwhelmed by the response from the community.”

The registered charity, situated in a small village near Barnsley, provides a wide range of childcare services to local families, many of whom are on low incomes. With no similar support provision within three miles, it has quickly become a cherished member of the community.

The picture looked very different only 12 months ago. Operating out of a prefabricated building in the grounds of the local primary school, the centre had neither the space nor the resources to offer anything but a no-frills, pre-school childcare service.

The Cawthorne pre-school has been in existence for 0 years, but it was in 2000 that the charity’s management committee decided to expand its facilities and build a permanent home behind the main school building.

In 200, the staff began to secure funding for the £00,000 expansion project. The Yorkshire Rural Community Council (YRCC) contributed the lion’s share with a grant of £150,000. The South Yorkshire Investment Fund provided a loan of £50,000, and a third funding organisation agreed, in principle, to a £50,000 grant.

In addition, Cawthorne Children’s Centre trustee Helen Morris first

Investing in the future

When a funder backed out of supporting the expansion of Cawthorne Children’s Centre, the staff feared that their plans would never be realised. But South Yorkshire Key Fund’s investment meant that the centre was able to go ahead and today it is offering much-needed childcare for many local families
approached the Key Fund (South Yorkshire) in summer 2003, and arranged a finance package of £30,000, comprised of a £20,000 grant and a £10,000 loan.

But with the requisite funding in place and the project start date scheduled for December 2003, the third funding organisation was forced to withdraw its support. The YRCC immediately increased its grant offer, but the centre faced a last-minute bid to raise the remaining investment shortfall.

“If the Key Fund hadn’t helped us out then we wouldn’t be in the building now,” says Sharland. “Matthew sorted it all out for us. He told us we could go ahead with the work – that was the week before Christmas.”

Matthew Smith is the Key Fund’s grants and loans officer for the centre. The South Yorkshire CDFI agreed to add a further £25,000 in capital on top of its original investment. It was, he says, a pioneering decision for the organisation.

“This was a groundbreaking case for us,” he says. “It was the first deal of its kind that we had ever done, and it has been so successful that we have adopted it as a model.”

What made the Cawthorne Children Centre a sound prospect for investment? “They ticked two boxes straight away,” Smith explains. “First, we recognise that lack of childcare is a major barrier to employment and training opportunities, especially for women. This fits very neatly with our social goals.

“But besides the social benefits, they also had a very strong business case,” he adds. “They had really done their homework.”

The Key Fund’s innovative package for the Cawthorne Children’s Centre was designed to allay the staff’s fears about loan funding and help a largely grant-dependent organisation become more financially self-sufficient.

The grant, capital and loan mix, which has since been repeated with other voluntary organisations, is a positive first step into lending. It also made it much easier for many local parents, especially mothers, to take on much-needed employment.

For Sharland, the biggest reward has come from the centre’s ‘regulars’. “It’s wonderful to see the children playing here and outside in the garden,” she says. “Compared with where we were before, it’s just incredible.”

But there is plenty more work to be done. The charity is already looking to the future, and the Key Fund will be supporting it every step of the way.

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helps its recipients build up a history of loan finance, which will benefit them in the future.

The new Cawthorne Children’s Centre was officially opened in September 2004. Today it offers childcare for up to 46 children at any one time. It also has a breakfast and after-school club, plus a school holiday service.

Since it opened, the centre has taken on new staff (it now has 23 employees, compared with two in the old building) and is currently running at 80 per cent capacity. The baby room is booked up until April 2007.

With the majority of its children coming from deprived areas, the centre’s broad range of childcare services has enhanced the family’s sense of identity and belonging. The Key Fund is providing ongoing business mentor support, which will help the charity realise the next stage of its business plan.

This includes a nature garden and a sensory garden. Designed in the shape of a hand, the sensory garden will have one ‘finger’ devoted to each of the five senses. In the taste area, for example, the children will be growing vegetables to eat.

“We are also looking at expanding the baby unit,” says Sharland. “And we’ll also be creating our own dining area and hiring a school hall for our holiday club so we can continue our pre-school throughout the year. This is just the beginning.”

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When wildflower conservation group EcoSeeds needed an urgent bridging loan last year to buy much-needed agricultural equipment it was the Ulster Community Investment Trust (UCIT) that stepped in to help.

It was nearly a decade ago that EcoSeeds was set up as a workers’ co-operative in County Down, Northern Ireland, conserving biodiversity through growing and selling native wild flowers and seeds. But to expand as an organisation EcoSeeds needed to invest in a plot combine, which is an expensive piece of equipment similar to a small combine harvester. It would allow the organisation to mechanise some of its work.

“It was important for us because we were harvesting by hand and we knew that having a plot combine would allow us to collect flowers and seeds on a large scale,” says EcoSeeds manager Jackie Morgan.

The group received a grant from Northern Ireland’s Environment and Heritage Service to buy the machine but there was a catch – the grant would only be paid on production of a receipt.

“After we got the grant approved we located a second-hand plot combine on sale in England for £25,000, but we had to move fast if we wanted to buy it,” says Morgan, adding that this was a rare opportunity as this kind of machinery did not often get sold on.

She approached a high street bank but not only did it require collateral that would have made borrowing difficult, it was not able to move quickly enough.

“We then approached UCIT and they were excellent, allowing us to draw down the funding in a matter of weeks,” says Morgan.

EcoSeeds bought the plot combine (pictured, right) and the organisation repaid the UCIT bridging loan a few months later, when the grant was received. Phelim Sharvin, client executive at UCIT, says that EcoSeeds’ structure and activity matched UCIT’s criteria and that, as a not-for-profit industrial and provident society itself, UCIT was keen to support a co-operative such as EcoSeeds.

“We were happy with the fact they’re a co-op and liked their work because biodiversity is an area we’re keen to encourage,” he says. “Also, we saw it as an environmentally sustainable business that creates jobs for local people and roles for international volunteers.”

EcoSeeds’ mission is to re-establish the diversity of natural habitats in Ireland’s rural environment, which have been in rapid decline since modern farming techniques were introduced. UCIT also felt that EcoSeeds had built up a viable business and had established an impressive client base.

The organisation works with schools and community groups to increase awareness of the importance of native wild flowers and their habitats. It also has contracts with a number of statutory bodies to plant native wild flowers; for example, the organisation cultivates flowers at roundabouts and road verges.

The fact that EcoSeeds already had grant aid promised for the machinery purchase reassured UCIT that a bridging loan was a fairly low risk.

As well as the bridging loan, EcoSeeds took advantage of UCIT’s training and mentoring service, which it offers all its clients. The mentoring agency even helped to research potential...
new customers for EcoSeeds in the Republic of Ireland.

As a result of buying the new machinery the co-op has been able to expand its work and harvest wild flowers not only from its own land but also from other farms in the locality. “We can put the combine on the back of a trailer and visit other sites,” says Morgan.

Sharvin says that, while the trust’s main activity is in term loans, bridging loans are becoming more common, particularly for organisations experiencing delays in the payment of grants.

The loan was certainly a lifeline for EcoSeeds as without UCIT’s support EcoSeeds could have missed the opportunity of buying this vital piece of equipment.

“UCIT were crucial to the success of the purchase,” says Morgan, adding that EcoSeeds may return to UCIT at some point in the future to discuss purchasing a property.
WalK into Manchester’s Mint Lounge on a Saturday night, and you might think you’ve travelled back in time to a 1920s Paris nightclub. Guests wear feather boas, costume jewellery and top hats while listening to jazz music and watching cabaret acts.

This is Manchester’s first and only burlesque bar, where a sophisticated audience sits around tables, sipping cocktails and enjoying entertainment that no other venue in the area can offer.

Burlesque dates back to the 19th century, and can include comic sketches or dance routines. It started as a mocking imitation of the upper classes, and evolved in the early 20th century into a form of slightly risqué entertainment. It faded away during the second half of the 20th century, but is now being revived all over the world thanks to entrepreneurs like Marcia Manderson (pictured, right). She launched the Mint Lounge in August 2004 with two business partners, Sade Oyewobi and Laine Dallas (pictured, left and centre respectively).

New business ideas often meet some resistance from backers, and this was no exception. But the three women were determined to make a success of this bar, and they armed themselves with plenty of good research before making their case to potential lenders.

“We visited various bars and places that had this kind of entertainment,” says Manderson. “We went to theatres and performance spaces here and in New York...
and Amsterdam – places that are a bit more open-minded than what you would find in most of England.”

Having researched the business proposal, the three entrepreneurs approached banks for funding. They managed to secure a portion of the money they needed, but not all of it, and they found that their exotic idea required a lot of explanation.

“It’s a niche that people can be scared of,” says Manderson. “It’s unusual, and people don’t often understand the concept of burlesque. It’s not the only thing we do here, but we used it as a selling point. I think banks and lenders play safe, which is what I expected anyway.”

Some additional investment was needed. Through connections at the Manchester Business Consortium, the Mint Lounge team heard about The Enterprise Fund. This CDFI provides loans to entrepreneurs and social enterprises that have trouble raising commercial loans from banks or other mainstream lenders. Its catchment area is Manchester, Salford, Stockport, Tameside and Trafford, and it is currently expanding across Cheshire. It offers loans of up to £20,000.

The fund has previously supported a range of different businesses, from hairdressers to technology providers, so it was not put off by the idea of supporting something unusual. In fact, the originality of the idea made it attractive, says Barbara Clow, marketing and PR manager at The Enterprise Fund.

“It’s the only such bar in Manchester,” says Clow. “The three women are from very varied professional backgrounds, including TV production, IT and acting, and they are very bright, intelligent women. They had a dream of opening their own place, and they had done a lot of market research, going to similar bars in America.”

The fund offered a loan, repayable over three years. Manderson remembers the process of obtaining the funding as being quite straightforward.

“We had some forms to fill in, but it wasn’t too taxing,” she says. “The chap we spoke to at the fund was fantastic, and he really liked the fact that it was a different type of bar. He was excited about the idea and gave us a lot of encouragement.”

The fund doesn’t just post a cheque and hope for the best – it takes an active interest in the businesses it supports, and puts new entrepreneurs in touch with people who have been through the process of launching a business before and can offer advice.

“We pass over details of mentors,” explains Clow. “These could be people who have started up a similar business, and who can talk about the pitfalls of the first 12 months. Many businesses fail in the first year and the mentor can help with things like dealing with taxes and insurance.”

The Mint Lounge is doing brisk business, proving that there was a gap in the market for a bar that offered something a bit different. Manderson says she is delighted with the success of the bar, and advises anyone starting up a business to approach a CDFI such as The Enterprise Fund.

“We’re all in our thirties and quite experienced, but it’s hard starting a business no matter how old you are,” she says. “These organisations are there for a reason and I think you should use them.”
Sheila is a wheelchair user who lives on her own in Portsmouth. She’s fiercely independent and takes great pride in being able to look after her own affairs. Her electric wheelchair helps her to get out and about, and she employs carers to help her to take care of herself and her home.

However, in 2003 her self-confidence was shattered. A few months earlier she had opened the door to a friendly gentleman who suggested that he could boost her finances with the loan of a few hundred pounds. Sheila couldn’t resist the idea of a little bit extra to help make things easier.

Sheila soon discovered that it was easy to get that first loan – but much harder to pay it back. The enormously high interest rate meant that Sheila’s initial debt of a couple of hundred pounds began to grow. She borrowed more from other people who knocked on the door to try to meet the repayments.

Eventually, she owed around £5,000, and the friendly smiles of some of the doorstep lenders had turned into threats of physical violence and, worse still, threats that her wheelchair — which gave her the freedom that she valued so much — would be destroyed.

With all this worry and stress, Sheila’s health suffered. She lost her breezy self-assurance and she was too terrified to leave her house or even to answer her front door.

Sheila was being preyed upon by unsavoury people. She thought it was nice of them to knock on the door and try to be helpful, but it was pure and utter exploitation.

Fighting the predatory lenders

South Coast Money Line is helping people who have fallen victim to predatory lenders to regain control of their finances.

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A friend suggested that South Coast Money Line might be able to help. Sheila contacted loans officer Faye Bevis and arranged a meeting. “Sheila had got herself into quite serious financial difficulty,” says Bevis. “She was being preyed upon by unsavoury people. She thought it was nice of them to knock on the door and try to be helpful, but it was pure and utter exploitation.”

There are a variety of licensed home credit companies which specialise in lending to those people who would be unlikely to be offered a loan from a mainstream lender such as a bank or building society. Unlike the mainstream lenders though, these companies often charge much higher rates of interest which can run to an annual percentage rate (APR) of more than 330 per cent.

There are also the moneylenders who operate illegally – often referred to as loan sharks. They target low income areas and charge high rates of interest. And if a borrower defaults on their loan, threats of violence are possible. As Bevis explains: “These people pick on the weak and the vulnerable. They know exactly where to go. They are your best friends to start off with and then if you miss one payment they turn into rottweilers.”

When Sheila visited South Coast Money Line, Bevis went through her income and expenditure. She discovered that Sheila was using all of the money from her income support and disability benefits to pay off the moneylenders while she put every day food expenses on to a store card. All of the debts were spiralling out of control.

Sheila was committed to getting herself out of this situation and it was agreed that that she should be given a South Coast Money Line loan of £5,000 – the maximum that the organisation can give to an individual – on the condition that she didn’t borrow any more from the doorstep lenders. This would pay off most of the debts and give Sheila the opportunity to regain control of her finances. Instead of the high interest rates charged by the moneylenders, South Coast Money Line’s loan was at an APR that was more manageable.

This meant that instead of paying £175 a week to the moneylenders, Sheila paid just £50 a week to South Coast Money Line, leaving her with £125 a week to use for her other expenditure.

By March 2005, Sheila had paid back all of her loan to South Coast Money Line. “The loan meant that Sheila was able to live a normal life again,” says Bevis. “It re-boosted her confidence – so much that she got a job as an office administrator. The transformation that she has gone through is unbelievable.”

The loans officers at South Coast Money Line see around 50 people every week who need small, personal loans. Bevis says that South Coast Money Line is offering a unique service in the area – one that neither the mainstream financial organisations nor the doorstep moneylenders can provide. She adds: “We listen a great deal to people to ensure that we are not going to lumber them with another debt that they can’t repay. We need to know that we are going to enhance their lives by lending them this money.”

And the extra time spent working with customers is all worthwhile. Bevis says: “The customers that I see have nothing. When you can help, they are absolutely over the moon. A tiny loan can seem like a million pounds.”
A helping hand for a handyman

At the age of 58, Mike Crisp wanted to set up a new business, but high street lenders wouldn’t even let him open a bank account. He turned to the PRIME Initiative, which supports over-fifties with new enterprises, and today his friendly home repair service has become so successful that it may be franchised elsewhere.

MIKE CRISP has always been a whiz with his hands. First as an RAF systems engineer and then a house renovator, he has spent his life repairing machines and fixing up homes. But when the entrepreneurial 58-year-old devised a new business idea based on his handyman skills – to be called HouseHubbies – his local high street lenders in Staffordshire didn’t want to know.

“The banks wouldn’t touch me,” Crisp says. “One bank wouldn’t even let me open an account. It was very apparent that none of them had any interest in HouseHubbies at all.”

HouseHubbies is an innovative call-out service for home repairs and maintenance. Based on a successful model in Australia, it lets customers know in advance how much a day’s work will cost. Unlike most call-out services, such as plumbers and electricians, a member of the HouseHubbies team will never charge more than £120 for a full day’s labour. He can also be booked by the hour.

In 2000, Crisp had just graduated as a mature student with a BA in law and a
BSc in psychology, and had no intention of easing into retirement. He drafted a business plan for HouseHubbies, but as he was unwilling to risk his house as collateral he initially struggled to raise the necessary start-up funds.

Undeterred by the cold response from the high street, Crisp began to search the internet for alternative forms of finance. He came across the Prince’s Initiative for Mature Enterprise, known as the PRIME Initiative, which was at the time a brand new project to support people over 50 to set up businesses.

Originally founded by HRH The Prince of Wales, who remains PRIME’s president, it is now a wholly owned subsidiary of the charity Age Concern England. PRIME is designed to be a lender of last resort, of whom they have been rejected by a mainstream lender, are over 50, not in paid work and have a viable business plan.

Ian Stobie, marketing and research officer at PRIME, says that the strength of Crisp’s plan convinced the CDFI that he was a sound investment.

“It can be very traumatic when a business goes down,” he explains, “so we have to consider closely how likely it is to succeed. Mike had a very strong concept.”

PRIME has a three-step process for loans. First, an agency partner, such as a local Business Link, helps applicants to prepare a business plan before they go in front of an independent panel (“They grilled me for an hour-and-a-half,” recalls Crisp). Finally, the CDFI decides whether to approve the application.

In November 2000, Crisp applied for a £5,000 loan, the maximum sum available, through Mature Enterprise Support, a PRIME partner in Stoke-on-Trent. But because PRIME was still in its infancy (Crisp was one of the institution’s first ever applicants) the money was not immediately forthcoming.

“PRIME wanted to help but the movement had to be from government ministers,” explains Crisp. “I wrote several emails and letters to them trying to speed up the process.”

Nine months after his initial application Crisp received the loan. His company was founded in November 2001, and has since grown into a highly successful business.

HouseHubbies currently employs ten people and operates from two sites in the Manchester and Staffordshire area. The PRIME loan was repaid within three years and the company is now financially self-sufficient.

Its flexible, cost-efficient service is also of particular benefit to local people on low incomes. Comparable daily call-out services in the area, says Crisp, can prove between £130 and £450 more expensive than HouseHubbies.

The reaction has been so positive that Crisp, now 62, is considering replicating the model around the UK. “I’d love to franchise and we’ve already had a lot of interest,” he says. “But the social side of HouseHubbies is also very important to me. I need to find like-minded people who are interested in the same kind of model.”

Stobie at PRIME is confident that the franchise would succeed. “There’s no reason why this shouldn’t work around the country,” he says. “We’re very keen on the idea of cloning successful social enterprises.”

Crisp’s success story has already come to national attention. In December 2004, he was invited to speak alongside three millionaire businessmen – including Sir Alan Sugar – in a BBC Radio 4 programme on entrepreneurship. One month earlier, he found himself in even more distinguished company, sipping tea with HRH The Prince of Wales at a special PRIME event in London (pictured, right).

“He chatted to us about how we got started,” says Crisp. “It was great. He came across as somebody who was genuinely interested in the company.”

PRIME too has maintained a keen interest in the progress of one of its very first loan recipients. The relationship between lender and applicant has developed into a mutually beneficial partnership.

“Mike has now moved into a different category,” says Stobie. “We would actually refer people to him. He has become a source of advice for us.”

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THE PRIME INITIATIVE

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When established: 2001
Target groups: People over the age of 50
Sizes of loan available: Up to £5,000
Size of loan portfolio: Approximately £400,000
Types of support available: PRIME encourages people aged over 50 to consider starting up their own business. It helps applicants find a local organisation that can give them free business help and advice, and can itself provide loans for those who cannot borrow money elsewhere. PRIME also tries to persuade politicians and decision-makers to broaden the options for over-fifties – and to tackle the barriers they face in the workplace. PRIME liaises with agencies working in the field of business support, and works with regional development agencies through a network of PRIME regional managers and organisations supporting the over-fifties.
A breath of fresh air

The Isle of Gigha is a beautiful spot in the Hebrides with sandy beaches, rolling green hills and clear seas. Despite this natural beauty, people just didn’t want to live there. By 2002 the island was in crisis: the population had fallen from 200 in the 1970s to just 98, the number of children in the local school had dropped from 30 to seven and only three out of the ten farms remained.

Gigha’s remaining inhabitants didn’t have a lot of control over the future of their home as the island was still part of the feudal system, owned by a laird who lived in the biggest house on the island. Then the laird put the island up for sale.

This was an ideal opportunity for Gigha’s inhabitants. The islanders created the Isle of Gigha Heritage Trust and, with a grant of £3.5 million and a loan of £1 million from the National Lottery’s Scottish Land Fund they put in an offer to buy the tiny island, which is just six miles long and one mile wide.

The offer was accepted and in March 2002, the new trust took over the management of Gigha’s land and property with the aim of reviving the island’s fortunes. Since then, the trust has embarked upon a renovation programme to...
Types of support available: social economy organisations. Other CDFIs which can then be lent on to
Investment Scotland also makes loans to the loan application process. Social support and advice is available during capital or bridging capital. Business can be used for asset purchases, working applied for is more than £50,000. Loans are made to organisations in areas not covered by one of Social Investment Scotland’s CDFI partners, or if the amount not covered by one of Social Investment loans are made to organisations in areas Size of loan portfolio: £200,000

Target groups: Social Investment Scotland’s mission is to make a positive and measurable contribution to the development of the social economy in Scotland by stimulating enterprise and wealth creation in under-invested communities. Loans are available to social economy organisations that are unable to raise funding from mainstream commercial sources, such as banks. These organisations must have a clear social purpose that will make a real difference to the communities in which they operate and be able to demonstrate that the social impact is likely to be long lasting.

Sizes of loan available: From £10,000 to £200,000

Size of loan portfolio: £2.5m

Types of support available: Direct loans are made to organisations in areas not covered by one of Social Investment Scotland’s CDFI partners, or if the amount applied for is more than £50,000. Loans can be used for asset purchases, working capital or bridging capital. Business support and advice is available during the loan application process. Social Investment Scotland also makes loans to other CDFIs which can then be lent on to social economy organisations.

update the houses it rents to islanders, it is attracting new businesses to the area and has focused on encouraging agriculture once again.

But, as the chief executive of the trust, Eleanor Logan (pictured, right), points out: “The community needs to be sustainable. It costs a lot of money to run an island on a day-to-day basis.” With the need to raise income in mind, the trust decided to embark upon an ambitious money making project drawing upon one of the island’s most abundant resources – wind.

The whole community was consulted and then Gigha Renewable Energy, a trading arm of the trust, was created to develop and manage a wind farm.

"It has given the community a lot of confidence that they can achieve this kind of project."

Three giant windmills were to be erected and the electricity that they generated would be sold to the national grid. The trust projected that this would generate an estimated £150,000 a year. After costs, this would leave a surplus of £75,000 a year for the next eight years. It would be Scotland’s first community owned, grid connected wind farm.

The wind farm, however, would cost a lot of money to set up. The trust needed to raise £440,000. The trust’s staff secured funding from a variety of sources including Highlands and Islands Enterprise, the Futures Fund and the trust’s own reserves. Social Investment Scotland, a national CDFI based in Edinburgh, was asked to provide loan finance.

David Herd, Social Investment Scotland’s loans and investment manager, says there was a good link between the CDFI and the Isle of Gigha Heritage Trust. “We were set up at the instigation of the Scottish Executive to address disadvantage and social exclusion, including rural areas suffering from these problems,” he says.

“Gigha was remote, with a falling population and with no new businesses being set up. The island was dying until the community bought it. We felt this community was doing its best to lift itself out of the situation and come up with good proposals to help itself to become sustainable.”

Logan points out that dealing with a CDFI can be easier than talking to a mainstream lender for this sort of project. “Social Investment Scotland are able to understand what the trust is about. They understand the nature of the business and the level of risk, and it fits their agenda very well.”

After a year of planning and preparation with meetings held between all the funders, the loan of £148,000 was drawn down on 24 December 2004. It is to be paid back over five years at a fixed rate of interest.

At the start of 2005, the three windmills – referred to by the islanders as their ‘dancing ladies’ – began turning (two of the windmills are pictured, left). To date, there has been plenty of wind and the farm is on target for producing enough electricity to pay off the debts and provide funds for investing in the further development of Gigha.

Social Investment Scotland continues to take a keen interest in the project. “There is a significant level of monitoring,” says Logan. “We get constant guidance from them – that’s them protecting their investment, they need to make sure everything is done.”

There are other benefits from the wind farm apart from the purely financial. It is proving to be an attraction for many of the tourists who visit the island and one of the popular walking routes runs up to the site. Logan says: “The visitors seem very supportive and welcoming of it.”

The wind farm has also generated a lot of publicity for Gigha in the national and local media. Gigha’s success means that it is likely that other communities will follow their lead and develop their own renewable energy projects. The islanders are in huge demand to speak at conferences and seminars. Logan says: “It has really raised the profile of Gigha. It has given the community a lot of confidence that they can achieve this kind of project. We see our role now as supporting other people who want to do that.”
Since the early 1990s, the UK has played witness to an unprecedented period of economic growth. For the majority of people, this has given rise to greater prosperity and new found opportunities. But this growth has not been evenly spread. There continues to be a large swathe of the population that has been bypassed by these rising fortunes. Some areas have never attracted the businesses that they need to become vibrant economies. To compound this problem, banks historically have been reluctant to explore investment opportunities in these areas. In addition, in these disadvantaged and excluded communities, individuals are not often able to access finance at reasonable rates for their own or their family’s needs. Yet financial inclusion is vital in building thriving, sustainable communities.

Traditionally, these areas and communities have been heavily dependent on welfare and philanthropy. It is sometimes difficult to see how this “safety net” approach has done anything but compensate people for being poor, rather than helping them to become more prosperous.

However, as these pages demonstrate, there is an alternative direction for finance to take. A direction that is already creating tangible and lasting social change. It is called community development finance. It does not compensate people for being poor, but offers them a real opportunity to realise their potential and create their own futures.

Community development finance institutions (CDFIs) provide finance where it is needed most with a mission to create wealth where it doesn’t exist. They focus their services on people who stand little chance of accessing the services of banks, building societies or other mainstream financial institutions.

CDFIs operate in a very similar manner to banks: they offer finance – both business and personal – which is then repaid with interest over an agreed period of time.

But there are some crucial differences between a CDFI and a bank. CDFIs do not operate to maximise commercial returns. They seek to offset commercial returns with their social mission of creating wealth. They recycle their finance again and again into their communities. CDFIs ensure there is long-term support which realises the potential of individuals and businesses they serve.

CDFIs work with a range of clients who have different needs. This could include financing a young offender looking to set up a car maintenance business, a high growth company in an area in desperate need of jobs and training opportunities, a charity looking to develop an enterprise to bring in a new source of income or helping an individual whose debts have spiralled out of control.

To achieve their aims CDFIs are often said to take a more “traditional” approach to finance. They work with each client to develop a package of support tailored to their needs. They do not lend money to those who cannot pay it back. They ensure that once clients have an appropriate track record and credit history, those clients will be able to access finance through mainstream sources. They work in partnership with banks to create a long-term solution to a complex challenge.

CDFIs work in areas of economic deprivation, regeneration and exclusion. They are making a real impact in these communities and are proving that their approach works.

Financial inclusion is vital to building sustainable communities

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ABOUT COMMUNITY DEVELOPMENT FINANCE INSTITUTIONS

A SHORT HISTORY OF CDFIs

Interest in the potential of CDFIs to revive areas of under investment resurfaced in the late 1990s. Attention was drawn across the Atlantic to the USA, where that country’s CDFI sector was delivering tangible social change.

The USA’s sector had grown out of the civil rights movement, which revealed that banks were refusing to offer services to people living in black and minority ethnic communities. It was a practice known as “redlining”, a name given because banks would proudly display maps of the areas they covered with red lines around those neighbourhoods they did not enter.

The USA’s experience was used to inform a number of policy initiatives which were developed in the late 1990s. These initiatives focused mainly on access to finance for enterprises. More recently, government policy is developing in the area of finance for individuals. Both types of finance are needed for full financial inclusion to take place.

Since the late 1990s, the CDFI sector has grown dramatically. In 2004, CDFIs had close to £00 million available to lend and invest, which represented an 80 per cent growth on the previous year.

To date, CDFIs have financed 9,600 businesses, sustained more than 85,000 jobs, created more than 10,000 jobs and levered more than £160 million in additional funds into their clients’ businesses and households (According to Inside Out: the state of community development finance 2004, published by the Community Development Finance Association, 2005).

WHAT IS A CDFI?

Community Development Finance Institutions (CDFIs) bring finance to those who cannot access it from mainstream sources. They recycle finance into their communities again and again. Clients of CDFIs have unrivalled opportunities to realise their potential and create their own fortunes.
A capital idea

Offices in London can be too expensive for small businesses. But two entrepreneurs have found a way to provide affordable space thanks to a partnership with Bridges Community Ventures.

If you’ve visited a few serviced offices – buildings set up with office facilities ready and waiting for companies to rent space in – you’ll have noticed how similar they all are. Common features include beige carpets and bottles of expensive mineral water in the meeting rooms.

We looked at what we wanted from an office and what we resented paying for. We wanted to make a simple office product catering to what small businesses actually need, rather than forcing services upon them,” says Charlie Green.

This sort of office arrangement is fine for some big companies who want central locations and lots of facilities. But many smaller businesses, especially in creative fields, don’t want or need that. They want affordable offices without too many frills, and maybe a less corporate feel.

That’s the niche that The Office has filled. Charlie Green and Olly Olsen launched The Office in 2003 with a simple business proposition. They would buy freehold buildings and renovate them to provide stylish, affordable office space for small businesses. These would still be serviced offices but pared down for a different market.

“We looked at what we ourselves wanted from an office,” explains Green, “and what we resented paying for. We wanted to make a simple office product catering to what small businesses actually need, rather than forcing services upon them.”

The buildings that The Office buys are not in prime areas, which is why they are affordable. They are in areas such as King’s Cross and Islington – not right in the centre of London, but within easy reach of both central locations and outer areas.

But The Office needs fairly large buildings, and even a run-down space in King’s Cross can still cost a lot of money. There aren’t many CDFIs or conventional lenders that will casually hand over hundreds of thousands of pounds in loans. That’s where Bridges Community Ventures came in.

Bridges is not a lender – it’s a venture capital company, which means it invests in businesses and then eventually recoups its investment by selling its shares, typically after three to five years. Bridges invests specifically in ambitious businesses in the most deprived areas of England, to deliver financial results but also to bring social and economic benefits to under-invested areas.

“In terms of risk we stand shoulder to shoulder with the entrepreneur,” says Philip Newborough, managing director of Bridges. “It’s totally different from a traditional lender relationship. We invest a range of £150,000 to £2 million of our own money in any one business.”

Newborough already knew Green and Olsen from having worked together previously, so when The Office was set up, the three of them talked about the natural overlap in their propositions. The Office wanted to buy buildings in urban areas outside central zones of cities and renovate them, and Bridges wanted to invest in businesses located in deprived areas.

“The concept of The Office was one that we all put together and I was involved from the start,” says Newborough. “Their vision was to provide good quality but affordable managed office space for small and medium sized enterprises, and we had a clear overlap in strategies because of our location criteria.”

“It was easy to convince Philip because he understood what we were trying to do,” says Green. However, despite Bridges being a community-focused venture capital fund, it still needs to make a return for its investors, so there were a lot of people who had to scrutinise the proposals, explains Green.

The Office’s first venture was a 7,000 square foot building on City Road, Islington in north London. “It was a 1930s art deco building and it needed an awful lot of work,” says Green. “We stripped it out and started again.”

Bridges invested £610,000 in the building in September 2003, and within four months of completion it was full with a range of small businesses, including designers, web marketing companies and a recruitment consultant. Another building followed a year later in...
King’s Cross, with investment of just over £1 million from Bridges.

Green attributes the success of the offices not only to their affordability, but also to the fact that they offer an alternative to the bland, corporate feel of most serviced offices. The King’s Cross building, for example, has a “green roof”, which has been created in partnership with a charity called Global Generation. The flat roof, which is accessible to the tenants, has grass, wild flowers and decking made of logs. “It has wireless internet,” says Green, “but it’s also a habitat for birds and insects.”

The Office’s buildings use low-energy bulbs, have paper recycling facilities and tenants are encouraged to follow a green ethos. And, unlike many other serviced offices, the owners are keen to build relationships with the tenants, organising social events to help them network with each other.

Bridges also maintains an active relationship with the company. “I’m involved with them on a day to day basis,” says Newborough, “in terms of providing financial support, business planning, strategy and financial models.”

Green hopes the company will have around 15 to 20 buildings in five years, and says the support it gets from Bridges has been invaluable.

“Because they are not a property company but a venture capital fund, they saw more opportunity and took the risk with us,” he says. “There was nobody else who was as willing to put in the cash. We couldn’t have done it without them.”

Bridges Community Ventures
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When established: 2002
Target groups: All businesses must be based in an electoral ward in England that is in the most deprived quartile as defined by the Index of Multiple Deprivation. They must be independently owned enterprises with fewer than 250 employees with an annual turnover not exceeding £25 million and an annual balance sheet total of less than £16.5 million. They must be connected with the local community by employment, market or supply chain. All sectors are considered with an emphasis on manufacturing, services, media, retail and leisure. Bridges focuses mainly on early stage or development capital, management buy-outs and property-backed businesses.

Size of loan portfolio: £40 million
Types of support available: Venture capital
When the bailiffs came knocking at Christiane Victorin’s shop, she felt she had hit rock bottom. It was the spring of 2004, and she’d had her clothes shop, La Vie Boutique, in the East End of London’s Broadway Market for four years. The business had started off doing a brisk trade, but as far as Victorin was concerned, it was all over now.

How had it come to this? Victorin did not lack experience – she had already run market stalls before opening the shop. But the area had started to go downhill, and business really slowed down.

“Broadway Market just went dead,” says Victorin. “It went completely downhill, and business was bad.” Victorin had managed to hang on for a few difficult years but to get through that period she took out expensive loans. Some of them were from illegal doorstep lenders – often known as loan sharks. Victorin knew it was unwise to build up these crippling expensive debts, but she didn’t know what else to do.

“You feel desperate,” she says. “And then someone knocks on your door and it’s easy to say ‘yes’. The loans are very

From rags to riches

Boutique owner Christiane Victorin thought she was going to have to declare herself bankrupt when trading profits fell. However, advice and financial support from a local CDFI meant that she was able to turn around her ailing business.
expensive but at the time you don’t think. You know it’s expensive, but you need the money. The bank wouldn’t look at me because there wasn’t enough money coming in. They just wouldn’t help.”

As the debts mounted up, Victorin found it impossible to pay the rent on her shop. Eventually the bailiffs turned up, and Victorin decided it was time to declare herself bankrupt. But she didn’t know how to do that, so she went to Account3, an organisation that helps women in business in East London.

Account3 had originally helped Victorin get her business off the ground, and now it would help her save it.

Toni Meredrew, services manager at Account3, explains that although they had helped Victorin set up her business, they hadn’t heard from her for a few years. When Victorin came back to talk to them, she convinced her that bankruptcy was not the best option. Meredrew says: “Christiane said she’d got herself into a financial mess and was worried about it and thought she had to close down. I told her if she closed down, she’d still owe the money, and suggested we try to get a plan together to get past the problem.”

Account3 offered Victorin debt counselling, reviewed her business plan, and helped drum up publicity for the shop. “We offer a combination of professional advice around financial management and emotional support,” says Meredrew.

Meredrew then directed Victorin to the CDFI Fair Finance, one of Account3’s partners, which was set up to enable clients to access finance with less hassle than from a bank and which is more affordable than a doorstep lender. “Christiane’s case is an example of an individual who needed a specific loan when all the mainstream agencies said no,” says Fair Finance managing director Faisel Rahman. “She completed the loan application form and we see that she had a great idea, we approved the loan within a week and transferred the money over. We calculated the repayments so that she could pay off her high interest loans, invest in her business and still have some left over.”

Fair Finance charges a fixed rate of 19 per cent on its business loans, with no hidden costs, management charges or administrative charges. “Our loans are aimed at people who have difficulty accessing finance from mainstream sources,” explains Rahman. “Christiane had no other access to finance and we made the loan to her because she was a good risk in our eyes. It was a way to get her back on her feet and out of the clutches of the loan shark.”

Victorin started paying back her Fair Finance loan in June 2004, and by April 2005 she had repaid it in full. “She’s done really well,” says Rahman. “She has come back to us for a larger loan but she could probably take it out from a bank now because we can offer her a good credit history.”

For Victorin, the Fair Finance loan and the support of Account3 has made the difference between going bankrupt and having a healthy business. Broadway Market is also enjoying a revival in fortunes, which has helped to attract more customers.

“I kept thinking business would get better, but I didn’t have the initial finance to keep it going,” says Victorin.

“Getting this loan was a matter of a couple of weeks. At that time I was so down. I was losing the shop, and it was so stressful. I’m in a much better position now and it’s such a relief.”

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When fair trade company Cafédirect was looking for a financial institution last year to help it raise capital, it didn’t take long to choose Triodos Bank. The company had banked with Triodos since the early 1990s, when it was set up to help coffee growers in the developing world earn a fair price for their product.

In discussions, the two organisations explored various options for raising money. The idea of a bank overdraft was rejected as these can be withdrawn at any moment, and Cafédirect’s lack of assets meant that a bank loan was unrealistic. They concluded that a share issue was the best option, particularly as Triodos has had successes with similar initiatives for other ethical companies.

“We wanted long-term funding because we were growing. Furthermore, a share issue seemed ideal as there was an increasing interest in fair trade among the general public that we could tap into,” says Cafédirect finance director Phil King.

In February 2004, Cafédirect’s first share issue was launched. It was such a success that it was quickly oversubscribed and Cafédirect easily raised its £5 million target. More than 4,400 individual people invested a minimum of £300 each, attracted by the potential to earn both a financial return on their investment and a social return by boosting a company committed to fair trade.
One of the key attractions for Cafédirect of working with Triodos was the bank’s strong ethical ethos and the fact it only lends to organisations generating social, environmental or cultural value. “We felt they understood what we were trying to achieve and so would be a good fit, as we wanted a partner who knew what we were about and shared our values,” says King. The bank had also pioneered share issues to help other social enterprises raise capital and so knew the ropes.

You can have a business driven by ethical issues which is also strong commercially

For Triodos, the opportunity to work with a growing fair trade company like Cafédirect was attractive. “We’d been involved with Cafédirect since its launch and we were keen to help them find new capital so they could grow even faster,” says Charles Middleton, managing director of Triodos in the UK.

“Triodos is well known and respected in the ethical finance world,” says Middleton. “We’re the only ethical bank with experience sponsoring such share issues and we’ve also got an interesting customer base, including people who would be attracted to investing in this kind of opportunity.”

As the sponsor, the role of Triodos was to prepare the prospectus for the share issue and to ensure the legal requirements were met, such as checking that any statements made by Cafédirect during the issue period complied with the law.

One of the conditions of the transaction was that no-one except the original founders was allowed to own more than 15 per cent of the company, so as to prevent any one person gaining too much influence.

As well as sponsoring the transaction and co-promoting it, Triodos created a ‘matched buyer’ market so share owners can sell their stake to other interested investors in the future. Unlike a commercial stock exchange, in which share prices continually fluctuate, in this system Triodos matches sellers with potential buyers and vice-versa, and then, with Cafédirect, calculates the share price based on the company’s long-term value.

This system was chosen to avoid the speculative practices that are an inevitable part of the listing of commercial companies on exchanges. “We didn’t want the share price to be determined by short-term issues,” says King.

The share issue cost Cafédirect £470,000. “Some people say that’s a high price, says King, “but it’s only 10 per cent of what we raised and the issue generated a lot of publicity for us and for fair trade. We calculated that if we’d had to pay for the media coverage we received it would have cost us £3.5 million.”

Middleton adds: “The media coverage was excellent because it highlighted the fact that you could have a business driven by ethical issues which is also strong commercially.”

The new capital has been used to drive forward Cafédirect’s development. There has been increased marketing of the Cafédirect brand and investment has been boosted in the company’s tea product, Teadirect (pictured, left). The company has also been promoting itself to new markets, such as tea and coffee buyers for offices. “Overall, the issue provided a much-needed strengthening of our capital base, particularly given our growth in recent years,” says King.

One of the key benefits of the transaction, says Middleton, is that it shows how a social enterprise can move into raising equity while still retaining its principles and underlying ethos. There is huge potential for other social enterprises to do the same. Middleton points out: “The success of companies like Cafédirect in raising money from investors shows how much opportunity there is for the ethical market generally.”
To supplement their agricultural income, tenant farmers David and Sarah Buscombe began operating a bakery on their land. Now, thanks to financial support from the South West Investment Group, the Buscombes are about to start milling their own flour.

The family, based at Trescowthick Farm in Cornwall, have rented the farm for 15 years. For much of that period they have also run the bakery from a converted cow shed. It is staffed by David and Sarah and most of their 12 children. The bread is sold directly to customers through farmers’ markets in Truro and Falmouth.

“The bakery has been a big success and we’ve built up a loyal customer base, but we knew that the next step was producing our own flour and for that we needed a mill,” says David.

He worked out the cost of the project would be nearly £80,000. This would cover a new agricultural building and the purchase of specialist equipment, including a traditional stone ground mill, de-stoner, grain cleaner and bagging machine.

The aim of the mill is to provide the family with an opportunity to develop a range of Cornish grain-based flours that can be sold directly to retail customers as well as other bakers and food-based businesses in the county. The locally ground flour will also be used to boost the range of products the family produces.

The Buscombes obtained a grant for half the cost of the project from their local Business Link but were looking to raise the rest of the funding. “Getting a loan for us was a new area because we’d never been in debt before. But we knew the mill was a good idea and we were willing to back it,” says David.

He approached Lloyds TSB Bank, which agreed to a small loan but was not willing to provide a large sum because of the Buscombes’ lack of collateral. However, Lloyds TSB did put the family in touch with the South West Investment Group (SWIG) and wrote a letter on their behalf. SWIG is a CDFI that focuses on providing loans that complement mainstream finance to small and medium-sized businesses in the region.
SWIG has close links with both Business Link and with local high street banks, says John Peters, fund manager for Cornwall at SWIG: “We’ve been running funds for a long time and have built up good relationships with the banks. We are used to discussing what role we can play in the financial packages they’re involved in.”

He says: “We only provide matched funding and our loans are always part of a larger funding package, so we were happy to look at this flour mill project.”

He adds that SWIG understood the difficulties the Buscombes were experiencing in accessing a larger, mainstream loan: “As tenant farmers they don’t own their own farm and so don’t have much security to borrow against. We often work with businesses that have potential but little in the way of security or track record.”

SWIG liked the fact that the farm was a family business and that the funding package would enable them to take their work to another level. Peters says that SWIG also backed the venture because it would contribute to the local rural economy and create skilled jobs in crafts that were dying out.

SWIG agreed to a £25,000, five-year loan, which was interest free after payment of a 10 per cent administration fee. David says: “Another good thing about SWIG was they allowed us to draw down the loan in three separate chunks, which fitted in with the gradual scaling up of the project.”

Although first discussions with SWIG were held in August 2003, it was only in the second half of 2004 that the project began. “The project was in development for quite a long time because of issues like getting planning permission,” says Peters.

David says he expects the mill to be in operation during this summer. “We’re eager to get it started because we know, from talking to our customers at farmers’ markets, that there will be a demand for our flour,” says David.

Over the last two years the Buscombes have prepared 37 acres of their own land in order to have a supply of grain and they have also been working with other farms in the locality to supply grain.

“We’ve got neighbours growing our wheat and we pay them a 10 per cent premium to market price in order to increase our supply,” says David.

The fact that the project will reduce the necessity for the Buscombes to import flour from other parts of the UK is another positive factor, says Peters: “It’s obviously environmentally beneficial to produce the flour locally and better for the local economy.”

He adds that producing high-quality Cornish produce, sold using traditional methods, also fits well with the region’s tourism policy and will help promote Cornwall as a whole.

Getting a loan for us was a new area because we’d never been in debt before. But we knew the mill was a good idea and we were willing to back it.”
I LEFT school on 28 May 1979. On 4 June I started work as a commis chef at the Percy Arms Hotel in Otterburn,” says Northumbria-based Bob McGee. For the next 20 years McGee worked in countless hotels, restaurants, clubs and pubs. “I got out because of the anti-social hours and the low wages,” he says. He also wanted to spend more time with his son aged 21, and daughter 1. Over the same period McGee had two failed marriages, which contributed to serious debts.

“I decided never to work for anyone else again. You only make money if you own the business,” says McGee. “You only make money if you own the business.”

On 9 December 2002 McGee (pictured, right) opened his first Inn Café, based within a small shopping centre called the North Shields Inn Shops. A little over a year later he had increased daily takings from £80 to £400. The turnover in the first year was £125,000.

The 67-seat café, a unit within a former supermarket, is open from 8am to 5pm, Monday to Saturday. McGee, with help from his family and two members of staff, serves breakfasts and lunches to shoppers and office workers.

At the beginning of 2004, having developed the Inn Café to full capacity, McGee began to consider expansion.

When he saw a similar set-up for sale in Wallsend, he asked his accountant for advice about buying it. The trouble was that no bank would lend him the money he needed. “So when my accountant saw an advert for Street North East in Newcastle’s Evening Chronicle, he set up an interview for me.”

Street North East is a CDFI that assists financially excluded small entrepreneurs with business development. Michael Burns, Street North East’s client relationship manager, explains the criteria against which the organisation makes offers. “We base it on cash flow, six-month projections, two trade references and two personal references who can also act as guarantors,” says McGee.

Street North East also offers a wide range of advice and support to improve the performance of failing enterprises and to get new ventures off to a good start. “It’s about responsible lending,” says Burns.

“Bob is pretty typical of the area. He got into a cycle of debt during his twenties, and because he was moving from low-paid job to low-paid job, he couldn’t pay off the loans that he’d taken out. We’re right next to the sea here. Work opportunities are very limited. Bob was also operating his café in the informal economy. He wanted to become legitimate, but he didn’t know how,” adds Burns.

By the time the loan was agreed, McGee had missed out on the Wallsend café. But with the backing of Street North East, he was ready to pounce on the next opportunity, a café in Jarrow, south of the River Tyne.

Bringing home the bacon

Bob McGee’s first café was not registered as a business, existing in what is known as the “informal economy”. It was not until McGee began looking to expand that Street North East helped him to become the legitimate and successful businessman that he is today.

“On 4 June I started work as a commis chef at the Percy Arms Hotel in Otterburn,” says Northumbria-based Bob McGee. For the next 20 years McGee worked in countless hotels, restaurants, clubs and pubs. “I got out because of the anti-social hours and the low wages,” he says. He also wanted to spend more time with his son aged 21, and daughter 1. Over the same period McGee had two failed marriages, which contributed to serious debts.

“I decided never to work for anyone else again. You only make money if you own the business.” And so it proved.

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By the time the loan was agreed, McGee had missed out on the Wallsend café. But with the backing of Street North East, he was ready to pounce on the next opportunity, a café in Jarrow, south of the River Tyne.
In 2003, he borrowed £10,000 to buy the café, a unit within a former shopping centre. The business began doing well – McGee replicated the winning formula from North Shields. Importantly, Street North East helped Bob legitimise his business and assisted him to negotiate a repayment schedule for the tax he had defaulted on in the past. With the help of Street North East, his two cafés were now officially registered businesses.

The hard work began to pay off. The Jarrow café was sold, for a profit, just a few months later. This enabled McGee to pay off his tax arrears and leave the informal economy fully behind him.

Now McGee is considering new business opportunities. “Next time round I’ll only need to borrow about half the amount I borrowed the first time, which was £10,000,” says McGee. But he still expects to be excluded by mainstream lenders. “It seems crazy. For over a year I maintained rental payments of £640 per week for the North Shields café, and £720 for Jarrow. I didn’t miss a single payment.” Thanks to the support of Street North East, McGee has moved from being a low-waged employee of the catering trade to a successful small businessman. Having worked so hard to make his business legitimate, he is now eager for his next challenge.
A few years ago theatre company Clean Break was experiencing major financial problems. The group works with women offenders or those at risk of offending to steer them away from crime. Although it had raised over £1 million from the Lottery (through Arts Council England) along with trusts and foundations to buy and convert its own premises, it found itself with major cash flow difficulties for meeting the day to day running costs.

“Like many small arts charities that got capital Lottery funding in the 1990s to buy their own buildings, we suddenly ended up with a lot more responsibility and increased running costs,” says executive director Lucy Perman.

The charity works with between 80 and 100 women a year at its building in north London and deals with many more in its visits to women’s prisons. It gets women involved in theatre performances, education and writing to help them develop self-confidence and new skills in areas such as team working and communicating.

“Drama and role play can be a more accessible way for these women to learn because it allows them to look at their own issues,” says Perman.

The women can also take courses at Clean Break in anger management, basic English and other topics. Many of the women go on to higher education or to find jobs or voluntary work in the arts.

Moving into its own building in 1998 had been a dream for the charity because until then it had been forced to move around different temporary premises in London and split its

Making a drama out of a crisis

A large Lottery grant to theatre company Clean Break meant the charity could buy a new building. But there was no money in the kitty for day to day running costs. Charity Bank provided two loans to see Clean Break through until its own income started rolling in.

Photography: Sarah Ainslie and Dawn Collins
activities between different buildings. There was a financial crunch because plans to hire out part of the new building and thus gain much-needed revenue would take time to materialise. In the meantime, the group faced higher costs and a limited ability to pay.

Despite the cash flow problems, Clean Break was very happy with the new building, which was a conversion of a former factory. The specially designed new space had three studios, offices, a library and canteen and was a light, airy building that was deliberately as non-institutional as possible.

For the group to become a viable organisation it needed financial help. Perman had heard about Charity Bank through other funders. “We did consider one high street bank for a loan but Charity Bank were much more in tune with what we wanted to achieve because they know about the voluntary sector and our funding mix,” says Perman.

Bob Dyke, a senior manager at Charity Bank, says that when he studied Clean Break’s business plan for the building he could see that, in the long term, it made sense but that the charity needed a short-term boost to its finances.

“We liked the fact that they had a strong board and, in Lucy, a dynamic chief executive,” he says. In 2000 Charity Bank made a loan of £65,000 to Clean Break and a further loan of £30,000 two years later. The aim of was to help Clean Break stabilise its finances until it was strong enough to stand on its own feet.

As well as providing the cash, Charity Bank provided guidance and support on the organisation’s financial plan, including its aims of increasing revenue by hiring out part of the building.

Dyke adds that the bank stuck with Clean Break through its problems and that the charity has now repaid all the money it borrowed. He says: “We’re here to make loans when a charity can’t get money from a mainstream lender, either because the charity doesn’t have enough security or a track record in borrowing, and that was the case for Clean Break.”

There was some soul-searching in the organisation about whether to take out a loan, says Perman, but the urgency of the financial situation and the fact that Clean Break had developed a credible long-term business plan eased the doubts.

Today the charity is in a much stronger position. It has paid off its Charity Bank loans and its annual turnover is approaching £1 million.

The Clean Break theatre regularly occupies two of the three studio spaces for rehearsals or its education programme. It is also successfully hiring out studio space to other organisations on an ad hoc basis, as well as gaining income from hiring out its office space to a graphic design company.

“This rental income is extremely useful because we can use it for our core running costs,” says Perman. “Such ‘unrestricted’ income is generally very hard to raise because funders prefer to just provide money for specific projects rather than core costs.”

Perman says that the support from Charity Bank has been key. “Charity Bank were a critical partner in our success,” she says. “They were flexible about security and they had a light-touch approach to monitoring. And Charity Bank were the only funder I found that were willing to take a risk on the charity’s future.”

“We did consider one high street bank for a loan but Charity Bank were much more in tune with what we wanted to achieve because they know about the voluntary sector and our funding mix.”

Money-go-Round
How you can make a difference

By Andrew Robinson MBE, head of the community development banking team at NatWest & The Royal Bank of Scotland

IT IS an uncomfortable reality to discover that in some of the poorest communities in the UK, the vast majority of the money in circulation comes from central and local government. Public funding in these neighbourhoods does no more than compensate people for being poor, rather than helping them become more prosperous.

Yet even in the most hard-pressed communities, there is no shortage of talented entrepreneurs. The problem is these individuals usually lack the confidence, experience, support and capital to develop their ideas for enterprise.

Community development finance institutions (CDFIs) address all of these issues. But the system needed to make this happen at a scale which will make a real difference is still in the early stages of development. It is an on-going political, financial and business challenge.

In the USA, the CDFI sector has traditionally received a large amount of financial support from the corporate sector (not just banks), in addition to that coming from individuals, churches, foundations and trusts. Local authorities have also been key partners, promoters and investors.

It is now time to recognise the huge potential of community development finance to deliver both social and financial dividends here in the UK. We believe that one of the keys to this would be to promote a popular awareness of a Community Investment Tax Relief (CITR) scheme. Under CITR, any individual, small business or company making an investment in a CDFI will be able to offset 25 per cent of the value of their investment against their tax liabilities over five years.

This is a good deal for any socially-motivated investor, and a very progressive innovation by the government. We now need to make sure it becomes a mainstream investment tool.

There are some simple actions that a wide range of people can do in order to boost the potential of the community development finance sector:

• Make yourself aware of the “high social impact” investment opportunities offered by CDFIs.
• Find out how you or your company could take advantage of CITR.
• Keep up to date about developments in the sector by becoming a supporting member of the Community Development Finance Association.
• Invest in a CDFI.