

Social Exclusion: Capital for Enterprise, Employment and Community Development

An UKSIF project targeted at the Treasury Team working on access to finance for business as part of the social exclusion agenda

UKSIF has just completed a project aimed at identifying the barriers to accessing finance in deprived neighbourhoods. We interviewed participating bank and building society members along with social finance providers. The aim was to identify what were the inhibitors to lending in the community, particularly deprived communities. The findings from these interviews were then brought to a one-day meeting of members to agree on proposals to be put to the Policy Action Team in the Treasury.

The barriers and solutions were grouped under three headings:

- [attracting investment](#)
- [attracting potential borrowers](#)
- [support for new forms of enterprise](#)

In each case the barrier is first outlined and then the solution offered.

Attracting investment

1. Everyone agreed there was a need to prove demand and create new markets.
 - **It was proposed that a government funded investment, targeted at specific gaps in provision of finance, would offer an opportunity to test the market and provide more evidence of demand. This could take the form of a national/regional fund but must be designed to allow new entrants.**
2. Private investors receive no tax incentive for their investment in community finance.
 - **All members of the group felt that private investors should receive recognition via the tax system for their contribution to the common good in this form of social investment.**

3. Banks are currently more likely to support Community Finance Initiatives through the donation funds of their community affairs programmes. But the CFIs want to go through the rigour of the loan application process. They also want to offer corporates a means of recycling their grant money through loans.

- **Investors in community finance initiatives could receive a tax incentive with eligibility being determined by how the money is being used not where it is coming from. Tax credits should be available to all types of investor, individuals, and corporates.**
- **An award programme giving recognition of investment would offer an opportunity to increase the profile of community finance. It could also recognise good partnership working. But it must only be instigated when a sufficient body of best practice has been established.**

4. In the public sector UKSIF members report there is often confusion about the different functions of grants and loans, with loans being used in a manner which is more like a grant.

- **A programme could be instigated to inform the public sector about the effective use of public finance for loan and equity. This would emphasise partnership with third parties to lever in private sector funds to deprived neighbourhoods.**

5. There are particular problems experienced by the community finance organisations working on regeneration schemes with the public sector. The slow payment of grants from public sector agencies, in particular English Partnerships, can threaten all the follow-on funding from the private sector and the viability of a regeneration project. Public sector partners placing clawback conditions on regeneration funding which stipulate that the money can be recouped if the project fails to meet its promises, will again inhibit private sector investment.

6. CFIs find themselves falling between two stools - being seen as not sufficiently commercial for the banking sector, on the one hand, but as too commercial for European funding, on the other. This is the experience of at least one Community Finance Initiative.

7. Another way of increasing the flow both into intermediaries such as CFIs and lending to deprived communities is by guarantee funds. Many CFIs are keen to see the development of funds which might offer a guarantee to their investors or enable them to use a vehicle like the SFLGS for lending.

- **Guarantee funds should be devised to increase the flow of capital into deprived communities. Eligibility for the fund should be determined by where the money is going, ie. to fill gaps in enterprise lending, rather than the legal status of an**

organisation. This could be along the lines of the Small Firms Loan Guarantee Scheme.

Attracting potential borrowers

1. Many of those interviewed said that one of the barriers that needed to be overcome was to help people in deprived neighbourhoods know more about what was available. One bank said it had problems in overcoming the cultural barriers which would prevent people coming to see them.
- **Conventional methods of marketing will not work for the target group and other outreach methods need to be developed. In Drumchapel (Glasgow), the Opportunities Company situated in a local shopping centre has a community café and people have a cup of tea and have a look at what is on offer.**
2. Community Finance Initiatives also want to see more business being put their way by banks if the business manager felt it was a good business idea but did not fulfil their credit criteria. The banks, for their part, felt that they were developing links with CFIs which could be seen as offering networking and referral opportunities. They advised the CFIs to link into the small business networks.
- **Already existing organisations which people turn to for finance, either grants or loans, should develop a means of signposting to other financial providers when appropriate. This could be achieved by the co-operation of banks, grant funders and community finance initiatives and other public agencies.**

Support for New Forms of Enterprise

1. Many members lend to social enterprise and micro-enterprise which they see as having a crucial role to play in regeneration of deprived communities and providing employment. However these types of venture have not been the focus of past initiatives to encourage enterprise and are therefore not recognised by many public sector agencies supporting enterprise.
- **The policy action team should define "enterprise" as regardless of legal status. In this way its proposals will include any venture, whether for profit or not-for-profit, which is providing both employment and important services in deprived areas.**
2. There is also a lack of the right business support for both very small businesses and social enterprises. No one in the group interviewed had experience of a public agency being geared

to provide support to these agencies, though they all recognised the role of public enterprise agencies.

- **Business support services should be developed which are appropriate for the needs of deprived neighbourhoods. The group proposes that new business support is developed for both social enterprise, micro-enterprise and for the financial initiatives which will support them. This could be done under the new RDAs within a definition of the enterprise which is regardless of legal status.**
 - **Community Finance Initiatives said there is a need for support to new CFIs in order to allow them to become established around the country. Problems experienced by the CFIs included a lack of loan officers, training, and business skills.**
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