Enterprising Communities

Wealth Beyond Welfare

A 2005 update
on the Social
Investment
Task Force

cdfa
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Members of the Social Investment Task Force

Sir Ronald Cohen (Chair)
Chairman,
Apax Partners Worldwide LLP

David Carrington
Former Chief Executive,
PPP Medical Healthcare Trust

Ian Hargreaves
Journalist and academic

Philip Hulme
Former Chairman,
Computacenter

Geraldine Peacock CBE
Chair,
Charity Commission

Joan Shapiro
Former Executive Vice President,
South Shore Bank, Chicago

Tom Singh
Managing Director,
New Look

foreword

The recommendations of the Social Investment Task Force made in October 2000, have significantly increased the flow of investment to disadvantaged communities throughout the UK.

Sir Ronald Cohen

The community finance development sector is now worth £400,000,000. It has financed over 9,000 businesses, created 10,000 jobs and sustained 85,000 more. This finance, which is delivered by community development finance institutions (CDFIs), has levered £160,000,000 funds from other sources into the UK's most disadvantaged communities.

The remit of the Task Force was 'to set out how entrepreneurial practices can be applied to obtain higher social and financial returns from social investment, to harness new talents and skills, to address economic regeneration and to unleash new sources of private and institutional investment. In addition, the Task Force was asked to explore innovative roles that the voluntary sector, businesses and government could play as partners in this area.'

The five recommendations of the Task Force to the Chancellor of the Exchequer in October 2000 were a package of interlocking initiatives. They were designed to create a system that could drive investment in under-invested communities and encourage entrepreneurial growth and financial inclusion. The government acted on them swiftly and vigorously.

The recommendations were:

1. To introduce the Community Investment Tax Relief (CITR)
2. To help set up Community Development Venture Capital Funds (CDVCs)
3. To encourage disclosure by banks of their lending activities
4. To provide greater latitude and encouragement for charitable trusts and foundations to invest in community development finance
5. To provide support for Community Development Finance Institutions (CDFIs).

This report analyses the impact of the Task Force's recommendations. It draws together the voices of organisations and people who have either benefited from the recommendations or have been involved in implementing them. In doing so, it gives a real sense of the scope and impact of our work.

In the implementation of these recommendations there have been many challenges which we have faced and overcome. There are more challenges ahead and I know that, with the momentum we have gained, we will overcome these as well.

The Task Force continues to meet and monitor the progress of social investment. I would like to thank my fellow members for their on-going commitment to this cause.

There is still much to do. The energy and will to do it are increasing throughout Britain. Little would have been achieved without hard work and the close collaboration of the private, public and voluntary sectors. All three have worked together to make a difference in disadvantaged communities.

I am hugely impressed by the quality, experience, initiative and fast increasing number of those who are joining the effort to make a social difference in the most effective way.

executive summary

The Task Force was initiated by HM Treasury at the joint request of the UK Social Investment Forum, the New Economics Foundation and the Development Trusts Association. Since then, the Community Development Finance Association (cdfa), established on the recommendation of the Task Force, has taken over the role of UKSIF, by providing the secretariat.

Introduction of Community Investment Tax Relief (CITR)

The Task Force agreed that an incentive was needed to encourage private finance into under-invested communities. It recommended a tax relief for organisations and individuals who wished to finance CDFIs.

In its first 18 months of operation, CITR has raised £18 million of private investment for under-invested communities. Such finance would not have been available otherwise and this trajectory is set to accelerate over the coming years.

All CITR finance is recycled again and again into under-invested communities, resulting in the funds having much greater impact than single donations.

The CDFIs which have been successful at raising finance under CITR are those which are more mature. The challenge remains to develop the many younger CDFIs to a stage where they too can raise private finance.

Community development venture capital funds

Recognising the impact that venture capital has had on the UK's economy, the Task Force suggested that its successful formula be applied to community investment through the creation of CDVC funds.

As a result, there is now an emerging community development venture capital sector. The UK's first dedicated community development venture capital company, Bridges Community Ventures, was formed in May 2002 and its funds have been investing in businesses in the most deprived parts of England ever since.

Other CDVC funds are emerging and existing organisations, such as East London Small Business Centre, have taken up the challenge of developing venture capital vehicles for their clients.

There is scope for more CDVC funds and, as they evolve, they will become a significant driver of the CDFI sector.

Bank disclosure on lending activities in deprived areas

Having taken evidence from the United States, the Task Force learnt that its Community Reinvestment Act (CRA) had been a significant driver in identifying banks' activities in under-invested areas. The CRA was brought about because of concern that banks were taking deposits from, but not lending to, deprived communities.

The CRA requires banks to disclose their lending and investing in under-invested areas. In doing so, it has encouraged US banks to acknowledge the importance of CDFIs as they operate effectively in these niche markets. The CRA is credited with causing an additional $1 billion to flow into some of the US's poorest communities.

Recognising that there is a need to understand and encourage the activities of UK banks, the Task Force recommended that they disclose information on their lending in under-invested areas. It also recommended that if banks did not disclose this information voluntarily then such disclosure should be made mandatory in the manner of the CRA.

While a number of banks have disclosed some information about their activities, not all have done so. The current regime of voluntary disclosure leaves an environment where banks are providing information that makes helpful comparison problematic.

Greater latitude for charitable trusts to invest in community development initiatives

Support for community development finance is a significant way in which grant-making charitable foundations and major charities can advance their charitable objects. The charitable sector has been active in developing new financial instruments such as the Adventure Capital Fund, Venturesome and Futurebuilders. The Charity Commission has provided supportive guidance and the sector itself has produced, *The Magic Roundabout*, a publication encouraging the adoption of programme-related investment.

However, the sector is large and diverse and communicating messages about new financial instruments and their advantages consistently and clearly is an important challenge which the Charities Commission has taken up under the leadership of Geraldine Peacock, a member of the Social Investment Task Force.

Support for the community development finance sector

The launch, in 2002, of the Community Development Finance Association (**cdfa**) - the sector association for CDFIs - provided a step change in the growth of the sector, just as the Task Force envisaged it should.

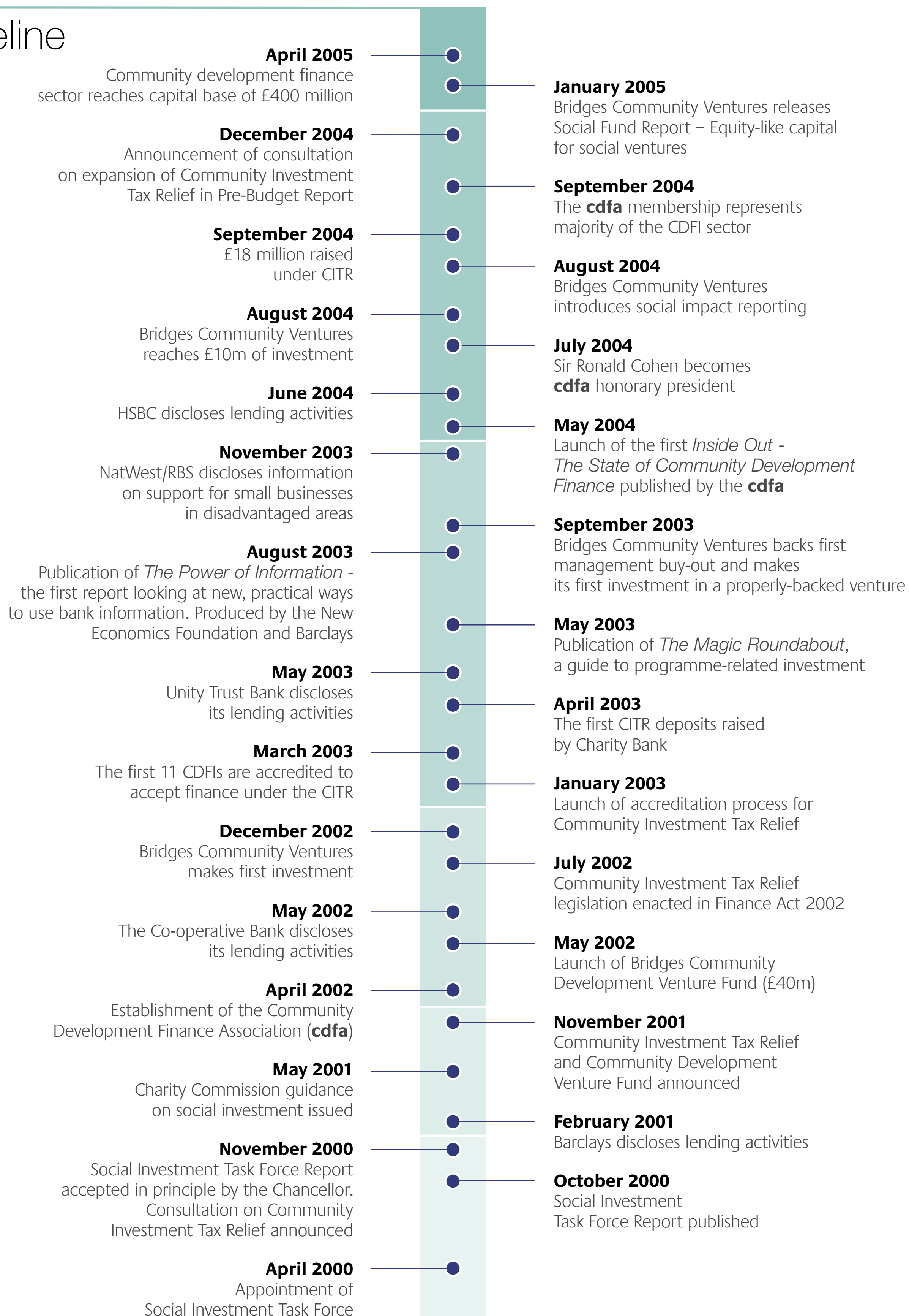
The sector is now worth £400,000,000. It has financed over 9,000 businesses, created 10,000 jobs and sustained 85,000 more. In addition, it has levered £160,000,000 additional funds into the UK's most disadvantaged communities.

The **cdfa** itself has become a highly respected sector body with a membership that represents the vast majority of the UK's CDFIs. It has a dedicated and committed board and team who are focused on the association's mission of building a thriving community development finance sector which will bring economic and social benefit to every disadvantaged community within the UK.

Conclusion

The Task Force's recommendations have made a significant impact in a short time. Many challenges have been overcome and the sector is in a good position to face future challenges. Experience has been gained, strong relationships have been forged and the sector has achieved considerable entrepreneurial momentum in delivering significant social returns.

timeline



recommendation 1

To introduce a Community Investment Tax Relief

One of the key aims of the task force was to increase CDFIs' access to capital. The community investment tax relief (CITR) is designed to create a powerful incentive for individuals and companies to provide financial backing for accredited CDFIs.

The tax incentive comes in the form of a reduction of the tax liability of individuals and corporations. The total reduction is equal to 25% of the capital provided, spread over five years (5% a year). This is worth 8.33% gross a year for higher-rate taxpayers, 6.41% a year for standard-rate taxpayers, and 7.14% a year for main-rate corporation taxpayers.

For example, an investment of £100,000 would entitle the investor to a reduction in tax liability of £5,000 each year for each of five years.

Key achievements

- **There are now 23 CDFIs accredited to receive capital benefiting from the CITR.**
- **Between its launch in 2003 and the Community Development Finance Association's annual member survey in September 2004, 11 CDFIs raised more than £18 million. Reports from CDFIs suggest that this figure is likely to double by the end of 2005.**
- **By the autumn of 2004, accredited CDFIs had on-lent £7.1 million to their chosen social investment entities.**

Key challenges

- **Implementing and embedding a new scheme**

  As with all new schemes - particularly those involving the tax code - it takes time for all those involved to develop their understanding and use of the scheme. Work continues with CDFIs, the Inland Revenue and policy makers to increase the level, application and availability of the tax relief.

- **Raising the profile of CITR amongst individuals and companies**

  Awareness of the CITR amongst both corporate and individual investors is growing, but, if the CITR is to reach its potential, the sector - as well as individual CDFIs - must find ways of boosting awareness substantially.

- **Growing capital demand to grow investment**

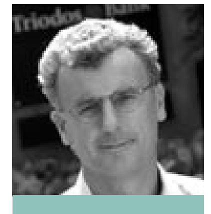
  CITR provides an excellent investment proposition and CDFIs must demonstrate that they are credible investment vehicles. In order for the CITR to realise its full potential, CDFIs must increase their ability to deploy capital effectively. This involves meeting two challenges: increasing the demand for CDFI finance, and assisting younger CDFIs to achieve investment readiness.

When Charity Bank was seeking approval from the regulators, they made it clear that banking per se is not charitable. To qualify for charitable status the new bank would have to offer deposits at rates beneficial to charities and loans on affordable terms. While this would appeal to a certain section of the public, we recognised that wider acceptance would only come if we could offer market competitive deposits. At the same time, the borrowers required intensive and costly technical support to develop investment readiness and to mitigate the risks inherent in a portfolio of lending in under-invested communities, costs that a new institution was ill equipped to bear. The community investment tax relief has enabled us to balance these competing pressures. On one hand we have a 5-year deposit product where the extra return is provided through the tax system. On the other hand, because the uplift comes from tax relief rather than our operating costs, we can keep loans affordable for organisations that do not have the flexibility to pass on higher interest costs to their customers. The CITR enables everyone to benefit.

Malcolm Hayday, Chief Executive, Charity Bank

For ten years Triodos Bank has pioneered ways to finance progressive businesses. The CITR scheme does exactly this but in a new way, with real benefits for savers and community projects alike.

Charles Middleton, Managing Director, Triodos Bank



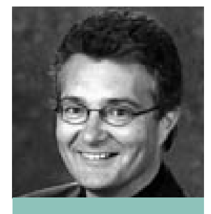
Our new centre in Edinburgh successfully opened in January this year thanks to a loan from Triodos Bank. With it, we'll be able to make a positive and lasting impact on the lives of local people with learning disabilities. The fact that people invested their money specifically to support community projects like our own makes the connection even more powerful.

Erhard Keller, Tiphereth Community, Edinburgh

As one of the first lenders to be accredited, Co-operative & Community Finance has been pleased to be using CITR. In partnership with The Co-operative Bank, Co-operative & Community Finance has raised £1 million. The use of CITR to do this has meant that we could borrow from the Bank at a rate which previously could not have been arranged, giving us sufficient margin for their high-risk lending activity to co-operatives and community businesses.

After over two years of operating CITR, we are more than on course to meet the Small Business Service targets for getting the money out on loan. We have found the partnership with the Bank to be straightforward, and the regulation of the scheme to be easy to manage. Co-operative & Community Finance believes that the CITR scheme represents the best way forward for CDFIs to raise new capital.

Andrew Hibbert, Development Manager, Co-operative & Community Finance, formerly Industrial Common Ownership Finance



With its strong community ethos, The Co-operative Bank was keen to become involved in the Community Investment Tax Relief scheme which it saw as an innovative way for CDFIs to access cheaper capital - indeed we were the first high street bank to make investments under the scheme.

The CITR initiative allows the Bank to extend loan facilities to CDFIs at sub-base rate levels thereby keeping the cost of capital for them, and in turn borrowing for their customers, at competitive and realistic levels. Our experience of the CITR scheme and the partnership with Co-operative & Community Finance has to date been extremely encouraging.

David Dunn, Senior Manager in Public Sector & Community Development for The Co-operative Bank

recommendation 2

To set up Community Development Venture Capital Funds

This recommendation reflects the positive impact that venture capital has had on the mainstream economy in the UK and elsewhere across Europe and the US. By backing dynamic, growing businesses, large and small, venture capital has created significant employment and wealth.

The Task Force suggested that the successful disciplines of venture capital, equity investment combined with management support, could be used to speed the development of businesses in low-income neighbourhoods. As these businesses create jobs and stimulate investment, they will improve quality of life and create role models in these communities.

Community Development Venture Capital (CDVC) invests for both financial and social returns and is attracting significant institutional, as well as private, investment.

Key achievements

- Bridges Community Ventures launched

  In May 2002, the UK's first CDVC fund, Bridges Community Ventures (BCV), was launched. By September of that year, it had raised its full £40 million with £20 million committed by the private sector and £20 million in the form of matched investment from the DTI and by October of the same year, it had made its first investment. BCV is now investing regularly and the social impact of its investments are beginning to emerge through its social impact reporting process.

- Phoenix Fund supports community development venture capital

  The Phoenix Fund (the government fund that has supported the growth of the CDFI sector) implemented the Task Force's recommendation by supporting venture capital funds, including small ones. CDFIs like East London Small Business Centre have used Phoenix support to help develop this side of their activities.

- Regional CDVC funds

  A number of CDVC funds such as the Advantage Early Growth Fund, East London Small Business Centre with GoEast Ventures, are emerging with a regional focus.

- Social returns

  CDVC-backed businesses have increased the numbers of jobs created and retained in the economically disadvantaged areas they target. As consumer spending in target areas grows and role models of entrepreneurship emerge, fundamental long-term drivers of prosperity are being established.

Key challenges

- Growth of the number of CDVC funds

  BCV is now relatively well known and is the largest of the CDVC Funds. Encouragement needs to be given to other funds that invest venture capital in deprived areas to turn community development into a cohesive sector. The Community Development Finance Association (**cdfa**) is supporting the development of CDVC organisations to provide a range of financing options to businesses.

- Measuring and delivering social returns

  Demonstrating the social returns of CDVC funds has been pioneered by BCV. Working to maintain rigorous social impact evaluation is key to the development of the sector.

- Delivering financial returns

  The BCV investment strategy of investing only in the 25% poorest areas, but concentrating on achieving the best returns possible, is on track to deliver a 10-15% return after all fees and expenses. Achieving attractive financial returns, while investing in targeted areas, is essential to lever very substantial capital into the sector.

Bridges Community Ventures aims to show that investment into entrepreneurial ventures in under-invested areas can produce positive social and economic impact as well as generating financial returns high enough to draw more investment into these types of funds. It is still early days for us but our portfolio, and the social impact reports our portfolio companies are generating, are encouraging so far.

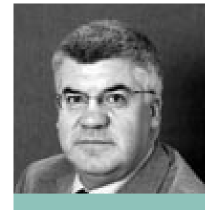
Michele Giddens, Director, Bridges Community Ventures

We started working with Bridges Community Ventures in early 2002 and they are integral to our success. Without their investment, we would have struggled to get the business off the ground and their continued guidance and support has helped us realise our goals ahead of time. The nature of the BCV fund appealed to us, it gave us instant credibility and helped us to get many key affinity partners on board.

Karen Darby, Co-Founder & CEO, SimplySwitch

The initial support from Bridges Community Ventures was vital to us as our objective is growth through investment in product development and investment in our people. However, the ongoing support, through the non-executive directors appointed to our Board by BCV, has also been excellent.

Steve Dickinson, Managing Director, Bison Bede



When the Task Force published its recommendations, I felt the real opportunity of improving communities by getting growth investment into local enterprises through equity finance. This was something East London Small Business Centre had been looking at for a few years. With the support from the Phoenix Fund and significant help from Allen & Overy we set up GoEast Ventures in 2003. With £1.7m pilot fund to invest we have made eight investments to date and are planning another ten this year. We hope to take this experience to raise a larger fund, and change the face of small business investment in east London for ever!

Tim Heath, East London Small Business Centre

Initially I was helped to get my business off the ground with advice and a Muslim loan from East London Small Business Centre. The high growth I was experiencing required additional finance and again East London Small Business Centre through its micro-VC subsidiary GoEast Ventures was able to offer me equity injection and management support through a non-executive directorship. My business has really started to prosper through this partnership.

Riemon Rahman, GSM Mobiles Ltd

recommendation 3

Disclosure by banks of their lending in under-invested communities

Recognising that there is a need to know and understand the activities of UK banks, the Task Force recommended that they disclose information on their lending and investing in under-invested areas. It also recommended that if banks did not disclose this information voluntarily then such disclosure should be made mandatory in the manner of the CRA (the 1977 Community Reinvestment Act) in the US.

More needs to be done

- *The Power of Information*, published by Barclays, was the first report looking at new, practical ways to use bank information. It proposed a series of disclosure tests based on investment, information and action.
- While RBS/Natwest has disclosed more information than previously, there is still a dire need, nearly five years after publication of the Task Force report, for banks to engage in comprehensive disclosure in this area.

Key challenges

- **Increasing bank disclosure in a voluntary environment**
  Since the Task Force reported, the response from banks to calls for voluntary disclosure has been tentative. Some banks have clearly embraced the opportunity to disclose information, develop their understanding of these markets and work in partnership with CDFIs and other agencies. Others have not been proactive. Those who are more reticent must be required to disclose.
- **Broadening the remit of the fair lending and disclosure debate to cover other financial services**
  The disclosure recommendation focused on access to bank loans for micro, small and social enterprises. However, there is a growing body of evidence suggesting that there are similar issues and opportunities for disclosure amongst other types of financial services organisations including credit card providers, insurers, leasing and factoring organisations.
- **Increasing the variety of ways in which market information can be used and applied**
  Nevertheless, the use of the bank information that is now disclosed has grown. Activists, CDFIs and other economic development professionals have all used the information to some degree. However, with patchy and non-comparable data compiled on a national (even if it is on an individual bank) basis, practical uses remain limited, aside from providing a baseline from which to measure market share and market size.

Deprived area data disclosure has been an integral part of Barclays' social reporting process ever since it became the first high street bank to voluntarily publish data in early 2001. Indeed our broad commitment to financial inclusion is reinforced by our publication of personal, as well as small business, data. Our stakeholders consistently tell us that they value this transparency and I am pleased that other banks have begun to follow our lead. We were pleased to support the New Economics Foundation in their research entitled 'The Power of Information'. This highlighted, for example, the importance of developing processes and partnerships with CDFIs and business support providers. Subsequently we have piloted a process whereby declined small business loans were referred to the local CDFI. This approach has helped develop relationships between local managers and CDFIs. This learning will inform our strategy regarding the practical ways in which we can better engage with the community development finance sector.

Peter Kelly, Barclays

Requiring banks to disclose their activity in disadvantaged communities was always going to be controversial, but some of us do it now. When the idea was first suggested, many fears were expressed. Activists might use the information to 'name-and-shame'. Competitors might find some advantage in the information. Yet, without good and complete data, you cannot develop effective and flexible fiscal incentives. The **cdfa** *must be persistent and creative, working with the banks and policy makers, to ensure the success of subsidies and programmes supposedly intended for the economic development of areas associated with market failure.*

Andrew Robinson MBE, Head of Community Development Banking, RBS/NatWest

Although SITF demanded full lending disclosure, it has not happened. Debt on our Doorstep (DOOD) is unable to comment on whether banks are doing more or less than they were five years ago. DOOD would also like to point out that disclosure was required of all lending organisations and not just banks. DOOD has found that financial exclusion can occur amongst pockets of affluence, therefore we believe that disclosure should be expanded to cover all communities and not just the 5% most deprived wards in the UK.

DOOD also feels that disclosure is only part of the answer in tackling financial exclusion. Our communities are being either drowned under a sea of credit or have become financial services deserts. We would like to see all lending institutions tested as to whether they are lending responsibly or not, such as through the various Fair Lending Laws in the USA and the EU (such as in Germany).

Faisel Rahman, Debt on our Doorstep

The extremely limited information provided by banks makes it challenging to draw any overall conclusions. There still is a strong case for full disclosure of activities in deprived areas in order to increase transparency, create an added incentive for fairer lending and help create new partnerships between community development financial institutions and the banking sector to better serve entrepreneurs in deprived areas.

Whitni Thomas, New Economics Foundation

Data disclosure has driven the considerable success of the US community reinvestment effort at every point since the passage of the Home Mortgage Disclosure Act in 1975. It has permitted banks to figure out what they were actually achieving in lower-income communities and has led financial institutions to new and profitable markets. It has encouraged productive dialogue between public bodies, non-profit development corporations and banks about creative agendas for community renewal. The addition of small business lending data in 1996 and home mortgage pricing data this year have similarly encouraged increased and well-targeted community development activities. Data disclosure is also the driving force for increasing corporate accountability in under-invested communities.

Malcolm Bush, President of Woodstock Institute, Chicago and former member of the Consumer Advisory Council of the US Federal Reserve Bank

recommendation 4

Greater latitude for charitable trusts to invest in community development

The Task Force aimed to encourage charitable trusts and foundations to participate more significantly in the area of social investment through CDFIs in order to promote among their beneficiaries, wherever possible, a culture of empowerment, entrepreneurship and initiative, rather than dependency.

It suggested three methods by which this could be achieved:

- **programme-related investment**
- **grants and loan guarantees**
- **investment in community development venture capital funds.**

The Task Force also wanted to encourage new ways of financing the non-profit sector, urging it to take a more entrepreneurial, long-term view of its funding requirements and its ability to generate sustainable revenues.

Key achievements

- The Charity Commission issued clear guidance that programme-related investment is a legitimate way of advancing a charity's objects.
- *The Magic Roundabout*, written by charities for charities on all aspects of social and programme-related investment has been published.
- Charity Bank, Futurebuilders, Venturesome and the Adventure Capital Fund have all been launched. They provide a range of innovative financial vehicles that invest in the charitable sector.
- A cultural change is taking place within the sector. More charities are looking at developing their entrepreneurialism and using it to create a sustainable funding base for their activities.

Key challenges

- **Creating a common language**
  No common understanding of the terminology surrounding programme-related investment or social investment currently exists. The **cdfa** and the Charity Commission are making efforts to define terms and disseminate their meaning.
- **Raising the profile of CDFIs with funding bodies**
  At the time of the Task Force's original report, the Charity Commission agreed that funders with appropriate objects could work through CDFIs to achieve their social objectives. However, some funders are reluctant to do this as they are concerned that CDFIs (which operate as social enterprises) are not 'really charitable' although they make an effective contribution to relieving poverty. CDFIs and the **cdfa** are raising awareness in the charitable sector of their work and its benefits.
- **Encouraging trustee bodies to take up the new financing available to them**
  Some trustee boards are concerned that new financial instruments, such as loans offered to them by CDFIs, might be a high risk strategy both personally and for their organisations. The **cdfa** is working with charitable organisations to create an understanding of how loans operate and their potential long-term benefits to charitable organisations.

Interview with Geraldine Peacock CBE

Task Force member Geraldine Peacock was Chief Executive of Guide Dogs for the Blind when the first report was submitted to the Chancellor. Now she is Chair of the Charity Commission. This gives her a unique perspective on the implementation of recommendation four and its potential for change. Bernie Morgan, Chief Executive of the Community Development Finance Association, asks Geraldine for her personal insights into the impact of this recommendation.

BM: Geraldine, in October 2000, when the Task Force submitted its report to the Chancellor, how did you think the voluntary sector would react to this particular recommendation?

GP: Well, I knew it was quite a radical proposition and that, in any sector, change is often quite hard to take on board. I thought that some organisations would welcome the concept but I felt the majority would take a while to see its benefits.

BM: So, what happened in reality?

GP: I was pleasantly surprised about the level of the debate it generated in the sector. The Charity Commission welcomed the recommendation which was a real boost as, prior to this, many charity trustees thought that it wouldn't allow programme-related investment.

BM: And since then?

GP: Since then we have seen much greater support from the charitable sector for community development finance institutions. The charitable sector is starting to look at new ways of accessing finance. Publication of *The Magic Roundabout* in 2003 marked a significant step forward. This document was written by charities for charities wanting to develop programme-related investment and other social investment opportunities.

We have seen larger charities like NCVO make investments and some charitable trusts make loans. There have been new types of financial instruments available to the sector through CDFIs, Futurebuilders and the Adventure Capital Fund and Venturesome. So things are moving in the right direction.

BM: But fast enough?

GP: Bringing about cultural change is never fast or easy. The voluntary sector is huge and diverse and it will take time before we can say it is fully accessing all the different types of finance available. However, I have seen a real shift in thinking over the past five years and the fact that these issues are very high on the sector's agenda shows the significant impact of this recommendation.

BM: What should happen next?

GP: The Charity Commission plans to update and re-issue its guidance notes which will encourage, I hope, even more organisations to embrace this issue. I think we have to start to develop a common language as people are confused about the meaning of social investment, programme-related investment, venture philanthropy, etc. I also think there should be a more rigorous education programme around these issues. Many organisations believe taking on a loan is a high risk strategy when, in reality, it isn't.

BM: What would you like to see happening in 10 years time?

GP: Well, I would like to move the voluntary sector towards a more sustainable funding environment where it is making full use of all the available financial instruments. This would, I believe, mean that those organisations which can take loans and investments will be doing so, leaving grant money to be accessed by those who need it most. This will be a more equitable way of distributing resources and will lead to a stronger, more independent sector.

A sector which is more able to deliver its objectives because it is spending less time seeking financial support.

BM: Thank you.

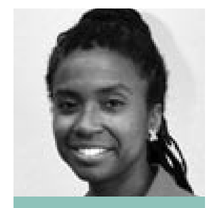
The Esmée Fairbairn Foundation has maintained the commitment of Ian Fairbairn, our founder, to financial education and access to financial services over the years and recently we have become one of the main independent funders of the community development finance sector. We have supported some of the early pioneers through grants and loans and were an early backer of the Community Development Finance Association which has a key role in strengthening the CDFI sector. And while much of what we do tackles poverty, we are keen to do this in a way which helps people out of poverty by supporting initiative and enterprise more generally.

Our most recent initiative is a three year pilot loan fund, sourced from our endowment, and for the first time our accounts for 2004 reflect this programme-related investment. Future plans include a review of the experience of the loan fund in 2006 and looking at the wider social investment field more generally.

Jeremy Hardie, Chairman, Esmée Fairbairn Foundation

Friends Provident Foundation was created as an independent trust in 2001 and endowed by Friends Provident plc in 2004. Its work is focused on the use of money markets and financial systems to generate social as well as economic benefits for the poorest in our society. One of our first programmes is concerned with addressing financial exclusion by increasing access to good advice, banking services and affordable credit for those at the margins of the marketplace: CDFIs, community banks and credit unions are clearly key elements of a sustainable solution.

Danielle Walker, Chief Executive, Friends Provident Foundation



recommendation 5

Support for Community Development Finance Institutions

The Task Force recognised that an association of CDFIs would accelerate the development of the sector and increase its capacity to deliver. CDFIs are organisations which provide financial services to disadvantaged communities in the UK.

The cdfa would also be a voice for the new sector, helping to create an enabling policy environment.

The Community Development Finance Association (**cdfa**) was launched in April 2002 at HM Treasury.

The vision of the association is to create a thriving community finance sector which creates lasting employment and wealth in every under-invested community in the UK.

By the end of 2004, the **cdfa** included among its members the vast majority of CDFIs in the UK. It has become a well respected, highly effective sector association. It delivers a high quality of support for its members, publishes sector information annually, and represents its members' interests at the highest levels of Government.

Key achievements

- **The association has firmly established itself as the lead body on all issues that involve the sector.**
- **The publication of sector statistics in two editions of *Inside Out* has provided invaluable information on the state of the sector, trends and developments.**
- **The community development finance sector now has a capital base of £400,000,000 and has financed over 9,500 businesses - in under-invested communities. It has created 10,000 jobs and sustained 85,000 more.**
- **In addition, it has levered in £160,000,000 of finance from other sources into businesses and households.**

Key challenges

- **Securing long-term funding for the sector**
  The sector is currently dependent on public and charitable funding and the US experience indicates that this may continue to be the case for some time. So that it is not adversely affected by changes in funding policies, a longer-term solution is needed for financial support of the sector to secure an independent source of funds, which is not subject to variations in public policy. The **cdfa** has approached the Government in order to put this in place.
- **Developing performance measures and benchmarks**
  As a new and emerging sector, CDFIs have yet to identify performance measures and benchmarks. Doing so is challenging as the sector is diverse in its activities and target markets. This work has begun and is fundamental to the next stage of the sector's growth.
- **Growing younger CDFIs to investment readiness**
  The newness of the sector means that the majority of CDFIs are young and not yet ready to absorb private investment. They need to develop to a stage where they can do so, as this will help them achieve sustainability. Once eligible CDFIs are investment-ready they can benefit from the considerable incentives provided by Community Investment Tax Relief (CITR).

*I'm pleased to see that with £43 million support from the Phoenix Fund, the Government has helped over 60 CDFIs establish themselves as recognised suppliers of finance to enterprises in disadvantaged communities. The SITF update rightly highlights some of the future challenges and SBS will continue to support and work alongside the **cdfa** and others in addressing these.*

Rory Earley, Director - Access to Finance Directorate, Small Business Service

*Suffolk Regeneration Trust (SRT) is a CDFI based away from urban centres and we have very few local 'peers'. The **cdfa** conference is a great opportunity for the team to recognise that we are part of a wider sector and to recharge our batteries with like-minded colleagues from across the UK. Everyone at SRT has attended at least one **cdfa**-organised training or seminar. CDFIs work in such a specific environment that tailor-made training is essential if it is going to be worthwhile. As all our recruits are inevitably new to the sector it is also a good opportunity for them to meet and network with other **cdfa** members.*

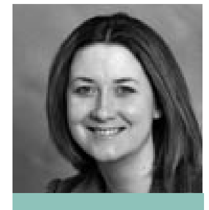
Belinda Bell, Chief Executive, Suffolk Regeneration Trust

*The **cdfa** has a critical role to play in promoting 'a way of working' which seems to be delivering better outcomes than conventional public sector or private sector-led interventions. More than simple financing vehicles which do things banks can't, won't or don't understand, CDFIs have the potential to co-ordinate a whole armoury of much needed support and incentives for people and organisations in our most disadvantaged communities.*

Andrew Robinson MBE, Head of Community Development Banking, RBS/NatWest

*The South East region must make the most of all its resources if we are to address persistent social deprivation and economic exclusion. Through working with the **cdfa** we are ensuring that we learn from national and international practice from all sectors, building on a firm foundation of expertise in developing strategies to improve access to finance in under-invested markets.*

Kate Annison, South East England Development Agency



*SCML is a member of the **cdfa** because without the support of a trade body, we would not be able to:*

- *effectively lobby central government and other national bodies for support for the community finance sector*
- *have access to a range of products and services*
- *network effectively with other CDFI staff*
- *keep ourselves fully informed of the changing legislative environment.*

Simon Frost, Managing Director, South Coast Moneyline

*Inside Out, the first **cdfa** benchmarking report, was invaluable to us in helping demonstrate the quality of Aspire's performance in relation to our peers. We had been facing difficulties in convincing our funders that our performance in a difficult market niche was good. The fact that we could compare our performance in terms of numbers of loans, amounts lent, write-off rate and portfolio at risk with peers with similar average loan sizes helped to make our case.*

Niamh Goggin, Manager, Aspire Micro Finance

For more information about the cdfa or to find out about becoming a member or supporter, visit the website on www.cdfa.org.uk or e-mail info@cdfa.org.uk.

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