Sheffield Hallam University | Centre for Regional Economic and Social Research

Evaluation of the Community Investment Enterprise Facility

Second Annual Report

CHRIS DAYSON AND CHRIS DAMM

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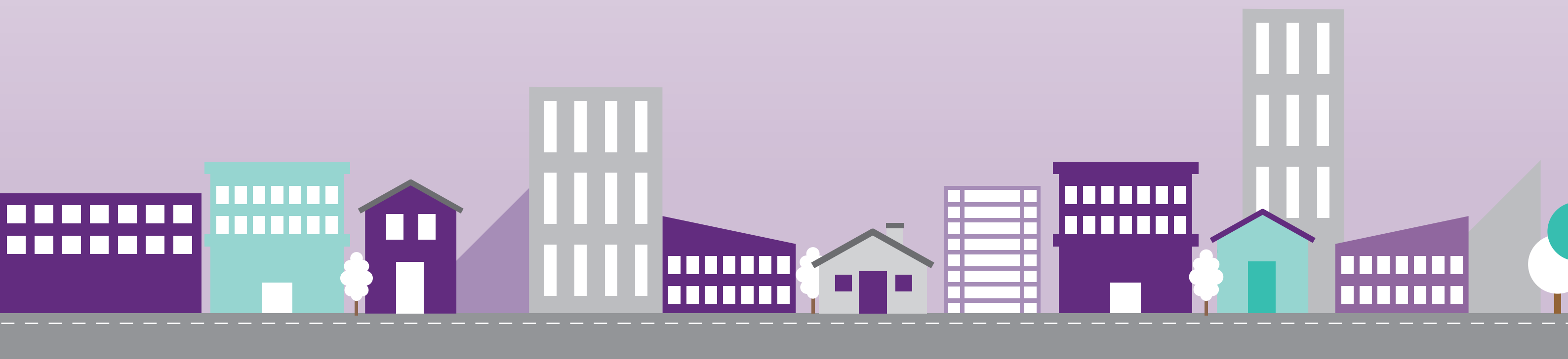
Community Investment | BIG SOCIETY CAPITAL | SIS Social Investment Scotland



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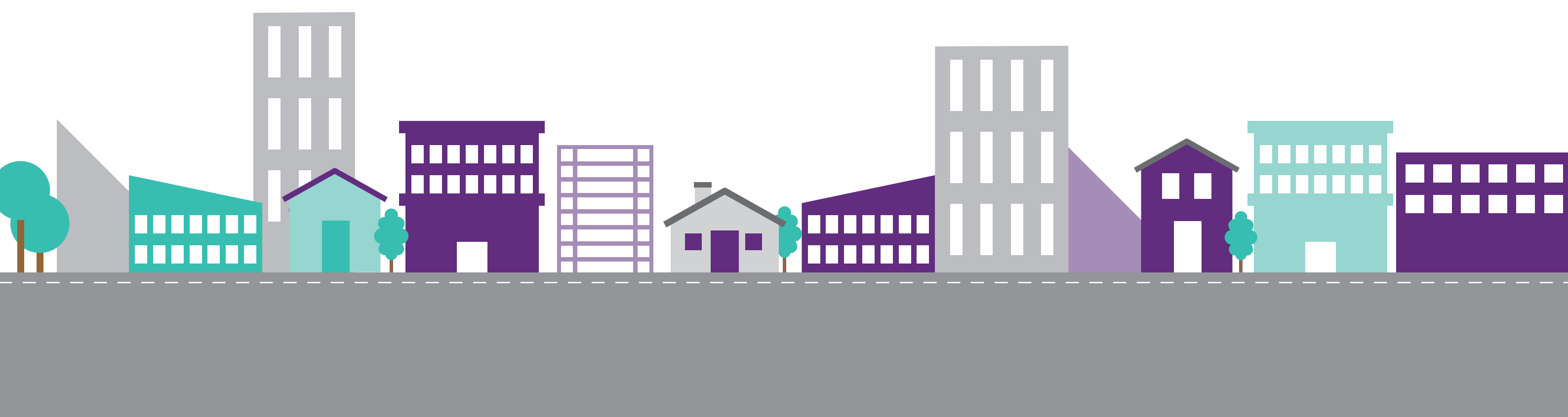


1. Introduction

This is the Second Annual Report of the **Evaluation of the Community Investment Enterprise Facility (CIEF)** being undertaken by the Centre for Regional Economic and Social Research (CRESR) at Sheffield Hallam University[1].

What is the CIEF?

CIEF is a £55.5 million investment facility, seeded by £30 million from Big Society Capital and with £25.5 million in match funding from Triodos and Unity Trust Bank (as of December 2020). CIEF is managed by Social Investment Scotland (SIS) and aims to partially meet the capital needs of Community Development Finance Institutions (CDFIs), to build a better understanding of the financial and social impact of CDFI lending, and to test models of funding for CDFIs to attract other mission-driven investors.

CIEF has invested into four CDFIs across the UK between 2018-25, to help meet the needs of underserved micro, small and medium-sized enterprises (MSMEs), which have a positive impact in the disadvantaged communities where they operate. These four CDFIs were identified as market leaders with sufficient scale, reach and lending track record to support the goals of the CIEF.

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

A. Provide evidence on the financial performance of CDFI lending

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

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

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

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

- To provide an overview of the profile and initial performance of investments made by the CIEF during the two years of operation (January 2019-December 2020), especially in the context of the Covid crisis since March 2020
- To enhance understanding of the potential for the CIEF to achieve social and economic impact

Many of the changes identified in 2020 will, of course, be related to the outbreak of the COVID-19 pandemic and the restrictions announced from the 23rd March 2020. For more detail on the impact of the COVID-19 pandemic on the delivery of CIEF, we would recommend reading our dedicated report on this topic:

Deep dive: CDFIs' response to the COVID-19 pandemic

1 The first report was published in May 2020: http://www.communityinvestment.co.uk/wp-content/uploads/2020/09/Evaluation-of-the-Community-Investment-Enterprise-Facility-2019-1.pdf

What is a CDFI?

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

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

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

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

An interactive online dashboard published alongside this report provides an opportunity to explore in more detail some of the data and findings discussed[2]. Both the report and dashboard draw on data collected by CDFIs from MSMEs in their CIEF lending portfolio. Baseline data provides information about the characteristics of MSMEs at the point when they received the loan, alongside information about the structuring of each loan. Quarterly follow-up data provides information about the performance of each loan. Additional data on each MSME has been obtained by linking to their record in Companies House and demographic data sources such as the Indices of Multiple Deprivation (IMD).

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

Who are the CDFIs?

Three CDFIs – Finance for Enterprise (FFE), BCRS Business Loans and Business Enterprise Fund (BEF) – were approved to deliver CIEF investments from the start of the programme. A fourth CDFI – First Enterprise (FE) – was approved in 2020. To give a sense of scale, collectively these CDFIs had a combined turnover of £5.6 million and current assets of £49.5 million for their financial year ending 2020.

Finance For Enterprise (FFE) has operated for more than 30 years as a CDFI in the north of England, with offices in South Yorkshire and North-East Lincolnshire.

BCRS Business Loans was originally established in 2002 as a non-profit distributing co-operative lender. Initially covering social enterprises in the Black Country, BCRS now serves MSMEs across the West Midlands.

The Business Enterprise Fund (BEFUND) was founded over 15 years ago in Bradford and has now spread across the North-East and North-West of England, as well as North and West Yorkshire, Humberside, and North Lincolnshire.

First Enterprise (FE) was originally established in 1989 to help provide finance to the local BME community. By 1993, it broadened to cover the entire business community. It now supports SMEs and social Enterprises across the East Midlands and South-East Midlands. FE joined the CIEF programme in its second year.

2 Available to download by clicking here

2. An overview of CIEF lending

This section provides an overview of lending from January 2019 up to December 2020 with the available £30m investment from Big Society Capital and £25.5m matched investment from Triodos and Unity Trust Bank.

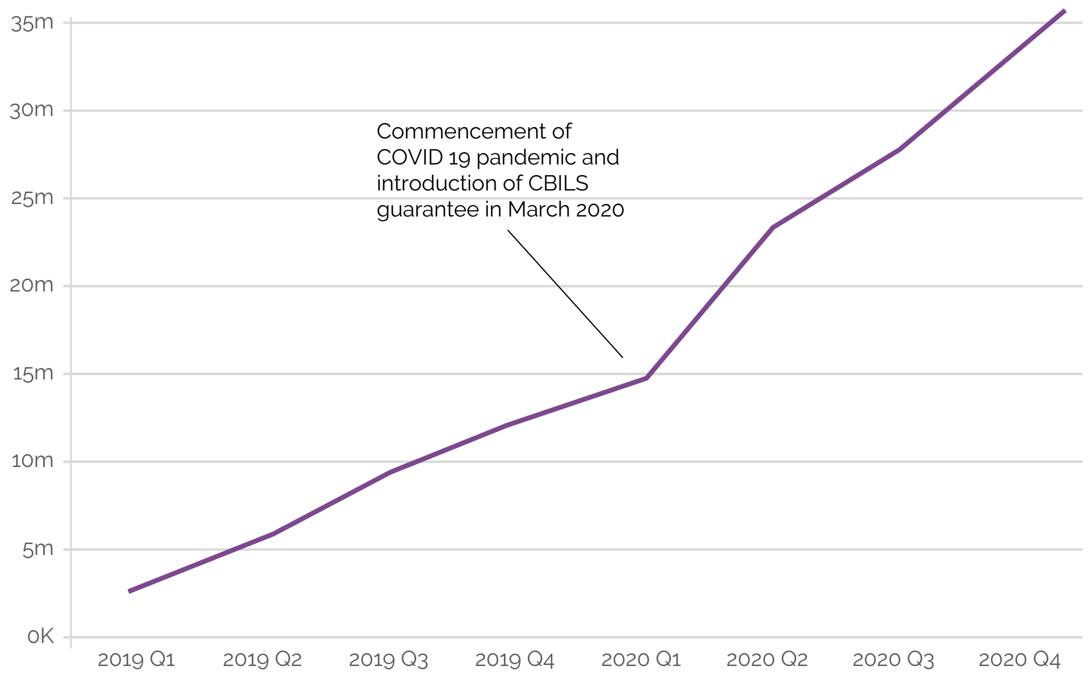
Amounts invested

In the second year of CIEF operation, between January 2020 and December 2020 inclusive, the four participating CDFIs:

- Committed **£22.69 million** to MSMEs, significantly up from **£12.97 million** in 2019 (***£35.65 million*** total over both years), an increase of ***75 per cent***
- Agreed **276 loans to 261 MSMEs**, up from **248 loans to 243 MSMEs** in 2019 (a total of ***524 loans to 481 MSMEs***). This marks an ***11 per cent*** increase in the number of loans and a seven per cent change in the number of MSMEs served each year

These figures suggest an acceleration in the amount of lending occurring in the second year of the fund, as shown in Figure 1. There are two likely explanations for this trend. First, following the announcement of full lockdown restrictions in the UK on the 23rd of March, there was a substantial jump in demand for finance from MSMEs. Second, the addition of FE, an additional CDFI, to the programme will have further helped to boost lending rates. FE deployed its first loan on the 16th March 2020.

Figure 1: Cumulative total investment by quarter (£)



Case Study 1: Trades and Labourers

Trades and Labourers, a multi-disciplinary construction company based in Newcastle-under-Lyme, received a 150,000 funding boost via CIEF and the Coronavirus Business Interruption Loan Scheme (CBILS). They secured the loan from BCRS Business Loans to kickstart growth plans, after having to scale back their operations during the first Coronavirus lockdown.

As well as safeguarding four jobs, the company also expected to create an additional 10 jobs during the term of the loan. The managing director of the firm, whose husband and three sons are also involved in the business, said: "With new funding in place, the company intends to continue fulfilling existing contracts that were previously on hold, whilst also having the working capital required to secure new contracts in the coming months.

Loan size

An increase in the average (mean) size of loans between 2019 and 2020 accounts for a substantial portion of the growth in total investment. In 2020, the average was £82,193, up substantially from £52,285 in 2019 (across both years the average to date is £68,038). This represents an increase between the two years of 57 per cent. Figure 2 shows this change broken down by quarter. A notable increase is again visible in the second quarter of 2020, though the average loan size increased even more substantially in the third quarter and stayed at that high level for the fourth.

Figure 2: Mean value of loans by quarter (£)

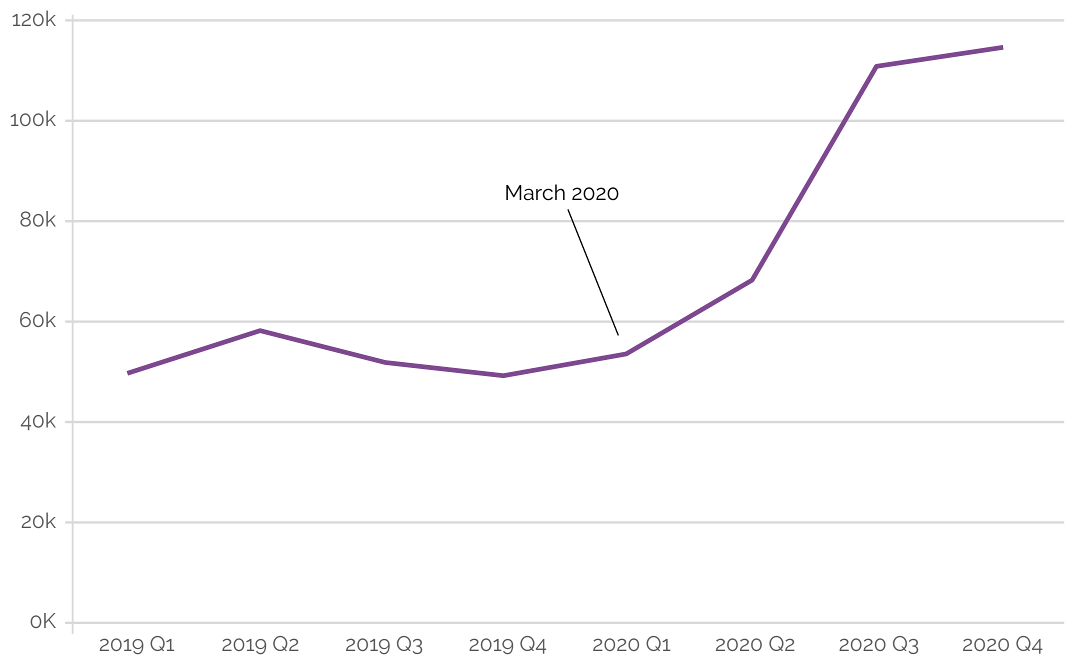
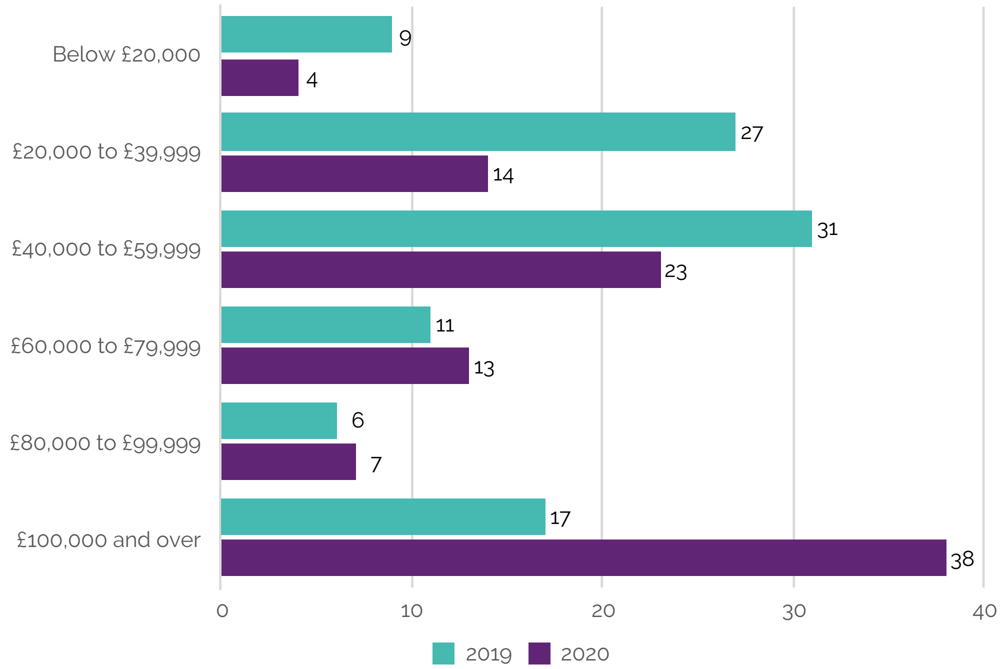


Figure 3 breaks this trend down further by comparing income categories for both years. This confirms that the proportion of smaller loans below £60,000 decreased in 2020, whereas the proportion of larger loans has increased. The proportion of loans worth £100,000 and over has more than doubled, from 17 per cent (41) in 2019 to 38 per cent (104) in 2020. The size of the largest loan also increased from £100,000 in 2019 to £200,000 in 2020.

Figure 3: Percentage of loans by size categories



The introduction of Bounce Back Loans Scheme (BBLS) by the UK Government on the 4th May 2020 is the most likely explanation for this increase in average loan size. This scheme targeted CDFIs' traditional market of loans below £50k, offered more favourable terms and interest rates for SMEs than the Coronavirus Business Interruption Loan Scheme (CBILS) backed loans offered by CIEF, and were not available through CDFIs and CIEF. In addition, when the BBLS was introduced, the minimum loan size for CBILS guaranteed loans was increased to £50,000, to avoid overlap.

Of the 401 loans applied for prior to the launch of the BBLS (4th May 2020), the average size of loan agreed across CIEF was £52,498. CDFIs had little choice therefore, but to pivot towards delivering larger loans. To respond to this changing demand, BSC and SIS approved at various points in 2020 an increase in the maximum loan size CDFIs were allowed to offer under CIEF, to £150k for three of the CDFIs, and £200k for a fourth.

BBLS and CBILS

Bounce Back Loan Scheme (BBLS)

Active from the 4th May 2020 until end of March 2021, the BBLS was designed to enable businesses to access finance more quickly during the coronavirus outbreak. BBLS provided financial support to businesses across the UK that 1) were losing revenue and seeing their cashflow disrupted, as a result of the COVID-19 pandemic; and 2) could benefit from £50,000 or less in finance. The scheme gave the lender (mostly high street banks) a full (100%) government- backed guarantee against the outstanding balance of the facility (both capital and interest). The loans were offered on six-year terms with a fixed 2.5 per cent interest rate, with no fees, and with the first year of interest covered by the Government. Hence Bounce Back Loans were more attractive to many traditional MSME clients of CDFIs seeking smaller loans.

Coronavirus Business Interruption Loan Scheme (CBILS)

Active from March 23rd 2020 until end of March 2021, CBILS was designed to support loans for smaller businesses across the UK, which were losing revenue, and seeing their cashflow disrupted, as a result of the COVID-19 outbreak. Interest and lender levied fees were met by the Government for the first 12 months. The guarantee offered 80% coverage against the outstanding loan balance in case of default, with no portfolio cap for lenders, making it more secure for lenders. However, under CBILS, a lender could take no form of personal guarantee for facilities below £250,000. Lenders were also allocated an initial amount that they could lend under the guarantee, before having to return to the British Business Bank for an increased allocation, generally around September or October 2020. A total price cap of 14.99 per cent was introduced at this stage, and lenders were expected to pass on the economic benefit of the guarantee to MSMEs in the form of an overall reduction in the MSMEs' loan costs. In some cases, this meant that the CDFIs had to reduce the interest rates that they had been charging prior to COVID-19 in order to stay under the threshold, despite the greater environmental risk and uncertainty.

Additional investment

Alongside their CIEF loan, many MSMEs have received additional finance from other sources. This is in addition to the matched £25.5 million in match funding that forms part of the CIEF fund itself, from Triodos and Unity Trust Bank, as outlined in the introduction. In some cases CDFIs will mix and match from different funds to ensure the right financial package can be delivered to the MSME. Examples of other funding sources include separate loans from the CDFI's own balance sheet, or a different fund, such as the Northern Powerhouse Investment Fund. The total additional finance received by the MSME investees from other sources totalled **£5.6 million** in 2020, down just slightly compared to **£6.7 million** in 2019 (£12.3 million total).

Referral route

In 2019, 32 per cent (78) of investments were direct approaches to the CDFIs and did not involve any form of referral. In 2020, this had risen to 37 per cent (100). The most common source of external referrals was 'corporate finance' at 26 per cent (63) in 2019 and 29 per cent (78) in 2020. This is most likely to refer to networks of financial brokers who point MSMEs looking for a loan towards CDFIs. Having a successful broker network is a core part of ensuring a regular 'pipeline' of loans at different stages of development.

Case Study 2: Denson Automotive

Denson Automotive, a one-year-old camper conversion business based out of Wetherby, secured a £100,000 investment from BEFUND using funds from CIEF. This was delivered alongside a £100,000 loan from the microfinance element of the Northern Powerhouse Investment Fund, jointly managed by BEFUND and FFE (NPIF – BEF & FFE Microfinance).

The Wetherby-based company provides custom Volkswagen camper vans on a made to order basis. Each camper van starts out as a Volkswagen van before being transformed into a bespoke design with full amenities. Established in 2019 by Linden Kitson, an experienced businessman with a passion for cars, the company employs five staff and plans to recruit three new staff.

"It has been a roller-coaster year for Denson" commented MD Linden Kitson, who became the majority 80% shareholder in the business last year, "COVID-19 has created both huge opportunities and of course, supply chain problems over the last 12 months."

Portfolio performance

As of the end of 2020, the level of default within the CIEF portfolio was relatively low, despite the initial impact of COVID. We intend to explore the overall performance of the loan book, including restructures, defaults and repayments, in detail in a later report. In brief terms, however, nine loans were in default as of the end of 2019[3] (3.6 per cent of all loans). The total amount of outstanding capital on those nine loans, which was unlikely to be repaid, was £398,155 or three per cent of all the capital distributed. By the end of 2020, 50 loans were in default (9.5 per cent of all loans). The total amount outstanding on those loans was £2,248,180, 6.31 per cent of the total amount invested across the programme.

It is also worth noting, however, that CDFIs loans are generally covered by a partial government backed guarantee, to offset the risk posed from lending to underserved MSMEs. Prior to COVID-19, this was generally the Enterprise Finance Guarantee, but this was replaced on the 23rd March 2020 with the Coronavirus Business Interruption Loan Scheme (CBILS). As of December 2020, 55% of loans were supported by the EFG and 45% by CBILS. Overall, the shift overtime to a greater proportion of CBILS loans provides a more secure portfolio as there is no claims cap, compared to an overall 15 per cent claims cap for EFG.

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

3. Investee characteristics

The following section explores the type of MSMEs to which CIEF investments were made in 2019 and 2020, focusing on the extent to which funds have reached underserved and/or disadvantaged communities of place and interest. Note that this analysis remains at the investment level, which means that a small number of repeat customers may have their data included more than once[4].

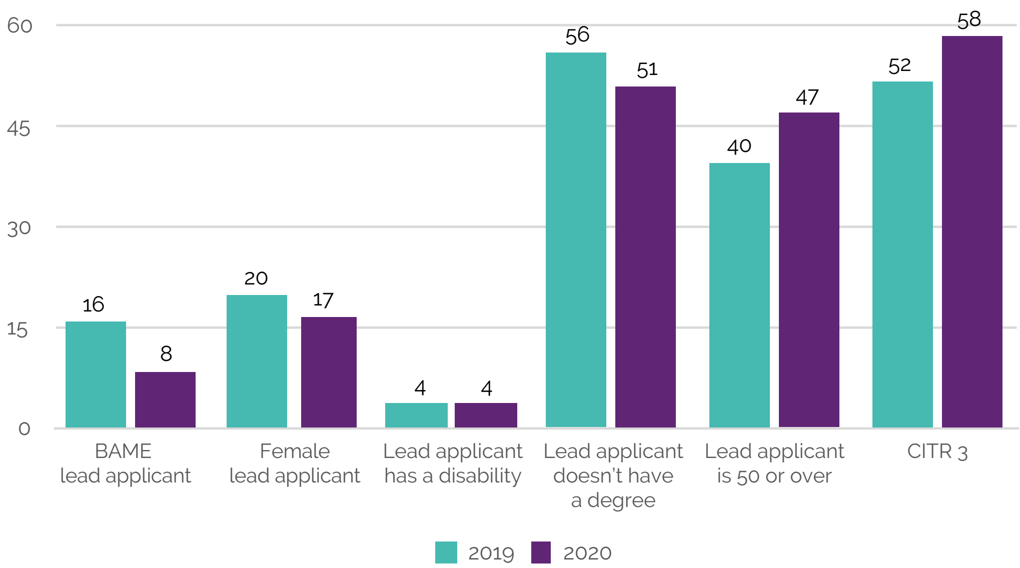
Lead applicants

- Eight per cent (23) of loans in 2020 were from MSMEs where the lead application was from a BAME background. This is half the proportion recorded in 2019 of 16 per cent (39)
- 17 per cent (46) of loans were made to MSMEs in 2020 where the lead applicant was female. This represents a slight fall compared to the 2019 proportion of 20 per cent (49)
- Four per cent (ten) of loans made in 2020 were made to MSMEs where the lead applicant had a disability. This was the same proportion as in 2019 (nine loans)
- 51 per cent (134) of loans in 2020 were made to MSME where the lead applicant did not have a degree. This represents a slight drop compared to the 2019 proportion of 56 per cent (132)
- 47 per cent (128) of loans in 2020 were made to MSMEs where the lead applicant was aged over 50, an increase compared to 40 per cent (98) in 2019
- 58 per cent (161) of loans in 2020 met CITR criterion 3, which means that the owners, operators or customers belong to a potentially disadvantaged group (for example disabled people). This is an increase compared to 52 per cent (128) in 2019

Overall, therefore, the proportion of BAME lead candidates has seen the most pronounced drop, whereas the proportions of lead applicants over 50 and meeting CITR criterion 3 have increased. It is also worth noting that almost all of these subgroups have seen the average value of loan increase, in line with the increase for 2020 as a whole.

It is possible that the shift towards larger loans, driven by introduction of the BBLS, may be related to the shifting demographics of the lead applicants. From the Government's Longitudinal Small Business Survey[5], we know that a lower proportion of medium enterprises are women led than micro or small enterprises, though this difference was not found for 'Minority Ethnic Group-led' businesses. Data is not currently available on the demographic distribution of MSMEs receiving loans under the BBLS, which might help to shed more light on these changes.

Figure 4: Percentage of loans by lead applicant characteristics[6]

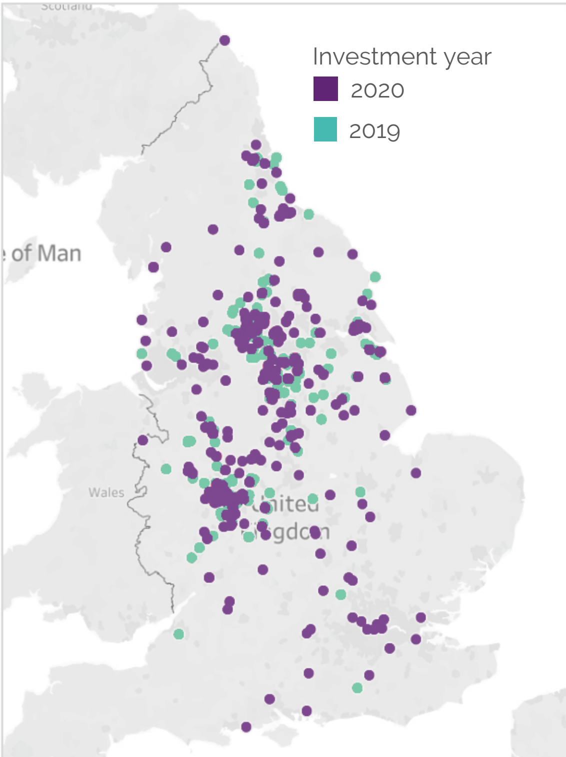


4 This is partly to maintain consistency throughout the report, and partly because the characteristics of an MSME may have changed in between investments.
5 Department for Business, Energy and Industrial Strategy (BEIS) (2020), Longitudinal Small Business Survey: SME Employers (businesses with 1-249 employees) – UK, 2020, Official Sta;s;cs, August, BEIS: London.
6 Note that none of the categories presented in this and subsequent charts are mutually exclusive i.e. it is possible that one MSME will be in one or more of these categories.

MSME locations

Figure 5 shows that CDFIs have begun to expand the geographical coverage of their loans in 2020, particularly into the south of England. This is again likely to be related to COVID-19 and the introduction of the CBILS and BBLS. Some CDFIs have reported having to extend their geographical reach somewhat to find the right applicants for their larger loans. They have also reported the relevant guidance pages on CBILS on the British Business Bank website, did not filter providers by geographical area. This means that during the initial surge of demand for finance from March 2020, CDFIs may have received interest from a much more geographically dispersed range of MSMEs than was usually the case.

Figure 5: Location of investments based on MSMEs address, by year of investment

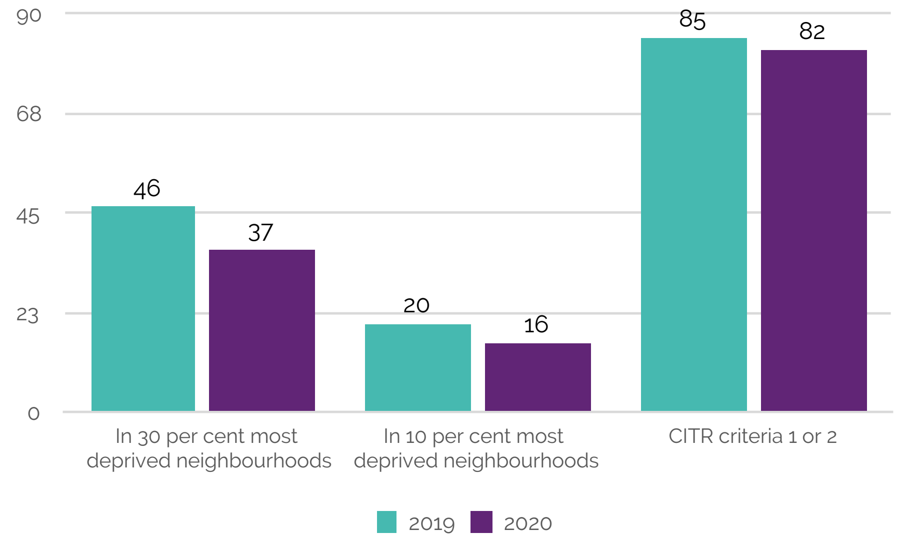


Deprivation levels

There appears to have been a small but notable shift towards making loans to MSMEs in less deprived areas in 2020. This is likely to be associated with the increase in loan size linked to the introduction of BBLS, but this will only become clear in data from future years when BBLS is no longer available.

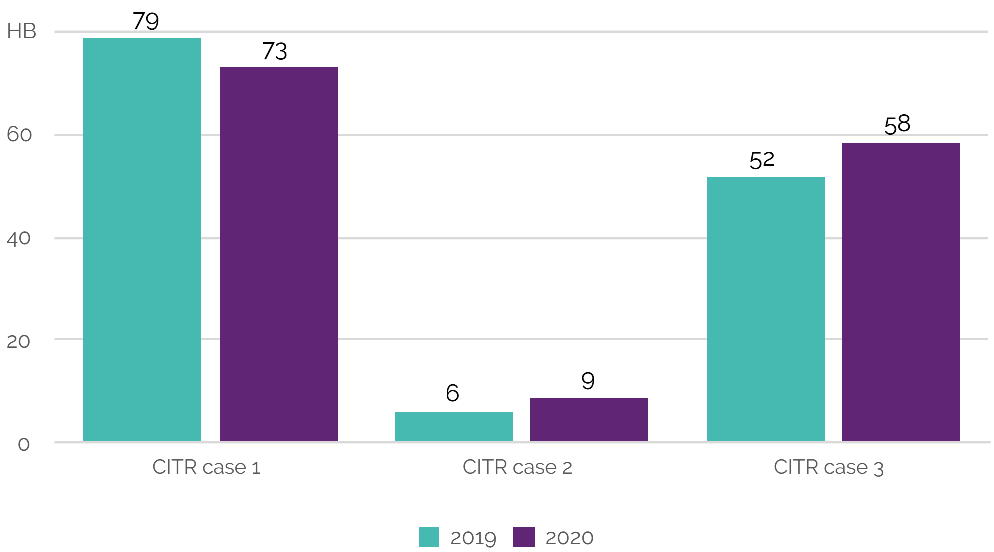
- 37 per cent (102) of loans made in 2020 were made to MSMEs registered in one of the 30 per cent most deprived neighbourhoods in England, down compared to 46 per cent (115) in 2019
- 20 per cent (50) of loans made in 2020 went to MSMEs in one of the 10 per cent most deprived neighbourhoods, also down from 16 per cent (43) in 2019
- 82 per cent (226) of loans were made to MSMEs which met the CITR criteria 1 or 2. Both these measures relate to the level of geographic disadvantage in the area in which an MSME operates. The proportion of loans meeting the criteria has also fallen since 2019, during which 85 per cent (210) of loans met the criteria, but only slightly compared to the IMD figures

Figure 6: Percentage of loans by MSME location characteristics



It is also worth breaking down the CITR (Community Investment Tax Relief) case made for MSMEs in more detail (see Figure 7) as further evidence of their social impact. CITR can be granted on the basis of three different justifications, or 'cases'. CITR case 1 requires an MSME to be located in a specific list of deprived areas, based on seven different measures of deprivation. Case 2 requires separate evidence of a level of disadvantage equivalent to the areas listed for case 1. Finally, case 3 requires that the MSME is owned by or serves individuals disadvantaged due to their ethnicity, gender, age, religious beliefs, disability or other defining characteristic.[7] Note that case 1 and 2 are, by definition, mutually exclusive, whereas either case can coincide with case 3. Figure 7 suggests that the most loan recipients are located in the areas specified for CITR case 1, with a slight fall in 2020 compared to 2019.

Figure 7: Percentage of loans by CITR case



7 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/775315/Community_Investment_Tax_Relief__CITR__Material_Concerning_the_accreditation_of_Community_Development_Finance_Institutions.pdf

Despite these changes in 2020, the general trend is that CDFIs are making loans to MSMEs in relatively deprived communities or to businesses led by people from underserved backgrounds. It is also worth noting that the picture is very similar if we consider the percentage of total capital invested, rather than percentage of loans (not shown).

Industry

The SIC 2007 division of each MSME was recorded to explore which industry groupings were most common amongst investees.

- Construction has become the most frequently recorded industry, accounting for 18 per cent (48) of all loans in 2020, compared to 12 per cent (30) in 2019
- 'Wholesale and retail trade; repair of motor vehicles and motorcycles' accounted for a slightly lower proportion of loans in 2020: 14 per cent (36) compared to 22 per cent (53) in 2019
- The proportion of loans to MSMEs working in manufacturing has also fallen, from 17 per cent (41) of loans in 2019 to 12 per cent (33) in 2020
- The proportion of loans in 'professional, scientific and technical activities' have also fallen slightly from 9 per cent (23) in 2019 to 8 per cent (20) in 2020
- In contrast, the proportion of loans to MSMEs working in 'administrative and support service activities' has increased from 7 per cent (18) to 10 per cent (27) between 2019 and 2020

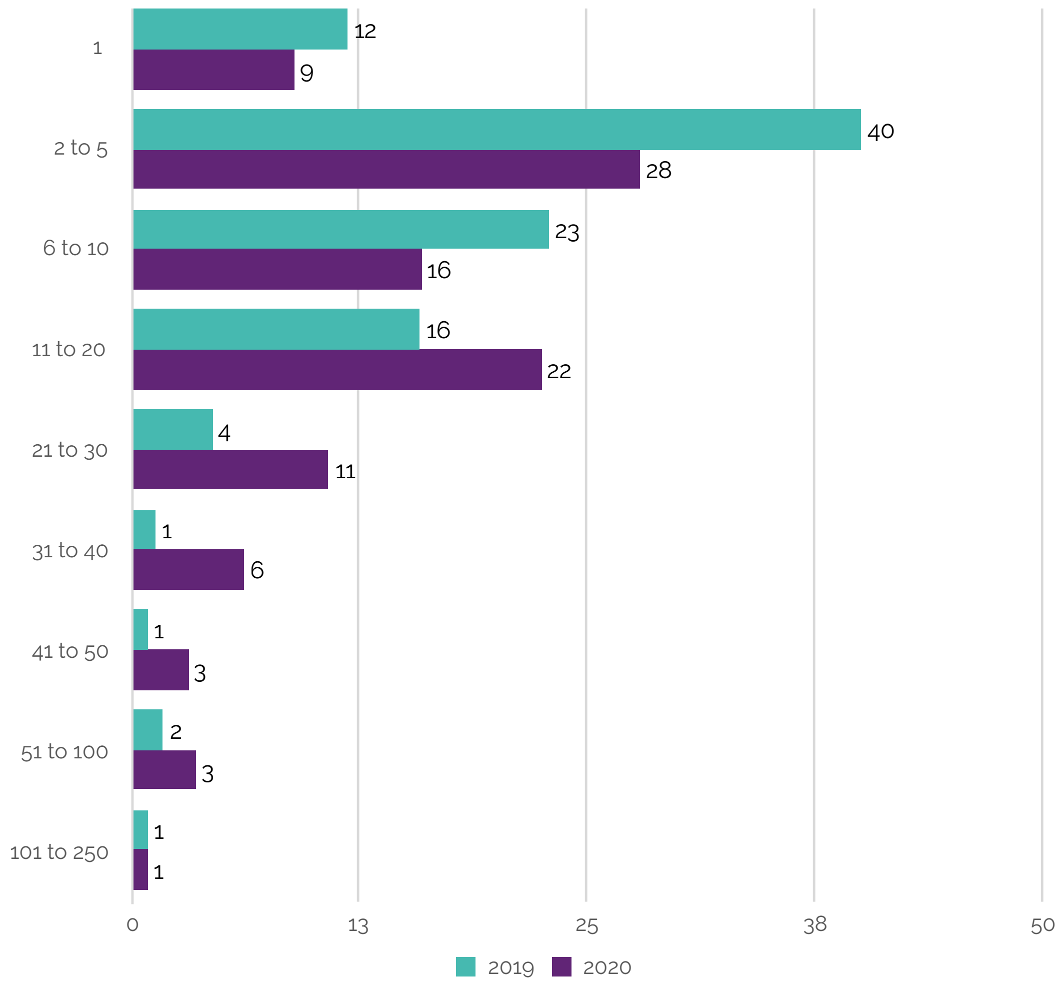
Overall, the most frequently recorded five industries in 2019 are the same as those recorded in 2020. Nevertheless, the shift from retail and manufacturing to construction could represent an underlying change in demand due to the 2020 COVID-19 lockdowns.

Employment characteristics

In line with the increase in the average size of loan and COVID-19 related changes, there are some indications that the average size of the MSMEs receiving loans, according to their staff numbers, has also increased. The mean number of employees (FTE) has risen from ten in 2019 (n = 227) to 16 in 2020 (n = 258). The median has risen from five to nine (n = 227; n = 258).

It should be noted, however, that one of the criteria for micro enterprises is that a company has ten or fewer staff. This means that if we disregard assets and turnover, over half of all loans are still going to micro MSMEs based on their staff levels.

Figure 8: Percentage of loans by MSME number of FTE employees



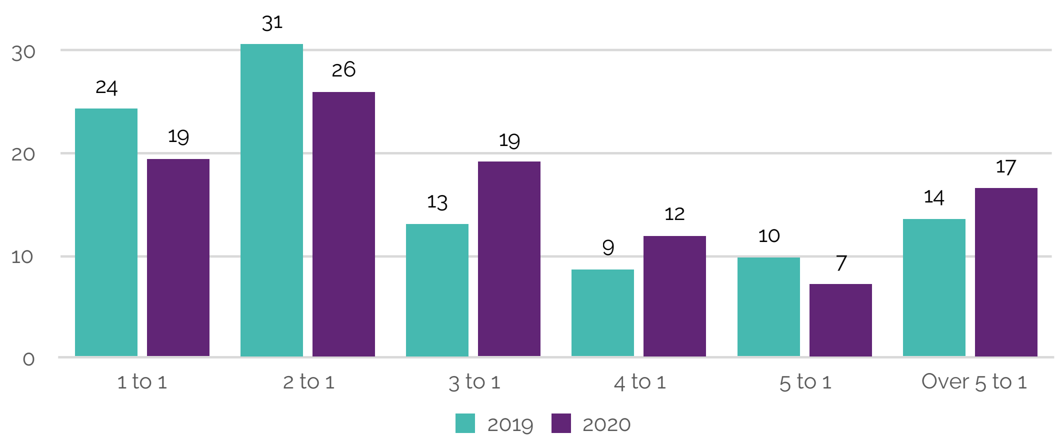
Highest to lowest paid employee ratio

The evaluation is also interested in exploring the employment patterns and practices of investees to consider how equitable they are. Of particular interest is the differential between the highest and lowest paid members if staff within an MSME.

The median highest salary was £30,000 per year in 2019 (n = 212) and £36,700 in 2020 (n = 240), which could be related to the change in the size of the investees. The median ratio of the highest to lowest paid employee was 2.2 : 1 in 2019 (n = 211) and 2.6 : 1 in 2020 (n =239).

Figure 9 shows a more detailed breakdown. This suggests that investments in 2020 were more likely to be in MSMEs with a larger differential between the highest and lowest paid staff member.

Figure 9: Percentage of loans by MSME ratio of highest to lowest paid employee (rounded)



Previous access to finance

One of the goals of the CIEF is to make investments to organisations that have been unable to access finance elsewhere in the market. Although this does not mean that all applicants must have had a previous application for finance rejected, the level that have done so suggests the degree to which that CIEF is meeting unmet demand.

In 2019, 43 per cent (101) of loan applicants had been rejected from another source of finance in the year before their application to CIEF. In 2020 this had fallen to 35 per cent (96). Potentially, as many organisations sought government backed finance during the pandemic, more organisations were turning to CDFIs as a first port of call rather than following a formal rejection elsewhere. Of those organisations that had been rejected from external finance in the year before their CIEF application, almost all recorded that it was a loan from a mainstream bank or other mainstream credit provider.

Figure 10: Percentage of loans by MSME rejected from another source of finance in the last year

Figure 11: Loan applicants have another form of finance at the time of applying

In both 2019 and 2020, 57 per cent of MSMEs did already have at least one form of external finance at the time of applying to the CIEF (regardless of whether they had also been rejected for external finance in the last year). When investees were asked about the source of their external finance (from the largest source), the most common response was from 'a bank or other mainstream credit provider', indicated by 29 per cent in 2019 and 36 per cent in 2020.

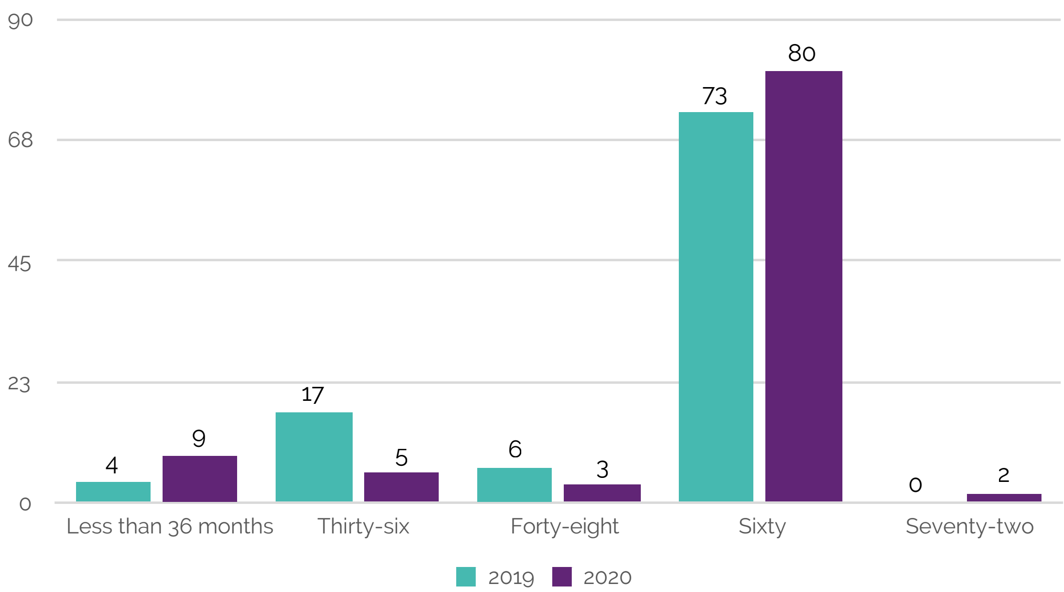
4. Investment characteristics

This section explores the characteristics of the different investments, including their term lengths, interest rates, purpose and investment stage.

Loan terms

In 2020 80 per cent (221) of loans were for a term of 60 months, up from 73 per cent (180) in 2019. In both years this was by far the most common length of term for all loans. This means that it will likely be approaching five years from the start of the programme in 2019 before we are able to fully analyse longitudinal outcomes such as default rates and arrears.

Figure 15: Percentage of loans by loan term in months

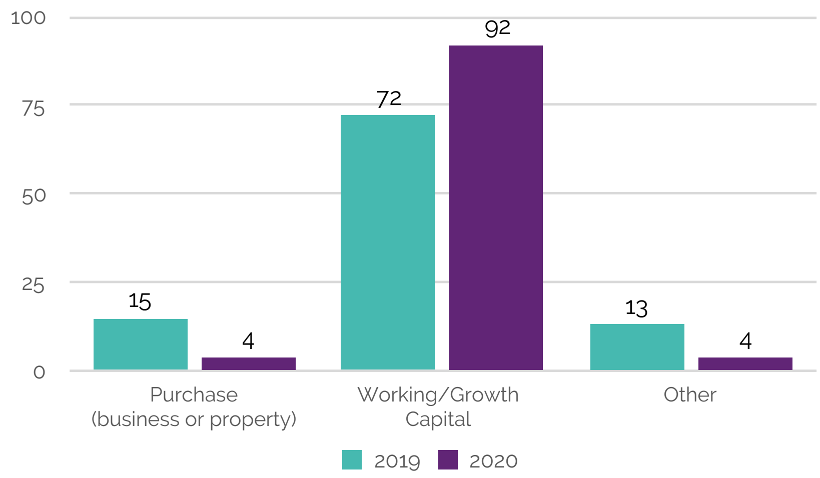


Purpose of the investment

Investees are asked about the purpose of the investment during the application phase. The categories available were revised in mid-2020 to capture a more fine-grained breakdown. Collapsing and combining some of the categories, however, makes a backwards comparison to 2019 possible. In 2019, 72 per cent (178) of loans were for either 'working' or 'growth' capital. In 2020, this proportion was 92 per cent (252). Many of the applicants for finance during the COVID-19 pandemic are likely to have required working capital to cover the impacts of lockdown upon their business model.

Those loans listing the purchase of either a business or a property as their purpose fell from 15 per cent (36) in 2019 to just four per cent (11) in 2020. The 'other' category similarly fell from 13 per cent (33) in 2019 to four per cent (12) in 2020. Again, these results plausibly relate to the COVID-19 pandemic, as firms sought simply to survive rather than major investments such as property.

Figure 18: Percentage of loans by investment purpose

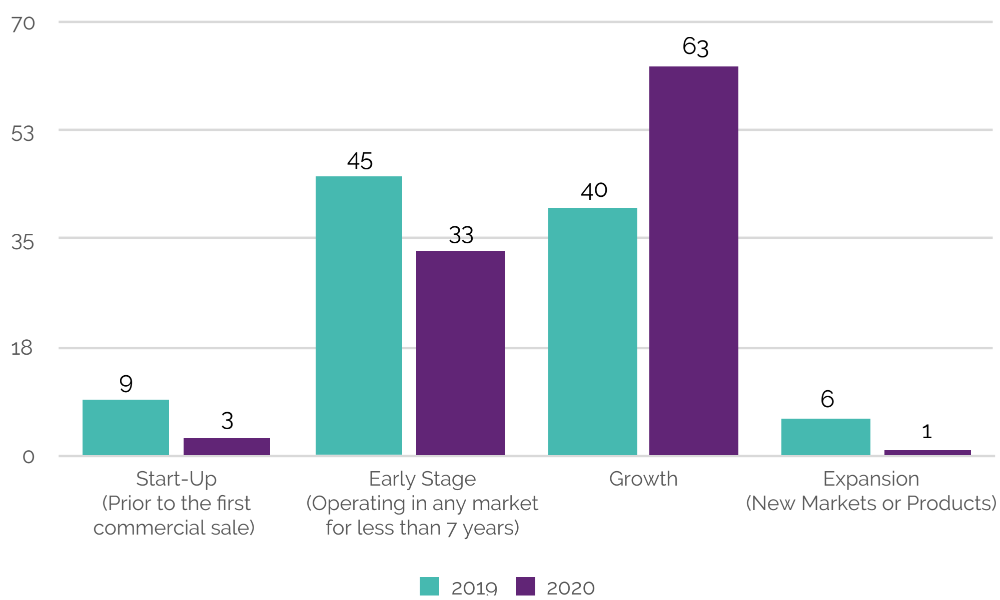


Development or growth stage

Applicants were also asked to classify an 'investment stage' for their investment.

- The proportion of investments in the 'start-up' phase (prior to the first commercial sale) has fallen, from nine per cent (20) in 2019 to three per cent (nine) in 2020
- In 2019 45 per cent (97) of loans were for 'early stage' investments (operating in any market for less than 7 years). In 2020 this proportion has dropped to 33 per cent (89) of loans
- The proportion of investments at the 'expansion' stage has also dropped from six per cent (13) in 2019 to two per cent (four) in 2020
- In contrast to the above, the proportion at the 'growth' stage has increased from 40 per cent (87) in 2019 to 63 per cent (170) in 2020. It is worth noting, however, that these categories assume a linear progression path. Established organisations experiencing COVID related market challenges may also, therefore, be included in this 'growth' category, assuming they were already past their early operating stage
- Again, this may be linked to the introduction of the BBLS, which may have turned CDFIs towards larger, 'growth focussed' organisations

Figure 19: Percentage of loans by investment stage



5. Conclusion: understanding social and economic benefits

In the first two years in the lifecycle of the CIEF this evaluation reporting and analysis has focussed on providing an overview of the types of investments that have been made by the CIEF between January 2019 and December 2020. This means that the analysis presented is largely descriptive, but it is possible to use these findings to consider the potential for the CIEF to achieve social and economic impact in the longer term.

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

Using data from the most recent version of the UK Small Business Survey (BEIS, 2020)[8] it is possible to benchmark some of the characteristics of the CIEF MSME portfolio against the wider UK SME population, to gain some insights into the extent to which CIEF funds are being accessed by underserved and hard to reach groups:

- To date 12 per cent (62) of investments had ***lead applicants from BAME backgrounds***. This is a greater share than the national picture, where the proportion of small businesses that are majority led by ethnic minority groups[9] was five per cent in 2019.
- Across the CIEF portfolio 39 per cent (197) had been ***rejected for finance elsewhere*** in the previous year. This is much higher than SMEs more generally. In 2019, the UK Small Business Survey reported that of those SMEs which had applied for external finance in the previous 12 months only 22 per cent had not been successful: 14 per cent did not obtain any finance and for eight per cent the outcome of applications was still pending.
- Across 2019 and 2020 18 per cent (93) of investments ***were to MSMEs in the 10 per cent most deprived neighbourhoods*** according to the Indices of Multiple Deprivation (IMD). Furthermore, 83 per cent (436) of CIEF investments met either CITR criteria 1 or 2, which both relate to area level deprivation. Although we have not benchmarked CIEF investments against external data on the geography of SME population, this figure does suggest that a significant amount of CIEF investment is going to economically disadvantaged areas.

8 Longitudinal Small Business Survey: SME employers (businesses with 1-249 employees) – UK, 2019, Official Statistics
9 Defined as having a person from an ethnic minority in sole control of the business or having a management team with at least half of its members from ethnic minority groups.

Table 1: Number and percentage of investments, and the amount and percentage of investments, going to potentially disadvantaged groups (2018 and 2019 combined)

	Number of investments	Percentage of investments	Amount invested	Percentage of total invested
BAME lead applicant	62	12	£3,921,613	12
Disabled lead applicant	19	4	£1,578,000	4
Female lead applicant	95	18	£6,005,269	18
Non graduate lead applicant	266	53	£17,992,448	53
Under 30 years old lead applicant	35	7	£2,010,181	6
50 years old or over lead applicant	226	43	£16,459,782	43
MSMEs in 10 most deprived neighbourhoods	93	18	£5,728,003	16
MSMEs rejected for finance in the last year	197	39	£14,660,205	42
MSMEs with no current external finance	219	43	£13,691,114	39
All MSMEs	524	100	£35,651,951	100

Overall, the ***indications regarding the potential social and economic impact of the CIEF are positive***. There has been ***good reach into BAME communities, MSMEs who have struggled to access finance elsewhere, and economically deprived areas***, particularly when compared to UK SMEs as a whole. The proportions of loans to BAME lead applicants, and female lead applicants have both fallen in 2020, however. This may be related to the changes instigated by the COVID-19 pandemic, in terms of who CDFIs were able to lend to, though this is a topic that requires further research.

The profile of the loan book for CIEF has changed between 2019 and 2020, with the ***average loan size increasing substantially*** and seemingly ***larger MSMEs applying*** for the funding. These trends are explored in more detail in our report on the impact of the COVID-19 pandemic on CIEF[10].

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

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

Case Study 3: Cirencester Fabrication Services

Cirencester Fabrication Services (CFS) secured £150,000 from BCRS Business Loans. After a 12-week closure of its 10,000sq foot welding and production facility during the first coronavirus lockdown dealt an unexpected blow to the firm's revenue, a CBILS funding boost enabled CFS to implement new coronavirus health and safety measures in order to return to business as usual.

The funding boost also enabled new managing director Marc Begg to purchase the business from retiring directors who founded the firm almost four decades ago. CFS has become renowned for designing, fabricating, and welding products from mild steel, stainless steel and aluminium, such as barriers, bollards, staircases, building structures and balconies.

10 Available for download by clicking here

Appendix A: Tables

Table A1: Investments by quarter

Quarter	Total amount invested	Number of loans	Mean amount invested	Cumulative amount invested	Cumulative number of loans
2019 Q1	£2,845,196	57	£49,916	£2,845,196	57
2019 Q2	£3,134,980	54	£58,055	£5,980,176	111
2019 Q3	£4,056,648	78	£52,008	£10,036,824	189
2019 Q4	£2,929,800	59	£49,658	£12,966,624	248
2020 Q1	£2,427,000	45	£53,933	£15,393,624	293
2020 Q2	£9,096,717	132	£68,915	£24,490,341	425
2020 Q3	£4,748,602	43	£110,433	£29,238,943	468
2020 Q4	£6,413,008	56	£114,518	£35,651,951	524

Table A2: Investments by loan size categories

Size of loan	Year	Number of loans	Amount lent	Percent of loans	Percent of amount lent	Average loan size
Below £20,000	2019	23	£322,773	9	2	£14,034
	2020	12	£144,500	4	1	£12,042
	Total	***35***	***£467,273***	***7***	***1***	***£13,351***
£20,000 to £39,999	2019	66	£1,736,743	27	13	£26,314
	2020	40	£1,070,000	14	5	£26,750
	Total	***106***	***£2,806,743***	***20***	***8***	***£26,479***
£40,000 to £59,999	2019	76	£3,625,676	31	28	£47,706
	2020	64	£3,188,612	23	14	£49,822
	Total	***140***	***£6,814,288***	***27***	***19***	***£48,673***
£60,000 to £79,999	2019	28	£1,965,632	11	15	£70,201
	2020	36	£2,473,500	13	11	£68,708
	Total	***64***	***£4,439,132***	***12***	***12***	***£69,361***
£80,000 to £99,999	2019	14	£1,215,800	6	9	£86,843
	2020	20	£1,693,711	7	7	£84,686
	Total	***34***	***£2,909,511***	***6***	***8***	***£85,574***
£100,000 and over	2019	41	£4,100,000	17	32	£100,000
	2020	104	£14,115,004	38	62	£135,721
	Total	***145***	***£18,215,004***	***28***	***51***	***£125,621***

Table A3: Investments by lead applicant characteristics

Characteristic	Year	Number of loans	Amount lent	Percent of loans	Percent of amount lent	Average loan size
BAME lead applicant	2019	39	£2,163,612	16	17	£55,477
	2020	23	£1,758,001	8	8	£76,435
	Total	*62*	*£3,921,613*	*12*	*11*	*£63,252*
Female lead applicant	2019	49	£2,359,268	20	19	£48,148
	2020	46	£3,646,001	17	16	£79,261
	Total	*95*	*£6,005,269*	*18*	*17*	*£63,213*
Lead applicant has a disability	2019	9	£363,000	4	3	£40,333
	2020	10	£1,215,000	4	5	£121,500
	Total	*19*	*£1,578,000*	*4*	*4*	*£83,053*
Lead applicant non- graduate	2019	132	£6,575,439	56	53	£49,814
	2020	134	£11,417,009	51	52	£85,202
	Total	*266*	*£17,992,448*	*53*	*52*	*£67,641*
Lead applicant is 50 or over	2019	98	£5,611,564	40	44	£57,261
	2020	128	£10,848,218	47	48	£84,752
	Total	*226*	*£16,459,782*	*43*	*47*	*£72,831*
CITR 3	2019	128	£6,919,380	52	53	£54,058
	2020	161	£13,618,607	58	60	£84,588
	Total	*289*	*£20,537,987*	*55*	*58*	*£71,066*

Table A4: Investments by MSME location characteristics

Characteristic	Year	Number of loans	Amount lent	Percent of loans	Percent of amount lent	Average loan size
In 30 per cent most deprived neighbourhoods	2019	115	£6,230,232	46	48	£54,176
	2020	102	£7,572,508	37	33	£74,240
	Total	*217*	*£13,802,740*	*41*	*39*	*£63,607*
In 10 per cent most deprived neighbourhoods	2019	50	£2,759,000	20	21	£55,180
	2020	43	£2,969,003	16	13	£69,047
	Total	*93*	*£5,728,003*	*18*	*16*	*£61,591*
CITR criteria 1 or 2	2019	210	£11,124,644	85	86	£52,974
	2020	226	£18,929,823	82	83	£83,760
	Total	*436*	*£30,054,467*	*83*	*84*	*£68,932*

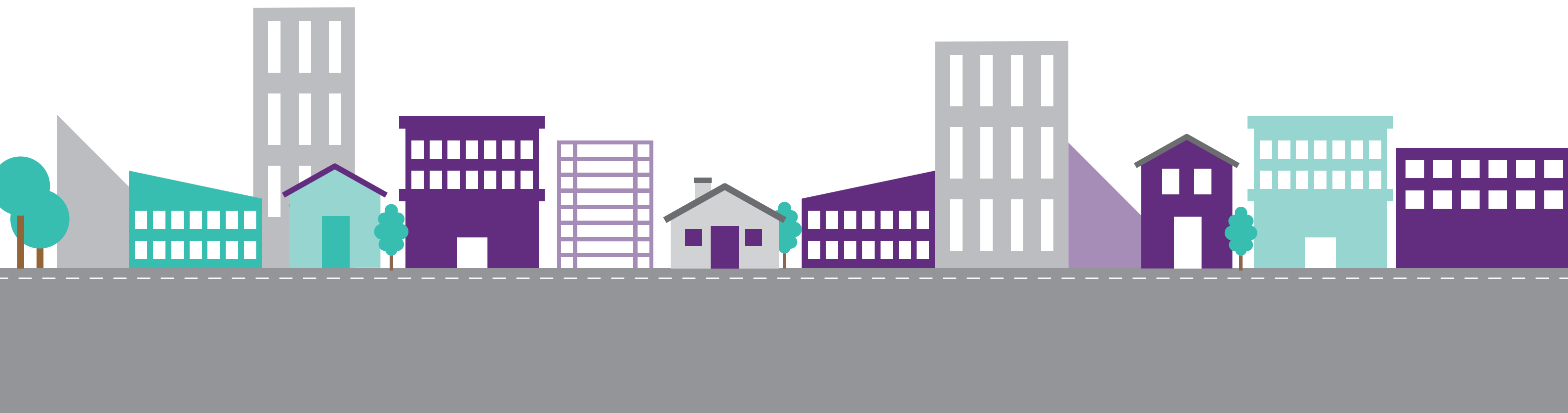


Table A5: Investments by IMD decile of MSME address

MD decile	Year	Number of loans	Amount lent	Percent of loans	Percent of amount lent	Average loan size
1	2019	50	£2,759,000	20	21	£55,180
	2020	43	£2,969,003	16	13	£69,047
	Total	***93***	***£5,728,003***	***18***	***16***	***£61,591***
2	2019	41	£2,387,500	17	18	£58,232
	2020	33	£2,790,003	12	12	£84,546
	Total	***74***	***£5,177,503***	***14***	***15***	***£69,966***
3	2019	24	£1,083,732	10	8	£45,156
	2020	26	£1,813,502	9	8	£69,750
	Total	***50***	***£2,897,234***	***10***	***8***	***£57,945***
4	2019	25	£1,366,200	10	11	£54,648
	2020	31	£2,589,812	11	11	£83,542
	Total	***56***	***£3,956,012***	***11***	***11***	***£70,643***
5	2019	34	£1,737,117	14	13	£51,092
	2020	25	£2,363,501	9	10	£94,540
	Total	***59***	***£4,100,618***	***11***	***12***	***£69,502***
6	2019	22	£1,098,200	9	8	£49,918
	2020	23	£1,869,001	8	8	£81,261
	Total	***45***	***£2,967,201***	***9***	***8***	***£65,938***
7	2019	20	£1,082,000	8	8	£54,100
	2020	29	£2,972,501	11	13	£102,500
	Total	***49***	***£4,054,501***	***9***	***11***	***£82,745***
8	2019	18	£700,500	7	5	£38,917
	2020	36	£2,761,002	13	12	£76,695
	Total	***54***	***£3,461,502***	***10***	***10***	***£64,102***
9	2019	8	£445,875	3	3	£55,734
	2020	19	£1,588,001	7	7	£83,579
	Total	***27***	***2033876***	***5***	***6***	***£75,329***
10	2019	6	£306,500	2	2	£51,083
	2020	11	£969,001	4	4	£88,091
	Total	***17***	***£1,275,501***	***3***	***4***	***£75,029***

Table A6: Investments by MSME industry groupings (2007 SIC division)

Industry	Year	Number of loans	Amount lent	Percent of loans	Percent of amount lent	Average loan size
Accommodation and food service actvities	2019	16	£755,500	7	6	£47,219
	2020	16	£1,555,002	6	7	£97,188
	Total	***32***	***£2,310,502***	***6***	***7***	***£72,203***
Administrative and support service activites	2019	18	£971,364	7	8	£53,965
	2020	27	£2,709,502	10	12	£100,352
	Total	***45***	***£3,680,866***	***9***	***11***	***£81,797***
Agriculture, forestry and fishing	2019	0	£0	0	0	£0
	2020	4	£220,000	2	1	£55,000
	Total	***4***	***£220,000***	***1***	***1***	***£55,000***
Arts, entertainment and recreation	2019	7	£276,700	3	2	£39,529
	2020	6	£390,000	2	2	£65,000
	Total	***13***	***£666,700***	***3***	***2***	***£51,285***
Construction	2019	30	£1,881,300	12	15	£62,710
	2020	48	£4,389,002	18	20	£91,438
	Total	***78***	***£6,270,302***	***15***	***18***	***£80,388***
Education	2019	5	£205,000	2	2	£41,000
	2020	4	£140,000	2	1	£35,000
	Total	***9***	***£345,000***	***2***	***1***	***£38,333***
Electricity, gas, steam and air conditioning	2019	1	£50,000	0	0	£50,000
	2020	1	£125,000	0	1	£125,000
	Total	***2***	***£175,000***	***0***	***1***	***£87,500***
Financial and insurance activities	2019	5	£341,500	2	3	£68,300
	2020	14	£1,112,000	5	5	£79,429
	Total	***19***	***£1,453,500***	***4***	***4***	***£76,500***
Human health and social work activities	2019	5	£315,000	2	2	£63,000
	2020	10	£961,003	4	4	£96,100
	Total	***15***	***£1,276,003***	***3***	***4***	***£85,067***
Information and communication	2019	10	£627,0004	4	5	£62,700
	2020	9	£577,501	3	3	£64,167
	Total	***19***	***£1,204,501***	***4***	***3***	***£63,395***
Manufacturing	2019	41	£2,208,000	17	17	£53,854
	2020	33	£2,530,101	12	11	£76,670
	Total	***74***	***£4,738,101***	***15***	***14***	***£64,028***

Industry	Year	Number of loans	Amount lent	Percent of loans	Percent of amount lent	Average loan size
Other service activities	2019	15	£628,875	6	5	£41,925
	2020	10	£598,000	4	3	£59,800
	Total	*25*	*£1,226,875*	*5*	*4*	*£49,075*
Professional, scientfic and technical activities	2019	23	£1,081,773	9	8	£47,034
	2020	20	£1,557,000	8	7	£77,850
	Total	*43*	*£2,638,773*	*8*	*8*	*£61,367*
Real estate activities	2019	4	£240,000	2	2	£60,000
	2020	11	£960,000	4	4	£87,273
	Total	*15*	*£1,200,000*	*3*	*3*	*£80,000*
Transportation and storage	2019	8	£251,500	3	2	£31,438
	2020	10	£877,001	4	4	£87,700
	Total	*18*	*£1,128,501*	*4*	*3*	*£62,695*
Water supply; sewerage, waste management and remediation activities	2019	4	£144,000	2	1	36,000
	2020	6	£587,501	2	3	£97,917
	Total	*10*	*£731,501*	*2*	*2*	*£73,150*
Wholesale and retail trade; repair of motor vehicles and motorcycles	2019	53	£2,764,112	22	22	£52,153
	2020	36	£2,812,502	14	13	£78,125
	Total	*89*	*£5,576,614*	*17*	*16*	*£62,659*

Table A7: Investments by MSME number of FTE employees

FTE employees	Year	Number of loans	Amount lent	Percent of loans	Percent of amount lent	Average loan size
1	2019	27	£973,575	12	8	£36,058
	2020	23	£1,293,502	9	6	£56,239
	Total	*50*	*£2,267,077*	*10*	*7*	*£45,342*
2 to 5	2019	91	£4,175,000	40	35	£45,879
	2020	72	£5,034,505	28	23	£69,924
	Total	*163*	*£9,209,505*	*34*	*27*	*£56,500*
6 to 10	2019	52	£2,867,137	23	24	£55,137
	2020	41	£3,446,602	16	16	£84,063
	Total	*93*	*£6,313,739*	*19*	*19*	*£67,890*
11 to 20	2019	36	£2,418,412	16	20	£67,178
	2020	58	£5,159,216	22	24	£88,952
	Total	*94*	*£7,577,628*	*19*	*23*	*£80,613*
21 to 30	2019	10	£555,000	4	5	£55,500
	2020	28	£2,754,001	11	13	£98,357
	Total	*38*	*£3,309,001*	*8*	*10*	*£87,079*

FTE employees	Year	Number of loans	Amount lent	Percent of loans	Percent of amount lent	Average loan size
31 to 40	2019	3	£230,000	1	2	£76,667
	2020	16	£1,769,501	6	8	£110,594
	Total	***19***	***£1,999,501***	***4***	***6***	***£105,237***
41 to 50	2019	2	£150,000	1	1	£75,000
	2020	8	£837,500	3	4	£104,688
	Total	***0***	***£987,500***	***2***	***3***	***£98,750***
51 to 100	2019	4	£345,000	2	3	£86,250
	2020	9	£1,075,000	3	5	£119,444
	Total	***13***	***£1,420,000***	***3***	***4***	***£109,231***
101 to 250	2019	2	£200,000	1	2	£100,000
	2020	3	£312,500	1	1	£104,167
	Total	***5***	***£512,500***	***1***	***2***	***£102,500***

Table A8: Investments by MSME ratio of highest to lowest paid employee (rounded)[11]

Pay ratio (rounded)	Year	Number of loans	Amount lent	Percent of loans	Percent of amount lent	Average loan size
1 to 1	2019	50	£2,061,875	24	19	£41,238
	2020	46	£3,242,001	19	16	£70,478
	Total	***96***	***£5,303,876***	***22***	***17***	***£55,249***
2 to 1	2019	63	£3,470,112	31	31	£55,081
	2020	61	£5,389,105	26	26	£88,346
	Total	***124***	***£8,859,217***	***28***	***28***	***£71,445***
3 to 1	2019	27	£1,493,573	13	14	£55,318
	2020	45	£3,633,502	19	18	£80,744
	Total	***72***	***£5,127,075***	***16***	***16***	***£71,209***
4 to 1	2019	18	£991,500	9	9	£55,083
	2020	28	£2,783,002	12	14	£99,393
	Total	***46***	***£3,774,502***	***10***	***12***	***£82,054***
5 to 1	2019	20	£1,178,364	10	11	£58,918
	2020	17	£1,620,000	7	8	£95,294
	Total	***37***	***£2,798,364***	***8***	***9***	***£75,631***
Over 5 to 1	2019	28	£1,827,200	14	17	£65,257
	2020	39	£3,702,505	17	18	£94,936
	Total	***67***	***£5,529,705***	***15***	***18***	***£82,533***

Table A9: Investments by MSME rejected from finance in the last year

Rejected for finance in last year from external source	Year	Number of loans	Amount lent	Percent of loans	Percent of amount lent	Average loan size
No	2019	136	£6,554,924	57	53	£48,198
	2020	175	£13,508,822	65	60	£77,193
	Total	***311***	***£20,063,746***	***61***	***58***	***£64,514***
Yes	2019	101	£5,808,700	43	47	£57,512
	2020	96	£8,851,505	35	40	£92,203
	Total	***197***	***£14,660,205***	***39***	***42***	***£74,417***

Table A10: Investments by loan term in months

Loan term (months)	Year	Number of loans	Amount lent	Percent of loans	Percent of amount lent	Average loan size
Less than 36	2019	10	£429,000	4	3	£42,900
	2020	26	£1,843,004	9	8	£70,885
	Total	***36***	***£2,272,004***	***7***	***6***	***£63,111***
36	2019	42	£1,489,905	17	11	£35,474
	2020	15	£578,501	5	3	£38,567
	Total	***57***	***£2,068,406***	***11***	***6***	***£36,288***
48	2019	16	£704,700	6	5	£44,044
	2020	9	£550,000	3	2	£61,111
	Total	***25***	***£1,254,700***	***5***	***4***	***£50,188***
60	2019	180	£10,343,019	73	80	£57,461
	2020	221	£19,341,322	80	85	£87,517
	Total	***401***	***£29,684,341***	***77***	***83***	***£74,026***
72	2019	0	£0	0	0	£0
	2020	5	£372,500	2	2	£74,500
	Total	***5***	***£372,500***	***1***	***1***	***£74,500***

Table A11: Investments by interest rate (rounded)

Interest rate (percent)	Year	Number of loans	Amount lent	Percent of loans	Percent of amount lent	Average loan size
7 to 9	2019	2	£165,000	1	1	£82,500
	2020	1	£60,000	0	0	£60,000
	Total	***3***	***£225,000***	***1***	***1***	***£75,000***
10 to 12	2019	24	£1,727,632	10	13	£71,985
	2020	8	£466,000	3	2	£58,250
	Total	***32***	***£2,193,632***	***6***	***6***	***£68,551***
13 to 15	2019	173	£9,177,637	70	71	£53,050
	2020	196	£17,989,108	71	79	£91,781
	Total	***369***	***£27,166,745***	***70***	***76***	***£73,623***
16 to 18	2019	47	£1,756,355	19	14	£37,369
	2020	49	£2,462,716	18	11	£50,260
	Total	***96***	***£4,219,071***	***18***	***12***	***£43,949***
19 to 21	2019	0	£0	0	0	£0
	2020	1	£85,000	0	0	£85,000
	Total	***1***	***£85,000***	***0***	***0***	***£85,000***
22 to 24	2019	2	£140,000	1	1	£70,000
	2020	21	£1,622,503	8	7	£77,262
	Total	***23***	***£1,762,503***	***4***	***5***	***£76,631***

Table A12: Investments by investment purpose

Loan purpose	Year	Number of loans	Amount lent	Percent of loans	Percent of amount lent	Average loan size
Purchase (business or property)	2019	36	£1,702,000	15	13	£47,278
	2020	11	£783,000	4	3	£71,182
	Total	***47***	***£2,485,000***	***9***	***7***	***£52,872***
Working/Growth Capital	2019	178	£9,445,351	72	73	£53,064
	2020	252	£21,147,326	92	93	£83,918
	Total	***430***	***£30,592,677***	***82***	***86***	***£71,146***
Other	2019	33	£1,719,273	13	13	£52,099
	2020	12	£705,001	4	3	£58,750
	Total	***45***	***£2,424,274***	***9***	***7***	***£53,873***

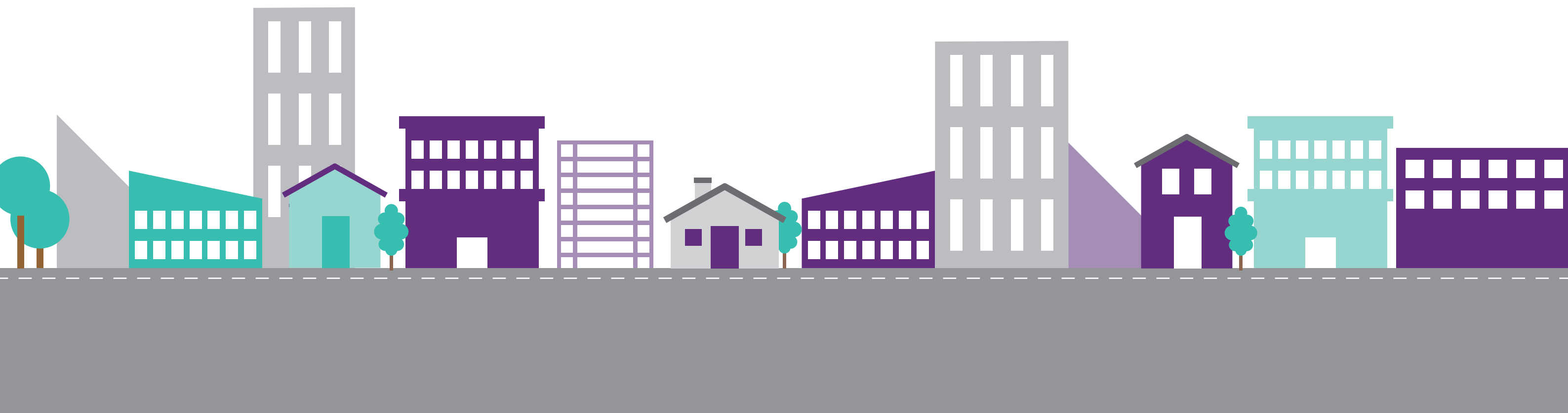


Table A13: Investments by investment stage

Investment stage	Year	Number of loans	Amount lent	Percent of loans	Percent of amount	Average loan size
Early Stage (Operating in any market for less)	2019	97	£4,534,928	45	41	£46,752
	2020	89	£5,647,220	33	25	£63,452
	Total	***186***	***£10,182,14***	***38***	***30***	***£54,743***
Expansion (New Markets or Products)	2019	13	£670,000	6	6	£51,538
	2020	4	£405,000	1	2	£101,250
	Total	***17***	***£1,075,000***	***3***	***3***	***£63,235***
Growth	2019	87	£5,168,196	40	47	£59,405
	2020	170	£15,898,10	63	71	£93,518
	Total	***257***	***£21,066,30***	***53***	***63***	***£81,970***
Start-Up (Prior to the first commercial sale)	2019	20	£728,000	9	7	£36,400
	2020	9	£445,001	3	2	£49,445
	Total	***29***	***£1,173,001***	***6***	***4***	***£40,448***

Table A14: Investments by whether or not already in receipt of external finance

Current in receipt of external finance	Year	Number of loans	Amount lent	Percent of loans	Percent of amount lent	Average loan size
No	2019	102	£4,742,392	43	38	£46,494
	2020	117	£8,948,722	43	40	£76,485
	Total	***219***	***£13,691,114***	***43***	***39***	***£62,517***
Yes	2019	135	£7,621,232	57	62	£56,454
	2020	154	£13,411,605	57	60	£87,088
	Total	***289***	***£21,032,837***	***57***	***61***	***£72,778***

Table A15: Investments by number of external finance sources

Number of external finance sources	Year	Number of loans	Amount lent	Percent of loans	Percent of amount lent	Average loan size
1	2019	49	£2,571,368	36	34	£52,477
	2020	62	£5,403,102	41	40	£87,147
	Total	***111***	***£7,974,470***	***39***	***38***	***£71,842***
2	2019	41	£2,468,500	30	32	£60,207
	2020	32	£2,323,002	21	17	£72,594
	Total	***73***	***£4,791,502***	***25***	***23***	***£65,637***
3 plus	2019	45	£2,581,364	33	34	£57,364
	2020	59	£5,630,501	39	42	£95,432
	Total	***104***	***£8,211,865***	***36***	***39***	***£78,960***