Community Development Finance: A Form of Social Investment

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Declaration

I declare that the work contained in this thesis has not been submitted for any other award and that it is all my own work. I also confirm that this work fully acknowledges opinions, ideas and contributions from the work of others.
Any ethical clearance for the research presented in this thesis has been approved.

Name:

Signature:

Date:

Abstract

This thesis aims to critically examine the development of Community Development Finance Institutions (CDFIs) in the UK: organisations that lend to businesses unable to access finance from mainstream sources. The overall aim of the research is to capture the development of a proto-type sector into a recognisable and fully-fledged financial sector.

The research found there was considerable interest in CDFIs in the late 1990s fuelled by research reports published by the New Economics Foundation. Ideas and influences were being transferred to the UK from North American CDFIs and from micro-finance lenders in the developing world. While a few CDFIs had existed in the UK since the 1970s, from the late 1990s a new generation of organisations were being established to help combat what New Labour had defined as financial exclusion. The thesis identifies this group of CDFIs the '*British New Wave'*, because they were developing their own products and services to meet local needs.

After 1997, New Labour ideas about a potential Third Way and Communitarianism were increasingly influential. This thesis argues that the subsequent development of CDFIs can be strongly interpreted as offering a Third Way between the market and the state. Their links with local communities or sectors (such as social enterprise) also enhanced their importance at district, regional and national levels.

The research also analyses a number of individual case studies such as the Aston Reinvestment Trust and Street UK, the CDFI sector and government policy to highlight the complexity of the challenges facing CFDIs particularly the range of issues relating to funding. The thesis argues that the government's initial interest in the sector has waned over time and some of New Labour policies aimed at promoting localism have in practice restricted the growth of CDFIs.

At the end of the first decade of the twenty first century, the UK CDFI sector is surviving and offering loans to businesses excluded from finance and offering social and economic benefits that should be recognised and supported through social investment. However, despite the optimistic note in some areas of the thesis, it will be argued many CDFIs remain financially unsustainable precisely because they offer small business loans and work with their borrowers.

List of Contents

List of Tables

List of Figures

Acknowledgements

I was inspired to carry out this research, because the term social investment was being connected with both financial exclusion and entrepreneurship. It combined both social and economic issues together.

I would like to thank Keith Shaw and Mary Mellor for their sound advice. Finally this thesis would not have been possible without the information supplied by Community Development Finance Institution loan managers and other staff. I am grateful to everyone who was helpful and supportive during the process.

Acronyms

3b – Black Business in Birmingham

AIDE – Association for the Right to Economic Initiative

ART – Aston Reinvestment Trust

BAME – Black, Asian and Minority Ethnic

BBV – Bolton Business Ventures Ltd

BCV – Bridges Community Ventures

BERR - Department for Business, Enterprise and Regulatory Reform

BME – Black and Minority Ethnic

BoE – Bank of England

CAF – Charities Aid Foundation

CDB – Community Development Bank

CDC – Community Development Corporation

CDCU – Community Development Credit Union

CDFA – Community Development Finance Association

CDFI – Community Development Finance Institution

CDVF – Community Development Venture Fund

CFS – Community Finance Solutions

CIC – Community Interest Company

CITR – Community Investment Tax Relief

CLFNE – Community Loan Fund North East

CRA – Community Reinvestment Act

CUA – Commission for Unclaimed Assets

DSL – Developing Strathclyde Ltd

DTI – Department of Trade and Industry

EFF – Esmée Fairbairn Foundation

ELMS – East Lancashire Moneyline

ELSBC – East London Small Business Centre

FEBA – First Enterprise Business Agency

FIN – Financial Inclusion Newcastle

FSA – Financial Services Authority

HBV – Hackney Business Ventures

ICOF – Industrial Common Ownership Fund

IiS – Investors in Society

INAISE – International Association of Investors in the Social Economy

IPS – Industrial and Provident Society

JRF – Joseph Rowntree Foundation

LIF – Local Investment Fund

MCF – Midlands Community Finance

MEF – Micro-Enterprise Fund

MESBIC – Minority Enterprise Small Business Investment Company

NCCA – National Community Capital Association

NEF – New Economics Foundation

NE-SELF – North East Social Enterprise Loan Fund

NESEP – North East Social Enterprise Partnership

NFCDCU – National Federation of Community Development Credit Unions

NOCU – Northern Oak Credit Union

NRF – Northern Rock Foundation

OCC – Office of the Comptroller of the Currency

ODPM – Office of the Deputy Prime Minister

OEO – Office of Economic Opportunity

OTS – Office of the Third Sector

PART – Portsmouth Area Regeneration Trust

PAT – Policy Action Team

PNE – Project North East

PPF – Polden-Puckham Foundation

RDA – Regional Development Agency

SBS – Small Business Service

SEIF – Social Enterprise Investment Fund

SENET – South East Northumberland Enterprise Trust

SEU – Social Exclusion Unit

SIS – Social Investment Scotland

SITF – Social Investment Task Force

SME – Small - Medium Enterprise

SOA – Super Area Output

TSELF – The Social Enterprise Loan for the North East

UCIT – Ulster Community Investment Trust

UKSIF – UK Social Investment Foundation

UN – United Nations

WEETU – Women’s Employment Enterprise Training Unit

YHD – Yorkshire and Humber Developments

Introduction

This thesis will examine the development of Community Development Finance Institutions (CDFIs). While looking at the influences from abroad that have affected these lending organisations, the major focus will be on capturing, at a fine-grained level of analysis, the CFDI experience in the UK. The thesis will also capture the political ideas that have influenced the sector, including Third Way and Communitarian ideas, and use this framework to scrutinise and critically evaluate the sector's development. The key message of the thesis is that the true value of CDFIs lies in being responsive to the needs of local communities and helping to reduce financial exclusion. They have an economic value in creating and sustaining employment, and are able to invest in additional social outputs.

This introduction will be divided into three parts. The initial section will explain the author's motivation for choosing this area of research. The second will concisely describe the methodology employed. The final section will be an outline of the overall structure of the thesis, with each chapter described and placed within a wider context.

Choice of Topic

This thesis' starting point was the use of the phrase '*social investment*' and its introduction into the public domain. In his book *The Field of Social Investment* (1987) the North American sociologist S. T. Bruyn had his own interpretations and suggested that all investments were made in a social context. Bruyn's work touched on the different forms of community lending organisations in North America. Perhaps Bruyn's most important contribution was when he argued that:

> '*Social investment is the allocation of capital to advance the social and economic well-being of people'* (Bruyn, 1987, p. 13).

A decade later, the phrase was also being utilised in a UK context, with Anthony Giddens discussing his ideas of a social investment state (Giddens, 1998) and the UK's Social Investment Forum linking it to both ethical investments and lending organisations called CDFIs.

In the course of contract research work undertaken in Newcastle in the first part of the new millennium, on approaches to promoting financial inclusion (Affleck and Mellor, 2005), the author became interested in examining what could be viewed as the development of an alternative business finance sector in the UK. Researchers were beginning to write about both community development finance institutions (Mullineux and Mayo, 2001) and initiatives (Mayo *et al.*, 1998; BoE, 2000). Conferences such as *Small Change for a Better Future* (2000), held in Norwich, and *Money for Change* (2001), held in Birmingham, also heralded the development of a potential new sector. The combination of conferences, research reports, news features in the national press and the New Labour government's policies were all factors influencing the focus of this thesis. This has led to a part-time longitudinal study of the UK CDFI sector, analysing data, policies and theories.

Methodology

The methodology was initially rooted in desk based research, which quickly identified that there was a limited literature of books and academic articles about this approach to lending in the UK. If CDFIs were mentioned it was often in connection to funding social enterprise (Pearce, 2003) or financing business in the developing world (Yunus and Jolie, 1999). However, one important source of information was the work of the New Economics Foundation on CDFIs (Mayo *et al*., 1998; Sattar and Fisher, 2000; Brown, Conaty and Mayo, 2003). As the thesis has progressed, the growth in literature on CDFIs has been closely monitored and assessed.

Primary data collection took the form of a series of semi-structured interviews with CDFIs and business support agencies. If individuals were unavailable for face-to-face interviews questions were emailed to them and they replied in their own time. Open questions were used to allow the interviewee to give additional information (Brynner and Stribley, 1979). Some CDFIs were contacted a second time (after three or four years) to update the evidence-base. For example Street UK was interviewed three times because of their changing circumstances. Street UK's Newcastle branch experienced staff changes and in 2004 it divided into two separate organisations. In addition, a number of interviews were held with business advisors and a bank business manager to ascertain the demand for loan finance.

The research was supported by attending CDFI and social enterprise conferences. Listening to practitioners has been an important element of the research process. Gathering this information has allowed the thesis to capture the (uneven) development of CDFIs over the last decade.

Overview of Thesis Structure

Chapter One of the thesis explores my methodology and explains how my research experience and employment influenced the gathering of data. It will show that I had two periods of action research when I actively interviewed participants. In addition, I was also able to observe meetings with business support agencies and discuss funding issues with social enterprises. This section explains how I chose my research questions and importantly why I decided to perform a longitudinal study. Throughout the PhD process I continually carried out desk based research to keep the literature up to date and relevant.

The second chapter the *Literature Review* aims to establish a wider context within which the development and role of CDFIs can be assessed. It will cover four main areas, beginning with the influence of relevant examples transferred from Europe, the USA and the Developing World will be identified, as UK CDFIs have been directly and indirectly influenced by the cross-national transfer of ideas and policies (SITF, 2000). In the late 1990s the International Association of Investors in the Social Economy (INAISE) offered a European perspective on lending organisations. In the USA, organisations such as the Brookings and the

Woodstock Institutes gave CDFIs a platform to show that they had a beneficial role in financial inclusion. Mark Pinsky, the President of the National Community Capital Association has written extensively about the history and issues of US CDFIs (Pinsky, 1995; 2001; 2002). Similarly Bangladesh's Grameen Bank (Goetz and Gupta, 1996; Yunus, 2003) has been a source of inspiration for micro-finance in the UK (Copisarow, 2001).

In the second part I will explore some of the contemporary debates about CDFIs. The campaigning and lobbying literature produced by organisations such as the New Economics Foundation (NEF) and supported by the Joseph Rowntree Foundation (JRF) gave information and ideas about the role of CDFIs. NEF's literature has both explained and lobbied in support of financial inclusion through these lending organisations (Mayo *et al*., 1998; Conaty *et al.*, 2004; Brown, 2008).

The third part will scrutinise New Labour's agenda since 1997 and the government's plethora of policy documents, which have shaped the contemporary agenda (PAT 3, 1999; PAT 9, 1999, SEU, 2001; 2004). The details of these policies will be examined and interlinked with Third Way (Giddens, 1998; Blair, 1999; Driver and Martell, 1998; 2000) and Communitarian ideas established by Etzioni (1994; 1995; 1996; 2000).

Fourthly, the review will examine the more recent evaluative literature on CDFIs (Brown, 2008; Nissan, 2008; Vik, 2009) and also identify the remaining gaps in the literature and the pressing research questions that remain.

Chapter Three offers a range of definitions of CDFIs and questions whether they are sub-prime lenders or not. Sub-prime lenders like CDFIs have their markets in poorer districts with high levels of ethnic minorities (Immergluck and Smith, 2005; Mayer and Pence, 2008). The distinction between sub-prime lenders and CDFIs with social aims has become more important since the failure of the banking sector. The chapter focuses on the international influences on CDFIs in the UK. It will explore the policies around social investment and support for CDFIs in the USA. It seems appropriate to begin by looking at CDFIs in the USA because certain North American policies have been particularly influential on UK organisations (SITF 2000; Nissan, 2008; Vik, 2009). Potentially, the USA has offered a blueprint for the development of the UK CDFI sector, both in models and supporting policies. The chapter will also develop a typology of CDFIs and identify how they can bring about financial inclusion. The latter sections will then examine wider influences and explore links between the developing and the developed world. It will argue that micro-finance has travelled from the Indian sub-continent to Eastern Europe and then the UK (Copisarow, 2001).

Chapter Four named *The British New Wave* has two purposes. Firstly, to explore the issues and circumstances that led to the developing interest in CDFIs in the UK during the 1990s, and also to examine, in detail, the work of the Social Investment Task Force (SITF) which tended to produce a wish list for the development of these lending organisations. It will then briefly identify some of factors influencing financial exclusion in the UK's cities (Leyshon and Thrift, 1994; 1995; Hughes, 1997). While alternative lending organisations had existed since the 1970s, by the end of the 1990s there were clear links developing between lending organisations and the work of campaigning research organisations and this combination was helping to create a prototype sector.

Chapter Five will be the first of two case study chapters and will look at the development of national bodies such as the Charity Bank, Industrial Common Ownership Fund (ICOF) and the Triodos Bank. While two of these national lenders have histories going back to the 1970s, the Charity Bank is part of the *'New Wave'* of CDFIs with a history commencing in the 1990s. These CDFI examples fund the Third Sector made up of social enterprises, charities and mutuals. The chapter will begin with a brief discussion of the case study methodology and will go on to examine each organisation's development, failures and successes as they have developed over time. In addition, it will analyse figures from their balance sheets and profit and loss accounts. This chapter begins to question the sustainability of these CDFIs.

Chapter Six focuses in detail on individual examples of three CDFIs at the sub-national level. The majority of these case studies will come from what I called the '*New Wave'*. This name was chosen, because a number of CDFIs were established in the late 1990s and around the millennium to supply loans to specific areas. During the last ten to twelve years these organisations have had to gradually work out their roles through a combination of success and failure. While both ICOF and the Triodos Bank have both survived over twenty five years of trading, Street UK, the Aston Reinvestment Trust (ART) and the Community Loan Fund North East (CLFNE) are more youthful in comparison. Both ART and Street UK have been evaluated previously (Enterprise and Tym, 2001; Copisarow, 2004; NEF, 2005). These CDFIs were selected because they offered alternative models and were innovative in different ways. Again, where possible the accounts have been used to illustrate the development of these organisations.

While chapters five and six analyse a number of individual case studies, *Chapter Seven* takes the research a stage further and looks at the prototype sector. It adopts a more holistic approach and maps the Community Development Finance Association's (CDFA) membership in 2004 to give a national picture. Mapping has been recognised as an important tool to ascertain the size and character of certain organisations such as social enterprises (ECOTEC, 2003; East Lothian Council, 2005; Forster *et al.*, 2009). This chapter looks for correlations between areas of deprivation and financial exclusion and the development of CDFIs. It investigates what products and services were on offer in 2004 and 2009. It was important for the research to return to the membership after five years to analyse subsequent changes and developments. Over time, it can be argued that the prototype sector has matured into an established and recognised sector. Finally, the chapter draws out findings about the development of the CDFI sector and the CDFA membership.

Chapter Eight: Conceptualising CDFIs acknowledges that while the development of CDFIs predates the arrival of New Labour into power in 1997, there are still valuable and informative inter-connections to be made between New Labour thinking and the later phases of CDFI development. The key ideas shaping the Tony Blair government have been extensively covered in the literature exploring the Third Way (Powell, 1999; Driver and Martell, 2000; White, 2001; Goes, 2004; Hale *et al.*, 2004) and Communitarianism (Driver and Martell, 1997; Barlow and Duncan, 2000; Bevir, 2005; Hale, 2005; 2007). This chapter critically analyses some of the rhetoric about community (Blair, 1999). While there has been no political attempt to directly link support for CDFIs to Third Way or Communitarian ideas, New Labour's support for the community sector, their attempt to join up social policies (Clark, 2002) and to tackle social exclusion, have all served to influence the growth of CDFIs.

Chapter Nine aims to provide an overarching analysis of CDFIs and, in doing so, brings together a range of material from the earlier chapters. It also aims to cover more recent developments in relation to CDFIs. It charts the rise of the Community Development Finance Association and the increasing value of the membership's funds. However, growth and expansion brought a range of issues, with funding being transferred from a national to a regional level. During the first decade of the twenty first century governmental support has waxed and waned and CDFIs have had to restate their case for support (Brown, 2008; Nissan, 2008). The chapter charts the renewed support and enthusiasm for CDFIs with the developing recession and the 'credit crunch.' The chapter comprises of four interwoven narratives which cover:

- An evaluation of the contribution of CDFIs;
- An assessment of the problems of micro-finance in the UK;
- A review of the impact of the uneven and variable nature of government support;
- And the impact of the recession on CDFIs and their future sustainability.

The *Conclusion* will draw together the findings from all of the chapters, suggest further areas of research on CDFIs and discusses recent developments in an ever-changing sector. I will make recommendations to support the UK CDFI sector. Finally the *Postscript* will very briefly look at David Cameron's idea of a '*Big Society* ' and how it may interlink with a Third Way and CDFIs.

Chapter One: The Research Methodology

In the introduction I set out the structure and themes of the whole thesis. This chapter will explore some of the initial questions I had about CDFIs and my planned actions to provide answers. Over time some of the questions altered and other ideas were developed.

The following chapter will be divided into five sections. In the first section I will briefly mention the foundations of the research. My previous research projects influenced the choice of subject for a PhD proposal. The following section will look at how I began to address the gaps in my knowledge through desk based research. In the early part of the development of the thesis I had to decide on the methods and the timetable for my research. Overall, I needed to find ways to answer the initial research questions. These decisions were partially influenced by my personal circumstances such as full and part time employment. However, I had created a plan to take the thesis forward.

The third section will look at availability of CDFI documents. I had to assess what types of documentation were obtainable and decide whether or not to use them. The fourth section will contain two sub-sections looking at the action research and participant observation methodologies used during the development of the thesis. The final section of this chapter will discuss some of the positives and negatives of my research methodology.

The Foundations of the Research

This section will very briefly look at some of my previous research projects and illustrate how I became interested in CDFIs. It will show that around the millennium there was a lot of interest in the development of CDFIs.

In 2000 I was employed to research various forms of exclusion such as financial exclusion in areas of Newcastle and social exclusion amongst asylum seekers. The majority of my research was in the North East of England and especially Newcastle upon Tyne. During a research project it was discovered within certain areas of the city, the banks and building societies had withdrawn (Fuller *et al.*, 2003). Academic research literature confirmed this trend was occurring in the UK and the USA (Leyshon and Thrift, 1995). I built up an interest in how social, economic and financial exclusion seemed to be concentrated in certain districts of towns and cities. At the same time the Government were introducing localised interventions such as New Deal for Communities (Foley and Martin, 2000; Dinham, 2005). On a personal level the Government seemed to be taking a proactive approach to the social problems in the UK's disadvantaged urban areas. At that time it was too early to know whether New Deal for Communities and other measures would have positive affects.

In addition to governmental interventions there were independent organisations such as credit unions being established to help address the financial issues of an area. While researching the Newcastle Employment Bond I came across Street UK, a micro-finance lender working in Newcastle (Affleck and Mellor, 2005). The Newcastle office was being funded by the Bond and the Northern Rock Foundation. The Bond was a form of social investment that offered social benefits rather than financial rewards for investors and was funding a series of organisations to improve employment within the city. With further desk based research I found an element of social investment was associated with other lending organisations (Bruyn, 1987; ICOF, 1999). Some of the businesses or organisations involved in social investment were members of the UK Social Investment Forum (UKSIF). In 2000/2001 it had a mixed membership of ethical banks/building societies, a group of lending organisations and financial advisors (UKSIF, 2000; 2002). This was problematical, because it was not a cohesive group, but three separate strands. Over time the UKSIF membership altered (see case studies), which gave the organisation a new focus (UKSIF, 2005).

In 2001 before starting the PhD I attended the Second Annual Community Development Finance Conference in Birmingham and some of the UKSIF membership attended. Amongst the attendees there were representatives from established CDFIs, organisations looking to become CDFIs, a few academics and members of the banking sector. At this conference, Paul Boateng as Financial Secretary to the Treasury, gave a speech about the importance of

CDFIs (Boateng, 2001). Amongst some of the attendees there seemed to be a developing sector of lending organisations identifying themselves as Community Development Finance Institutions or Initiatives. At the same time there was a growing quantity of literature about CDFIs produced by the NEF.

It was the combination of factors that led me to making a proposal to begin the PhD. At the time the developing CDFI sector was under represented within academic literature. I found the idea of supplying loans rather than grants interesting. However, anecdotal evidence suggested that there was confusion about the role of CDFIs and the recently introduced Phoenix Fund, which will be mentioned in later chapters. While researching other subjects I found grassroots organisations would mention grant funding not loan finance. Similarly, the local authority and other bodies would discuss regeneration through grants. At the same time NEF and the Social Investment Task Force (SITF) were looking towards loan finance as a way to regenerate areas.

Even though reports had been published by NEF and the SITF there were gaps in knowledge about CDFIs and ideas were not permeating down to business development workers. Annually the sector was altering as the government introduced policies and funds. These changes further attracted me to this area of research.

Overall, I wished to have a period of concentrated research to investigate CDFIs. I knew the content of the NEF reports, but had difficulty connecting these ideas with practice. During conversations with representatives from social enterprises, business support agencies and local authorities I found confusion about CDFIs. This level of uncertainty made me interested in carrying out the PhD study.

The Initial Research Period

This section will discuss some of the methodologies I used in the initial research. Some were discarded because they were inappropriate and others were developed further. My research questions appeared as I was exploring different ways to carry out the research. My timetable for research was gradually worked out during the first year.

During the initial research period I decided to solidify my knowledge through further desk based research to assemble sufficient literature. This work has contributed to the following literature review chapter. As part of the literature search I began looking at how to plan the research. I concentrated on social science methodologies to find an appropriate way to examine these lending organisations. Bell and Opie (2002) offered ways to plan post graduate research and a range of methodologies to carry out the process.

Berger and Patchner (1988) recommended that research should aim to investigate variables such as the type of organisation or the level of performance or their achievements. During the development of the proposal and my initial research I identified different types of CDFIs offering a range of loans. I thought it would be difficult to compare newly formed organisations with long established CDFIs. So the thesis has concentrated on the variety of CDFIs in the UK.

Later after gathering data I looked at more research methodologies and Grix (2004) suggested simplifying organisations down to their essential characteristics. It was proposed that a model could explain how organisations or humans may behave (Grix, 2004). Again this proved problematic since there were too many variable characteristics and CDFIs offered different loans to an array of customers. Similarly, their revenue and capital funding for running the business and lending to customers respectively came from various sources. CDFIs worked locally, regionally, nationally and even internationally. Rather than models I decided to focus on organisational reviews or case studies, which would investigate the whole organisation (Stringer, 1999). I saw CDFIs as being part of a sector, but also supplying local demand and therefore the case study methodology had credibility. The organisation review or case study would interrogate the mission, the goals, the structure, the operation and the problems of an organisation (Stringer, 1999). During the research this method proved more and more fruitful as different characteristics were identified within CDFIs. This delineated one CDFI from another, but also showed connections.

By examining case studies of CDFIs my initial research questions and ideas were strengthened. At a very basic level research needs a question or a hypothesis (Berger and Patchner, 1988) and two of my initial questions were:

- What was social about CDFIs?
- How could CDFIs bring about financial inclusion?

It was necessary to look at the organisations and the potential markets for CDFI finance. Research showed that CDFIs were not intending to replace the banks, but were supplying loans to businesses excluded from bank finance.

I began using action research because this methodology focused on asking who, what, how, where and when (Stringer, 1999). These questions linked up with the process of carrying out a series of organisational reviews. The research questions could be made more complex and use two variables such as age and profitability. Berger and Patchner (1988) stated that a hypothesis speculates on the relationship between two or more variables. Another two potential questions were formulated:

- Could the longevity of a CDFI be interconnected with their financial sustainability?
- Could the size of loans affect the financial sustainability of the CDFI?

One of the case study CDFIs, ICOF had made losses, but continued to lend to co-operatives and social enterprises. Another organisation, Street UK was intending to make very small loans to micro-businesses and become financially sustainable. Sustainability was an issue as the CDFA defined a CDFI as being a sustainable lending organisation (CDFA, 2002). However, many of the UK CDFIs were in receipt of grant funding. In the early period of research, the rhetoric about sustainability from the CDFIs and their Association did not match the individual profit and loss accounts. In terms of micro-finance, financial sustainability has been defined as the breakeven point where costs and income are equal with the donor providing the initial capital (Adongo and Stork, 2005). Morduch (1999a) identified that repeated grants from donors made the Grameen Bank in Bangladesh sustainable. A recent CDFI publication (GHK, 2010) defined two types of sustainability:

1. Operational sustainability covering the organisation’s costs;
2. Financial sustainability included both costs and capital.

During the research, I was interested in both operational and financial sustainability, because CDFIs were generating capital through social investments (see case studies of ART and ICOF) and receiving grants for both capital and running costs. It was difficult to understand how a small CDFI could produce enough income to cover its costs.

Questions were developed as the research progressed and knowledge about organisations was collected and reflected upon. During the initial research I had assembled a few questions, which were further developed as the research process progressed. During 2002 and 2003 I carried out fieldwork using action research and asked participants about their organisations and how they were to achieve their goals. In addition I was beginning to work out a timetable for the research process.

I carried out the research while working on other connected projects. During the initial period the research full time and then it became part time. However, during periods of part time working I concentrated on the thesis and re-interviewed participants. The thesis was researched and written up part time and therefore was developed into a longitudinal study.

In the beginning I thought I would have sufficient data after one round of interviews. However, some participants had just started working for their organisations so their answers were vague.

Figure 1: Timetable of PhD research

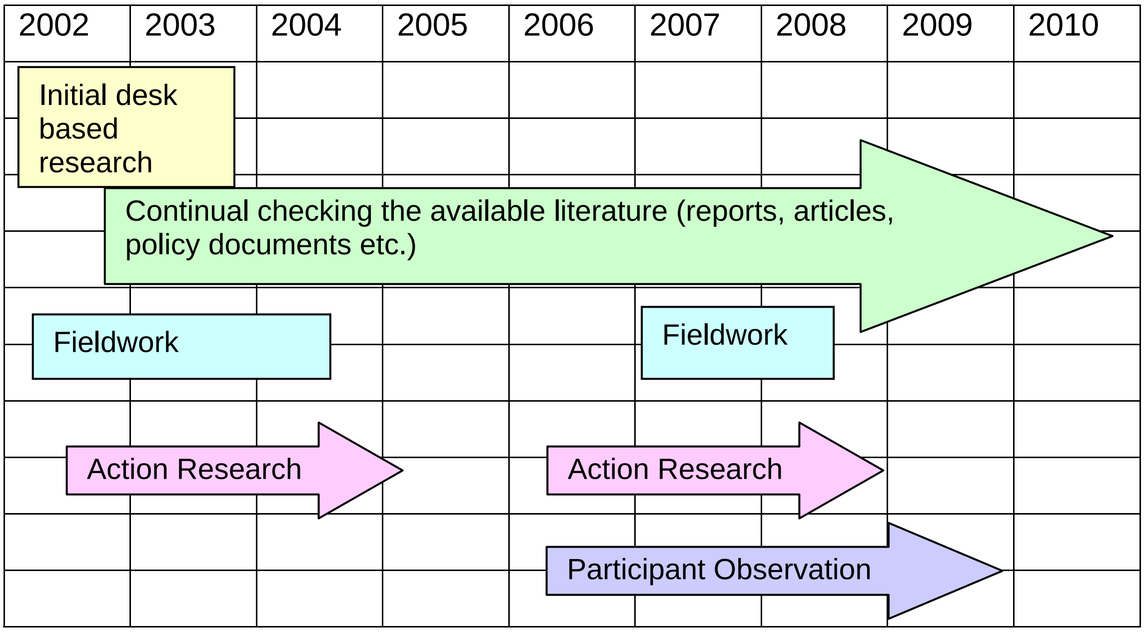


Figure 1 shows this first round of fieldwork and action research from 2002 to 2004. Over time government policies affecting CDFIs were discussed and implemented. However, these policies had little time to be embedded and evaluated, which made a short term study problematic. The CDFI sector was not static, but was developing with the input of Phoenix Fund money. I realised that I could either capture a snapshot of a developing sector or perform a longitudinal study and look for trends. After the initial full time research I knew I had to extend my timetable to take into account the changing sector and a longitudinal study seemed the way forward.

A longitudinal study can analyse social phenomena and allow the measurement of changes (Miller and Brewer, 2003). Ruspini (2002) suggested that a longitudinal study was the observation of subjects over an unspecified time. I could choose to return to participants at any time. The longitudinal methodology allowed a more detailed image of the CDFI sector to be assembled. One of the reasons for extending the research period was during the initial field work some of the loan managers such as John Hall at Street UK and Rod Jones of the CLFNE had been in positions for less than one and two years respectively. However, chief executives and managers such as Steve Walker at ART and Malcolm Hayday of the Charity Bank had at least five years experience of lending to their target borrowers. Figure 1 documents my time carrying out additional fieldwork and re-interviewing a number of individuals in 2007. This allowed me to understand how their circumstances and issues had changed over time.

I was influenced by Ruspini (2002) in planning the research as she identified three longitudinal research designs such as:

- Repeated cross-sectional studies to follow the trends using different samples;
- Repeatedly interviewing the same subjects over time;
- And retrospective longitudinal studies asking interviewees to look back at events.

My thesis encompassed all of these designs in an attempt to give a more holistic picture of the developing CDFI sector. One of the problems of carrying out longitudinal research using a cross-sectional design can be that many different subjects can be studied over time giving information on a macro level (Ruspini, 2002). At the start I investigated a sample of the membership of the Community Development Finance Association (an organisation I will mention in more depth in later chapters). However, I found that the membership was too varied and fluctuated annually, which made using different samples problematic. Eventually, I investigated the membership in the two sample years of 2004 and 2009 to give a more complete picture.

It has been suggested that in a second wave of research interviewees often answer differently than the first time, which may be because *'they have lost some of their inhibitions, or because they have had new, different experiences during the time that has elapsed'* (Ruspini, 2002, p.73). Ruspini (2002) recognised that interviewees could leave their organisations giving gaps in the data. I found both these suggestions by Ruspini (2002) to be true with interviewees being more confident the second time around and staff moved to different organisations.

Overall I had a foundation that focused on exclusion and a number of research questions. I was thinking about a longitudinal study over potentially four to five years. This time period was extended (see Figure 1), because the sector was developing. I needed to identify methodologies to help answer my questions. The following section will show that the methods changed over time as the thesis was gradually formed.

Documents

This section will describe my choice of documents and the methods that were used during the research. In 2002 there were many organisations attending CDFI conferences, but a limited amount of literature. This proved both positive and negative in that it was a new area of research suitable for a thesis and there were no significant ideas guiding the research. I needed to find an appropriate literature that would stand up to scrutiny.

During the initial research I found there were a few books about CDFIs, a number of reports and very few academic papers (see the literature review). I began using the annual reports of the CDFIs, newspaper stories and newsletters to gather data. Stringer (1999) was used as a guide to check the validity of the materials. It has been recognised that documents can supply a great deal of important information (Stringer, 1999). Potential documents for research purposes will contain:

> *'memos, minutes, records, official reports, press accounts, public relations materials, information statements and newsletters'* (Stringer, 1999, p. 73).

Policy documents could contain information about an organisation and annual reports hold details on the structure, aims, operations and resources of the organisation (Stringer, 1999). It was recommended that researchers ask about relevant documents during interviews (Stringer, 1999). For me this had mixed results with interviewees either becoming defensive or offering full accounts.

Bell has suggested there were two approaches to using an organisation's documents. In Bell's (2005, p. 123) '*source oriented'* approach the availability of documents would determine the project and guide the generation of research questions. The feasibility of the project would be influenced by the extent of available documents (Bell, 2005). Organisations such as the Triodos Bank and ART generously provided their annual reports and were appropriate case studies. Street UK provided limited documents, but was willing to be interviewed in depth. Bell (2005, p. 123) suggested a second approach called '*problem-oriented'* involved using other research methods and then investigating documents. This research method used secondary materials before researching the appropriate primary sources.

I used this methodology when I used the CDFA's and NEF's reports. I examined the reports as secondary sources and then approached individual CDFIs for primary data. Documents can be divided into primary and secondary sources and these secondary sources have been described as '*interpretations of events*' (Bell, 2005, p. 125) during the research period. The primary sources were from the organisation itself such as the minutes. The annual CDFA reports gave an overall picture of the sector, such as the number of CDFIs. Content analysis was used to investigate the annual reports of a number of organisations. This method has been used to analyse bias found in news reporting (Bell, 2005). Often the annual reports for the CDFIs were combined with the organisation's accounts, so they could not ignore financial problems. CDFI annual reports would contain the positive aspect of jobs created and the number of loans, but would also mention any bad debts and potential under performance. With organisations such as Shared Interest and ICOF having shareholders it was important to have financial transparency, because investors did not want to lose their money. Once again ICOF's reports would mention any bad debts that had been accrued during the year.

The individual CDFIs and the CDFA's sector reports over time allowed what has been called '*temporal analysis'* (Ruspini, 2002, p. 108). I could identify trends developing over time. I recorded annual figures such as the number of jobs created, the annual amounts being out on loan and their reserves in the bank to identify trends (see the later case studies).

Stringer's (1999) suggested using company literature and press reports. I found that press accounts varied in their usefulness, because some loan managers had little experience of the media. Similarly some public relation materials were naïve and obviously very much biased towards a positive image of the organisation. Overall, I had to be selective with my sources of information.

As the research progressed the literature available increased as the academic literature, CDFI, CDFA and NEF reports were produced. Figure 1 illustrates that I continually checked for additional literature and policy changes. This desk based research was only part of the methodology. I needed the stories and the opinions of individuals working in CDFIs, enterprise agencies and business to give a fuller picture. I used action research and participant observation and snowball sampling to achieve this goal.

Methodologies

Methodology: Action Research

Since the CDFI sector was changing I needed a methodology that was reflective and with advice from my supervisor and more experienced colleagues I explored and used action research. Action research processes:

- *Are rigorously empirical and reflective (or interpretive)*
- *Engage people who have traditionally been called subjects as active participants in the research process*
- *Results in some practical outcome related to the lives or work of the participants'* (Stringer, 1999, p. xviii).

I appreciated that new members of staff within fledgling CDFIs were developing their ideas and organisations in tandem as I researched them. The organisations themselves were asking questions about ways to bring about financial inclusion and how to become sustainable. Reason and Bradbury (2006) found that action research was participatory and it brought together reflection, theory and practice. I was interested in it because it could be used to find practical solutions to issues affecting individuals and communities (Reason and Bradbury, 2006; Stringer, 1999). During the research I was looking at financial exclusion and how CDFIs brought about inclusion. I investigated their products and services and questioned their financial sustainability to find answers to the research questions. Stringer (1999) saw community action research as a process that looks, thinks and acts. I re-interviewed a number of participants after reflecting on my original data and how far the sector had changed. The following chapters show that UK CDFIs have developed and diversified over time.

Dane (2010) saw action research as a method to solve purely social problems. However, I wanted to get a picture of the social, economic and financial issues and after some deliberation set up my first round of interviews. I did not want to just interview CDFIs, because the supply and demand for loan finance were interlinked. I had issues about the number of interviews and sets of questions sent to organisations. In terms of the CDFA membership I carried out Internet searches on all organisations working as CDFIs in 2004 and 2009. However, I was more selective in my choice of interviews and I wished to interview a range of organisations from three distinct types of organisations:

- CDFIs
- Business support agencies
- Businesses and social enterprises

The CDFIs would supply the finance and the businesses and social enterprises would be the source of demand. Finally I interviewed business support agencies and a business bank manager to ascertain their knowledge of CDFIs. These organisations could be conduits for demand and link potential borrowers with lenders.

The initial desk based research led to a small number of interviews. I was researching the different CDFI organisations and their potential markets. I decided to use snowball sampling and asked participants who else I should contact. Snowball sampling or chain referral has been recognised as an acceptable method of research (Biernacki and Waldorf, 1981; Van Meter, 1990; Dane, 2010). It has been used to research hidden populations such as drug users (Van Meter, 1990). However, my hidden population was made up of businesses that had borrowed from CDFIs, social enterprises, business support agencies and even CDFIs. There was no North East directory of social enterprises to find participants and some CDFIs and business support agencies had no Internet presence and advertised with posters and leaflets on a localised basis. Through snowball sampling certain individuals and organisations were repeatedly mentioned by interviewees as potential sources of information. Often interviewees would supply the name of a contact within an organisation and their telephone number or email address. A small number of participants were inappropriate, but many suggestions proved useful. However, this process also highlighted the poor communication links between business support agencies and the developing CDFI sector.

During this period I was learning about the demand for loan finance from businesses and social enterprises and improving my questions. When I carried out a second phase of interviews in 2007 – 2008 my questions had altered and interviewees had more knowledge and experience of CDFIs. By having two periods of action research interviewing participants I think I gathered better data.

This was only part of my research methodology and because of other research projects I was meeting business support agencies and social enterprises. I had opportunities to observe organisations discussing funding. I started to research participatory observation techniques (Stringer, 1999) and formalise my approach to gathering data. Originally, the process was ad hoc, but gradually became organised and systematic. Through a series of research projects, jobs within the social enterprise sector and a board membership I was better able to understand the interactions between business support agencies, CDFIs and potential borrowers.

Methodology: Observation

I have been given various opportunities to observe organisations and hear about funding and development issues. Two significant opportunities were:

- Joining a management board of a business support agency;
- And working for a social enterprise.

In 2005 I joined the board of FIN Enterprise Support, a small business support agency based in Newcastle. This unpaid role allowed me to observe an organisation advising start ups and existing businesses. During my four years as a board member I attended meetings about business development and met Business Link advisors and other business support agencies employees. This gave me an insight into the business grants available in disadvantaged areas, the accessibility of bank finance and the opportunities for CDFIs.

From 2007 to 2008 I was the network co-ordinator at Social Enterprise Tyneside. This role gave me the opportunity to speak to social enterprises about their funding issues. Overall, it gave me an insight into debates about loans versus grants. The government's Future Builders scheme (which will be mentioned in later chapters) was also discussed by social enterprises wishing to expand. Similarly, research projects gave me the opportunity to observe interactions between businesses, support agencies and CDFIs.

Observational research can involve recording:

- Places: the community context or the location of activities
- People: individuals or formal positions
- Activities: a set of related acts
- Purposes: what the organisation is trying to accomplish
- Time: time or frequency of events (Stringer, 1999)

The research investigated the location and type of activities and the purpose of the organisation. In observational research, planning and piloting are essential (Bell, 2005) and initially I asked to attend meetings and events. Gradually individuals and organisations knew I had an interest in CDFIs for my personal research.

Over time and because of previous research I was being invited to events where organisations discussed bank and CDFI loans, council business grants and support for social enterprise. Participant observation has been described as a '*research method in which the researcher becomes part of the events being observed*' (Dane, 2010, p. 331). Also Dane (2010) suggested a participant as observer would be known as a researcher, but participating in activities. Similarly for Bell (2005) participant observation involved the researcher taking part in the life of an individual, group or community and observing, questioning and understanding the issues involved. I was able to both observe and contribute to meetings.

This method can reveal characteristics of groups which would be difficult with other techniques (Bell, 2005). It has been stated that interviews show people's perceptions of what happens in an organisation, but observation can reveal what actually happens (Bell, 2005). Unstructured observation allows the researcher to postpone definitions and develop their ideas (Bowling, 2002). This method allowed data to be gathered and then ideas could be elaborated on through further fieldwork (Bowling, 2002). Bell (2005) thought that unstructured observation could generate hypotheses and I found that new ideas were created through reflection. In addition, the observation methodology confirmed and disproved my proposals.

However, this form of research has been criticised, because it can be subjective, impressionistic and idiosyncratic (Bell, 2005). There can be a scarcity of opportunities to observe or the researcher could become very involved (Dane, 2010). Bell (2005) stated that bias can especially occur when the researcher observes their own organisation. I never observed an organisation I was employed in such as Social Enterprise Tyneside, but used the position to observe social enterprises seeking grant and loan funding. It has been stated this method could aid the researcher to build up trends and understand the language of the participants (Bell, 2005). I did not find trends through observation, but it helped me to recognise the language of commercial businesses and social enterprises. My trends were identified in the CDFA and individual CDFI reports.

Positives and Negatives: The Conclusion

One of the positives of carrying out a longitudinal study has been that it has shown trends within organisations. Similarly, it has shown that policies have been short term and changes in policy have had detrimental affects to the sector. The CDFI sector has been in a constant state of change over a ten year period. I feel that I have achieved a balance between a fine grain exploration of individual CDFIs and a holistic picture of a sector.

One positive feature is that I have allowed ideas to become embedded over time. I have re-interviewed some loan managers and business development workers after a four year interval and their knowledge and the organisation's systems had improved over time. Another positive element has been that I was able to 'embed' myself into the social enterprise sector. Organisations have allowed me to observe their meetings and use their reports. It took a number of years to build up relationships, to be invited to meetings and be asked onto management boards. While working with social enterprises I explained my interest in CDFIs. This led to people knowing about my thesis and inviting me to attend events. It would have been impossible within a short term study to work with social enterprises and join the board of a business support agency.

The negatives of performing a longitudinal study are:

- The time commitment;
- The constant changes such as staff movements;
- Organisations merging or changing their names.

At times contacts would changes and I would have to begin explaining my interest in CDFIs again.

One negative element was the introduction of potential policies. The Government would consult with stakeholders about potential policies, receive answers and then nothing seemed to happen. In the case of the Social Investment Bank the potential funds were being linked to CDFIs, but the idea seemed to be dropped from the Government's agenda for two years after a major consultation. The stakeholders such as CDFIs did not know whether the Social Investment Bank would bring funds into the sector or not. It was difficult to ascertain if anything was happening with the policy. The change from Blair to Brown and now Cameron has proved problematic as discussions about the Third Way have gradually altered and been replaced. This instability has proved a challenge to be solved.

In conclusion I feel satisfied with this longitudinal study. If I had stopped my research after three years then a very different thesis would have been written. This thesis was submitted in early 2010 just before the change in Government. This seemed to be a suitable endpoint to finish the research and writing up. I have included a postscript about the change in Government and the potential for Cameron's '*Big Society'*.

Chapter Two: Literature Review

Introduction

This literature review aims to establish a wider context within which the development and role of CDFIs can be assessed. Four areas will be examined. Firstly, the influence of relevant examples transferred from Europe, the USA and the developing world will be identified, as UK CDFIs have been directly and indirectly influenced by the cross-national transfer of ideas and policies (SITF, 2000). Secondly, contemporary debates about CDFIs have their roots in the 1970s about micro-finance and CDFIs, and are found within the campaigning and lobbying literature produced by organisations such as the NEF. Thirdly, New Labour's espousal of the Third Way agenda since 1997 has brought forth a plethora of policy documents which have shaped the contemporary agenda. These will be detailed, and the relationship to Third Way and Communitarian ideas established. Fourthly, the review will examine the more recent evaluative literature on CDFIs and also identify the remaining gaps in the literature and in research.

The International Context

European Perspectives

The International Association of Investors in the Social Economy (INAISE) has published a series of reports exploring not only the social economy or the Third Sector, but also micro-finance and micro businesses. In the late 1990s this pan-European organisation produced a directory of *Financial Instruments of the Social Economy in Europe and their impact on job creation* (INAISE, 1997). This early document looked at the mechanisms used to finance micro-enterprise and the social economy. It identified the age and characteristics of the different organisations within the developing sector and grouped them into types. It acted as a directory, but also recognised some of the problems of lenders, such as the costs associated with micro-finance. It mentioned the laws, policies and taxes that would impede the take up of self-employment and the growth of loan funds. However, like many of the INAISE reports from this period it does not actually use the term CDFI.

Two years later, the *First European Forum on Social Investment Report: Upscaling social investment to create job*s (INAISE, 1999) was published. The report was important in that it supplied a series of concise descriptions and histories of a range of lending organisations. For example Banca Etica from Italy, Aston Reinvestment Trust, the French investment clubs called the Cigales, North American time banks, the Triodos Bank and the Prince's Trust all featured in the conference and accompanying report. Continuing this approach, in 2000 INAISE published *50 Case Studies on Upscaling Social Investment* (Sattar, *et al*., 2000), which offered an international perspective on policies, including the USA's Community Reinvestment Act (CRA 1997). It also provided a series of case studies drawn from the UK, the USA and France. Authors from INAISE and NEF co-edited *Banking and Social Cohesion* (Guene and Mayo, 2001) which explored current and past pioneers in social banking and the potential to mainstream social responsibility in the banking sector. The final section explored regulating or persuading the banks to be inclusive rather than 'cherry picking' the best customers.

This European literature added to the range of examples of lending organisations. The examples were often specific to certain countries and built up a picture of alternative sources of business finance that worked within legal frameworks. The majority of the membership of INAISE was European, but the literature did attempt to provide a wider, global perspective.

North American Influences

In the USA, organisations such as the Brookings, the Woodstock and the National Housing Institutes gave CDFIs a platform to show that they had a beneficial role in financial inclusion. Some of these articles and reports would subsequently prove influential in forming opinion and developing ideas in the UK.

Several authors established a coherent historical dimension (Bates, 2000; Pinsky, 2001; Okagaki and Moy, 2001). Bates (2000) compared Clinton's Community Development Financial Institution (CDFI) program with earlier interventions, such as the Minority Enterprise Small Business Investment Company (MESBIC) programme created in the 1960s. He suggested that CDFIs would have to avoid high cost lending to not have the same history as the MESBIC programme. In 2001 the Brookings Institute published *Taking Stock: CDFIs Look Ahead After 25 Years of Community Development Finance* by Mark Pinsky, the then President of the National Community Capital Association. This document reported positively on low loss rates and growing loan funds within CDFIs. It provided a solid historical perspective going back to the redlining of communities during the credit boom of the 1960s. In the USA redlining has been identified as *'the refusal of lenders to make mortgage loans in certain areas regardless of the creditworthiness of the individual loan application'* (Berkovec *et al.,* 1994, p.263). For Pinsky (2001) redlining existed and he set out how financial exclusion had been caused both by financial rationalisation and the state reducing its interventions. However, others have suggested that redlining may be connected with other factors such as geographical location, racial discrimination or low income (Berkovec *et al.,* 1994; Tootell, 1996; Ross and Tootell, 2004). Pinsky used elements from Alan Okagaki and Kirsten Moy's *Changing Capital Markets and Their Implications for Community Development Finance* (2001). Importantly, Okagaki and Moy in their history of the sector identified some of the failures of early CDFIs. These authors looked at the history of CDFIs and made recommendations for the future.

The policy that most differentiates the USA from the UK has been the Community Reinvestment Act (CRA) passed in 1977. President Carter's introduction of the CRA, which forced the banks into lending in more disadvantaged areas, has been well documented (Macey and Miller, 1993; Immergluck, 2004; Dreier, 1991). Susan White Haag (2002) in her '*Community Reinvestment: A Review of Urban Outcomes and Challenges'* looked at the CRA and also President Clinton's measures to further help finance poorer districts. In the 1990s, the CRA helped to expand mortgages in disadvantaged areas and create a community development structure within banks. The CRA policy has been strongly connected to the Democratic Party and it has tended to suffer during Republican presidencies. George W. Bush’s policies of withdrawing funds from CDFIs have been documented over his two terms of office (Fogarty, 2001; Immergluck, 2004; Barr, 2005; Bergman and Osuri, 2005; Credit Union Journal, 2008).

Not every author was in favour of CRA (Barr, 2005). Despite the CRA reversing the trend for finance to leave certain geographical areas, some writers still point to the continuation of financial exclusion (Dreier, 1991; Immergluck, 2004; Barr, 2005). Klausner (1995) thought that the CRA was an ill defined form of localism or Communitarianism and others saw the CRA as being outdated and badly designed (Macey and Miller, 1993; Barr, 2005). Some have also argued that there has not been a market failure by the banks and the costs of running the CRA outweigh the limited benefits (Barr, 2005). Barr (2005) produced a 140 page document focused on the CRA and cited that certain legal scholars questioned the empirical evidence for setting up the CRA. The CRA made banks give unprofitable loans with few benefits. Similarly, literature that suggested that competition for credit had driven out discrimination (Barr, 2005). However, Stiglitz and Weiss (1981) explained that there would always be rationing of credit as demand would be greater than the supply and the banks would assess the risk of each loan.

The literature also highlights the issue of home mortgages - another difference between UK and USA CDFIs. For example, Avery *et al.* (1999) looked at how CDFI mortgages had developed and examined potential trends. The research found that there was not a correlation between the banks consolidating and the number of mortgages in poorer areas (Avery *et al.*, 1999). Literature has questioned the need for additional sources of funding (Dreier, 1991; Immergluck, 2004; Barr, 2005). At the start of the recession the Federal Government’s CDFI Fund produced research into CDFI mortgages highlighting the successful strategies of CDFIs (Mayer *et al.*, 2008). Research has shown diminished levels of home ownership amongst black and Hispanic households and home ownership has had a strong link with levels of income (Molseed, 2008; Dickstein *et al.*, 2008).

The policies towards CDFIs during the Clinton's presidency have been well covered in the literature. In an early article, *Coalition of Lenders and Investors Help Create the Community Development Financial Institution Act of 1994*, Pinsky (1995) commented on the setting up of the CDFI Fund and stated it was a significant milestone that gave the CDFIs credibility. The Brookings Institute published a report looking at President Clinton's Community Development Corporation Tax Credit Programme of 1993 and recommended its expansion and the size of the tax credit should be appropriate for the project (Steinbach, 1998). While Clinton's policy called New Markets Tax Credit was discussed as a way of attracting money to CDFIs working in poorer areas (Nowak, 2001; Forbes, 2005; Sass Rubin and Stankiewicz, 2005).

The Republican's lack of support of CDFIs can be found in a series of articles about cuts to the CDFI Fund in the USA (Fogarty, 2001; Bergman and Osuri, 2005; Credit Union Journal, 2008). These articles reflect the Republican's free market approach to loan finance. Finding ways to attract funds to areas for economic development was not just a North American problem. Forbes (2005) contrasted the USA's tax credit scheme with earlier Empowerment Zones - an idea from the UK. Marshall (2004) compared financial institutions in disadvantaged areas in both the USA and the UK. In the UK, NEF's publications concentrated on North America, but very few articles and reports reciprocated the process.

The Office of the Comptroller of the Currency (OCC) has published data and research information about community finance and CDFIs since the 1990s. Part of its role as a public body was to inform both the banks and the CDFI sector. The OCC's *Effective Strategies for Community Development Finance* (2001) was aimed at helping the banks to engage in community development finance. Similarly, Pinsky (2002) produced the article *Growing Opportunities in Bank/CDFI Partnerships* in the OCC's Community Developments periodical offered information on better working practices. The OCC's publications

Community Developments: Community Affairs Online News Articles did occasionally focus on CDFIs, the CDFI Fund and the Community Reinvestment Act (1977) (OCC, 2001; 2002). In addition the United States General Accounting Office and the CDFI Fund (ABT Associates, 2007) monitored the progress of the CDFI sector.

CDFIs were seen as having financial credibility, because they managed risk and were able to generate income (Nowak, 2001). However, there were problems with the transparency of some CDFIs, which made them less attractive to investors (Benjamin *et al*, 2004). As in the UK, some questioned whether CDFIs should be sustainable (Benjamin *et al.*, 2004; Brown, 2008). Even in the USA, the literature supplied evidence of a strong sector with supportive policies in place, but also a need for further development (Nowak, 2001; Sass Rubin, 2007). However, there were other influences and micro-finance was seen as a product that could be transferred from the developing world to the developed.

Micro-finance in the Developing World

Bangladesh's Grameen Bank developed by the Nobel Prize winner, Professor Mohammed Yunus, has been recognised by the UK national press as an important initiative from which to learn. (Kay, 2004; Carlin, 2006; Tripathi, 2006; Benjamin, 2009). Similarly, the academic articles have focused on the Grameen Bank (Hassan and Renteria-Guerrero, 1997; Hussain, *et al*., 2001; Hassan, 2002). This literature on the Grameen Bank can be divided into two sections.

The first is positive and celebratory (Khandker *et al.,* 1995; Yunus, 2003; Carlin, 2006; Counts, 2008; Benjamin, 2009). The bank's inclusive aims, the number of people it serves, and the low default rate have been viewed positively (Khandker *et al,* 1995; Jain, 1996). The data from the 1990s showed that with micro-finance, household incomes increased: *The impact of micro-credit on poverty: evidence from Bangladesh* used statistics to show a reduction in poverty (Jahangir Alam Chowdhury *et al.*, 2005). Similarly, Zaman (2004) produced a working paper for the World Bank, which gave a positive spin on micro-finance within Bangladesh, but also questioned the empowerment debate.

The second form of literature has questioned different aspects of the Grameen Bank and micro-finance. Its use of peer group lending has been questioned (Jain, 1996; Rai and Sjöström, 2004) as it has focused on female lenders and peer pressure (Beasley and Coate, 1995; Goetz and Gupta, 1996; Rahman, 1999). The empowerment of women has often featured in discussions about micro-finance (Hashemi *et al.*, 1996; Mayoux, 2001). Mayoux (1998) explored the benefits to women and suggested further research was necessary to confirm the suggested positive outcomes. Khandker (2003) gave a mixed review of micro-finance mentioning the disappointing results in lifting people out of poverty, but highlighting its importance to the rural poor. Similarly, McKeman (2002) questioned impact of micro-finance on self-employment and profits in the developing world.

Tripathi (2006) argued that micro-finance should not be seen as a universal tool for getting the poor out of poverty. Rogaly (1996) questioned the profitability of micro-finance in the article *Micro-Finance Evangelism, 'Destitute Women', and the Hard Selling of a New Anti-Poverty Formula*. In addition, Rogaly (1996) questioned the evangelism by some advocates of micro-finance in the developing world. In a similar vein to Tripathi, the author concluded that micro-finance may not be the complete panacea to lift people out of poverty (Rogaly, 1996). Amin *et al.* (2003) questioned whether this form of finance reached the poor of Bangladesh.

Micro-finance was not just part of the developing world but is also linked to debates in Eastern Europe. *Micro-finance in Russia* by Bossoutrot (2005) discussed four types of micro lending organisations: specialist banks; NGOs; membership organisations; and public funds. The founder of Street UK also reported on a successful Polish micro-finance lender, Fundusz Mikro (Copisarow, 2001).

Overall, the literature on micro-finance has added to debates about CDFIs. But, the literature on micro-finance has been ambiguous, with a series of positive and negative stories. Even in the developing world, its success has been mixed. Thus, debates on empowerment and peer pressure on women have been far from conclusive.

The Campaigning Literature

This section will examine the literature explaining (and promoting) CDFIs in the UK. An important starting point is Bruyn's seminal work, *The Field of Social Investment* (1987). Using data from North America, Bruyn connected social investment to a range of organisations, including community development finance institutions, credit unions and corporations. He offered a range of definitions, from the descriptive to the theoretical, but perhaps his most important contribution was the normative dimension he provided by arguing that:

> '*Social investment is the allocation of capital to advance the social and economic well-being of people'* (Bruyn, 1987, p. 13).

This emphasis was taken up in the 1990s by organisations such as the New Economics Foundation whose reports promoted CDFIs to a greater audience (NEF, 1998; Collard, Kempson and Whyley, 2001; Collin *et al.*, 2001). The NEF and the Joseph Rowntree Foundation (JRF) made an important contribution to the debate about CDFIs in the UK with the report *Small is Bankable: Community Reinvestment in the UK* (Mayo *et al.*, 1998). This piece of research established many of the key themes of subsequent work, such as the relevance of CDFI policies in the USA, the potential for sustainability, low levels of bad debts and the five different forms of community finance initiative. Community finance was placed squarely between public grants (social return) and private sector investment (financial return). It concluded by offering scope for the development of community finance in the UK.

The role of NEF should not be under-estimated as the organisation seemed vibrant and full of ideas. NEF was writing about social and economic problems and offering solutions such as improving regeneration projects by measuring their social impacts (Walker *et al.*, 2000), improving the monetary system (Robertson and Huber, 2000) and stabilising the financial markets through currency transaction tax (Simms *et al.*, 2001). The role of micro-finance in the developing and the developed world was explored in two NEF documents (Mayo *et al.*, 1998 and Rogaly *et al.*, 1999). In another NEF report, *The scope for tax credits for social investment* highlighted a '*Robin Hood model*' for the transfer of funds from haves to have nots and how a small number of investors had accepted low financial return investments in favour of social investments (McGeehan, Mayo and Sattar, 2000). The report also argued that social investments should be made more attractive through tax benefits (McGeehan, Mayo and Sattar, 2000). The phrase '*social investment*' began to emerge within the literature of the 1990s as a method of funding CDFIs. Sattar and Fisher (2000) in another NEF publication *The scope and opportunity for social investment in the UK* explored the potential gaps in finance with examples of CDFIs from the USA, Europe and the developing world.

From 2000 onwards, the literature being produced increasingly attempted to define the distinctive features of CDFIs and separate these lending organisations from under performing soft loan funds (Collin *et al*., 2001b). As CDFIs such as the Triodos Bank and Ecology Building Society were gaining institutional credibility amongst investors, the report stated there had been some underperformance and recognised that experimentation and potential failure was essential for growth (Collin *et al*., 2001b).

Over time, NEF's publications moved from general accounts of CDFIs to more specialist and technical reports, such as *A Proposed Performance and Accountability Framework for Community Development Finance in the UK* (Collin *et al*., 2001a) and *A Feasibility Study into a Wholesale Intermediary for Community Development Finance* (Ainger *et al.*, 2002). Like many of these reports, it looked at funding, but also argued for a main fund to be distributed to CDFIs as loan funds. At NEF was an American, Pat Conaty, who had also worked for the Aston Reinvestment Trust and potentially his background influenced a series of reports including NEF's next CDFI report, *Life Saving: Community Development Credit Unions* which explored a North American form of CDFI (Brown, Conaty and Mayo, 2003). The NEF were discussing the development of a UK CDFI sector through regulation (Mullineux and Mayo, 2001; Mayo and Mullineux, 2001) before the sector gained its association, the CDFA.

During the period from 1998 to around 2002 organisations such as NEF and JRF used the words '*initiative*' and '*institution*' interchangeably (Mayo *et al.*, 1998; BoE, 2000; Mullineux and Mayo, 2001). In UK there were many short term initiatives to create employment and increase economic activity funded by organisations such as New Deal for Communities. Gradually, the consensus chose '*institution*' because CDFIs aimed to be sustainable and not temporary (CDFA, 2002). Once the prototype sector gained an association the literature changed to '*institution*'. This thesis reflects the development of the sector's terminology and the gradual change to Community Development Finance Institution.

By 2006, McGeehan argued that CDFIs were becoming established in the UK (McGeehan, 2006). In NEF's 2007 report *Reconsidering UK Community Development Finance*, the authors investigated the development of the UK, USA and European CDFI sectors. It noted the efficiency of the USA system in levering a significant amount of additional money. In 2008 NEF published two reports with the first being *A model for funding and supporting CDFIs: Lessons from the United States* (Nissan, 2008). This was followed by *Social investment for community development: Completing the half-built house* (Brown, 2008). With public funding for the UK CDFI sector diminishing, both these reports attempted to keep CDFIs on the government's agenda. Two subsequent reports continued with the theme of the UK CDFI sector having funding problems, but re-emphasised their potential for bringing about financial inclusion. The next two reports offered comparisons with Europe and micro-finance (Thiel, 2008) and CDFIs in North America (Thiel and Nissan, 2008).

A theme in NEF's literature has been the need to tackle financial exclusion. The withdrawal of banking services from disadvantaged areas and the following financial exclusion was highlighted by Leyshon and Thrift (1994; 1995; 1996). Leyshon and Thrift wrote about the rationalisation of bank branches in the USA and the UK (1994; 1995; 1996). The Joseph Rowntree Foundation continued this area of research and funded a number of reports (Kempson and Whyley, 1999; Collard, Kempson and Whyley, 2001; Mitton, 2008). These reports concentrated mostly on personal banking, but successfully highlighted the lack of financial products for a section of the population within poorer geographical areas. The JRF publications were 'campaigning' and suggested recommendations for financial inclusion.

In terms of more formal financial institutions, The Bank of England (BoE) has also contributed to the knowledge about financial inclusion/exclusion. Annually the BoE publishes *Finance for Small Firms* (BoE, 2002), which has identified problems with access to loans. The BoE has also highlighted the issues of small business in deprived areas and social enterprise (BoE, 2000, 2003). In 2000, the Bank of England reported on '*Community Finance Initiatives (CFIs)*', '*community loan funds'* and '*micro-credit schemes'* (BoE, 2000, p. v). The report was written before these lenders got their national association and the language would indicate that the term CDFI had not been fully established. A special report into social enterprise noted that non-grant finance had advantages for the organisations (BoE, 2003). Correctly, the document described social enterprises as organisations with some trading activity. The report gathered evidence together about grants and loans for social enterprise, and while mentioning CDFIs as a source of loans, was unclear whether there was demand for loan finance amongst social enterprises.

UKSIF members, such as ICOF and the Triodos Bank, have concentrated on demand from co-operatives and social enterprises. *Enterprising Communities: Wealth beyond Welfare* (2000) produced by the Social Investment Task Force (SITF), explained that poorer communities were lacking business investment. CDFIs and equity finance were perceived as the answers to the financial exclusion found in these locations. This report was influenced by the chair of the

SITF, Ronald Cohen. As head of Apax, an equity finance business, he thought this form of investment would help stop a cycle of decline. The five recommendations presented to the then Chancellor of the Exchequer, Gordon Brown included the setting up of an equity finance scheme for disadvantaged areas. In 2000 UKSIF seemed to be an important membership organisation for CDFIs such as the Aston Reinvestment Trust. As a membership organisation it did not produce extensive literature on CDFIs, apart from updates on the SITF recommendations. In 2002 the Community Development Finance Association (CDFA) was established and some of UKSIF's membership gradually moved over to the new membership organisation.

Monitoring has been an important part of the CDFI literature. The CDFA have successfully monitored their sector (CDFA, 2003a; 2004b; 2009a), while other articles have critically assessed the performance of CDFIs (Derban, *et al.,* 2005; Irwin, 2006; Kneiding and Tracey, 2009). In *Measuring Economic and Social Impacts of Membership in a Community Development Finance* the authors found that poorer families benefited from joining a credit union, a form of CDFI (Kolodinsky *et al*., 2006). It was claimed that CDFIs gave people on low incomes the first steps into financial independence (Kolodinsky *et al*., 2006). Literature from the USA has also concentrated on the impacts of CDFIs (Kolodinsky *et al*., 2006; Hollister, 2007). NEF's evaluation of Street UK (NEF, 2005) and the CDFA's examination of Aspire, a micro-finance CDFI based in Northern Ireland identified both negative and positive characteristics within these failing lenders (Forster *et al.*, 2006). Similarly, Lenton and Mosley (2005) found social and financial impacts in their research into micro-finance and self employment.

New Labour after 1997

This section will examine the developing policy of the Labour governments since Tony Blair's victory in 1997 towards CDFIs. When New Labour came into power it established a series of Policy Action Teams (PAT) to develop evidence and suggest solutions to a range of problems. PAT 3 looked at Enterprise and discovered there was financial exclusion for a range of smaller businesses (PAT

3, 1999). Importantly, it recommended that loans rather than grants could be given in certain circumstances. A later PAT report also recognised the role of credit unions and other mutual organisations in communities (PAT 9, 1999). This document focussed on the community, on enhancing social cohesion, and on the importance of financing the voluntary sector to promote community development and to supply local services.

New Labour identified certain geographical areas in need of additional resources. The setting up of the Social Exclusion Unit and documents such as *A New Commitment to Neighbourhood Renewal: National Strategy Action Plan* (2001) illustrated the government's approach to local problems. The Strategy Plan attempted to be joined up and reported on crime, employment, health, education and housing. The issue of employment (latterly defined as worklessness) was particularly emphasised, with organisations such as the new RDAs and the variety of neighbourhood partnerships (such as NDCs) illustrating the importance of the localism agenda. The Office of the Deputy Prime Minister's (ODPM) *The English Indices of Deprivation 2004* and the HM Treasury's *Promoting Financial Inclusion* (2004) located geographical areas with a range of social and economic disadvantages. Similarly, the *Jobs and Enterprise in Deprived Areas* report focused on the problems of specific areas with high levels of unemployment (ODPM, 2003). The report recommended better relationships between Business Link, Job Centres and CDFIs.

In 2002, the government highlighted the importance and the potential usage of alternatives to the public and private sectors. A Department of Trade and Industry (DTI) report contained a foreword by Tony Blair and linked the development of social enterprise with social benefits for communities (DTI, 2002). An HM Treasury cross cutting review also looked at how the voluntary sector could supply public services (HM Treasury, 2002). It also created the Future Builders Fund to help finance social organisations wishing to take on public contracts (Future Builders, 2004).

The government's main source of support for CDFIs was through the Phoenix Fund (although the Fund was originally mentioned in connection with enterprise and job creation rather than CDFIs). In 2004 the then Secretary of State for Trade and Industry and Minister for Women, Patricia Hewitt, celebrated the work of the 93 beneficiaries of the Development Fund (DTI, 2004). The report highlighted the range of business development work being carried out by support organisations including CDFIs (DTI, 2004). Even though the Phoenix Fund ended in 2008 the evaluation was carried out before the third round (Ramsden Freiss, 2005). The evaluation thought the fund had been successful, but recommended that further provision would be better organised at a regional level.

New Labour's approach was to look towards new ways of delivering services and to look for local agencies to solve problems. The following section will examine some of the literature linking these debates to Third Way and Communitarian ideas.

The Third Way and Communitarian Ideas

This section will examine thematically some of the ideas, issues and debates underpinning New Labour's approach to CDFIs. At the same time as the NEF, the JRF, UKSIF and INAISE were researching and reporting on CDFIs, other authors were promoting new approaches to how the state and the market are conceptualised and the role of the individual within a wider set of community values and responsibilities.

The Communitarian literature was originally developed by Etzioni (1994; 1997; 2000). In his work, he both explored the minutia of community responsibilities and also gave larger scale overviews of community problems. Etzioni's focus on the crucial importance of community networks (the family, school, church and voluntary associations) and the 'twinning' of rights and responsibilities has been directly linked with the New Labour agenda after 1997 (Driver and Martell, 1997; Butler and Drakeford, 2001; Hopper, 2003). Garfinkle (1997) based at the George Washington University Institute for Communitarian Policy Studies explored Communitarian economics. Although Communitarian literature is often rooted in North American experiences (Buchanan, 1989; Neal and Paris, 1990;

Sites, 1998), Tam (1998) has supplied a UK view exploring the changing ideological battleground of the late 1990s. For him, the Communitarian literature offered a move away from liberalism and the selfishness of the individual: community interaction was all important.

Giddens' Third Way also had connections with Communitarian literature, but also had its own focus. He looked at politics after socialism and the possibility of a '*social investment state'* as a Third Way to '*transcend both old style social democracy and neoliberalism*' (Giddens, 1998, p. 26). New Labour were thus offering a Third Way between the state and the market (Driver and Martell, 1999). A growing literature points to Third Way ideas being used to support the development of welfare reform policies (Powell, 1999; Glendinning *et al.*, 2002). Economic policy has been evaluated in terms of Third Way policies (Hay, 2004). An additional manifestation of this Third Way has been the devolution of power. A series of authors have looked at New Labour and their localised regeneration policies (Ellison and Ellison, 2006). Others have investigated how inclusive and community-led these actions have been (Foley and Martin, 2000; Evans, 2008). Since CDFIs often work at a local level - and focus on the needs of their communities (Bryson and Buttle, 2005) – this focus on localism will be important to discussions later in this thesis. The use of partnerships (including the participation of the Third Sector) has also been explored in literature (Glendinning *et al.*, 2002). New Labour was creating new partnerships between the public sector and social entrepreneurs and using partnerships local schemes such as Health Action Zones (Glendinning *et al.*, 2002). Both Etzioni and Giddens advocate a key role for voluntary and community organisations. Haugh and Kitson (2007) investigated New Labour's policies towards the Third Sector, and found that the growth in social enterprises and support for the sector were core concerns. Similarly, Craig and Taylor (2002) explored the issues of local government and the voluntary sector.

James Midgley (2001) has added to the debate by linking loan finance to a Third Way. In Midgley's article, *Microenterprise, global poverty and social development* (2008), he recognised that micro-finance had helped business in the developing world, but stated that market liberalisation alone would not end poverty. Lewis and Surender (2004) offered a range of discussions on the labour market, welfare reform, the social investment state and whether there was only one form of Third Way? Similarly, Prabhakar (2004) explored a particular policy - public interest companies - to find if there was a Third Way. He found a Third Way, but suggested it is not a stable concept. Other literature has found that the Third Way dialogue was not just within the USA and the UK, but across Europe and countries across the world (Blair and Schröder, 2000; Giddens, 2001: Bonoli and Powell, 2002).

Overall, academics have explored and discussed New Labour's rhetoric and ideology and found resonances in their policies. The literature has shown a government trying to find alternatives to the state and the market. These ideas will be returned to in future discussions on CDFIs within this thesis.

Summary

The two separate strands of literature, one drawing on international experiences to promote CDFIs, and another looking at the relevance of the Third Way and Communitarian ideas to the New Labour project were being produced in parallel with each other.

Just as New Labour was looking for an alternative between the state and the market, organisations like NEF and UKSIF were offering a potential solution. The growing sophistication in the literature also reflected its increasing political significance. The campaigning literature from UKSIF and NEF was originally aimed at explaining what CDFIs were and looked at the potential of these lending organisations. However, their later research looked at how government policy would benefit (or hinder) the sector and aimed to capture the unmet needs of CDFIs. However, while New Labour has produced a range of policy documents mentioning CDFIs in certain sections or chapters, there has not been a large scale governmental document that fully investigated this sector - only piecemeal research in other evaluations and reports. This thesis aims to produce a more holistic picture of the UK CDFI sector.

The following chapters will go on to explain the history and development of CDFIs in the UK over the last decade and show the variations and changes in New Labour's support. While certain policies, for example the devolution of power down to local areas, have had benefits, there are also a number of negative implications. The limitations of the overall approach are also considered, and located within a critique of New Labour's reliance on Third Way assumptions.

Chapter Three: The Influences on UK CDFIs

During the1990s in the UK there was an increased interest in financial inclusion, with CDFIs being established and supported by grants, gifts and social investments. This chapter will look at the potential external influences affecting the growth of UK based CDFIs. Both the first and third worlds have had their success stories (such as the Shore Bank and Grameen Bank respectively). In the 1990s research in community development highlighted these organisations and stated:

> *'One ambitious and successful example of a locally-controlled financial institution is the South Shore Bank in Chicago. The Bank has been a continuing experiment in how to capture local savings and convert them to local residential and commercial development. A related effort in Bangladesh, called the Gameen Bank, is a successful experiment in very small capitalization for small business* (McKnight and Kretzmann, 1996, p. 7).

However, the Shore and Grameen Banks are part of the story and a variety of different models and policies towards financial inclusion and funding all may have played a role influencing home grown CDFIs.

This chapter will begin with potential definitions of CFDIs and questions whether they are sub-prime lenders or not, because this form of lending has concentrated on poorer districts with high levels of ethnic minorities (Immergluck and Smith, 2005; Mayer and Pence, 2008). It will then explore the policies around social investment and support for CDFIs in the USA. It is important to begin by looking at CDFIs in the USA because certain North American policies have been particularly influential in the UK (SITF, 2000). Potentially, the USA has offered a blueprint for the development of the UK CDFI sector, both in models and supporting policies. The latter part of this chapter will go on to examine wider influences and will explore links between the developing and the developed world.

Defining CDFIs : sub-prime lenders or not?

A basic definition of a CDFI would be an independent organisation that lends to those denied mainstream finance. Both the UK's Community Development Finance Association and the US Treasury have mentioned the idea of '*under-served communities'*. In the USA the National Community Capital Association defined CDFIs as:

> *'financial institutions that invest in individuals, small businesses, quality affordable housing, and vital community services that benefit economically disadvantaged people and communities'* (NCCA, undated, p. 3).

In this context, CDFIs have been defined by the communities where they work and who with, whether it is a geographical location, particular groups, such as disadvantaged people, co-operative businesses or young people with little experience of a start-up business. An example of this from the USA is the Northern California Community Loan Fund (NCCLF). This CDFI's website gave its mission statement as:

> *'financing and expertise to strengthen low-income neighborhoods and enable disadvantaged people to build a better future.'* (NCCLF, 2009).

Similarly, the Hope Community Credit Union (Hope CCU) based in Jackson, Mississippi wished:

> *'To strengthen communities, build assets and improve lives in economically distressed areas of the Mid South by providing access to high quality financial products and related services*.' (Hope CCU, 2009).

Both these CDFIs have concentrated on low – income and distressed areas and are very typical of many CDFIs. Poorer areas can lack regulated banking services and have been blighted by unregulated lenders (Barron *et al.*, 1994). There are signs that predatory lending is not a recent problem with several states in the USA attempting to curb this practice in the 1990s (Ernst *et al.*, 2002). These predatory lenders would offer high interest loans in poorer districts (Ernst *et al.*, 2002). Without competition for clients, these lenders can draw money out of a community (Brooker and Whyley, 2005). It should also be noted that CDFIs are not like sub-prime lenders. They bring capital to an area and can be developed within a community (Sass Rubin, 2007). There needs to be an element of caution around the term and the idea of financial exclusion. Leyshon and Thrift (1995) suggested that:

> *'Financial exclusion refers to those processes that prevent poor and disadvantaged social groups from gaining access to the financial system'* (p. 312).

Leyshon and Thrift (1995) found that poorer communities in USA and the UK were being excluded from the financial system. However, Stiglitz and Weiss (1981) knew that within the financial system there was credit rationing and demand for finance would be greater than the supply.

> '*We reserve the term credit rationing for circumstances in which either (a) among loan applicants who appear to be identical some receive a loan and others do not, and the rejected applicants would not receive a loan even if they offered to pay a higher interest rate; or (b) there are identifiable groups of individuals in the population who, within a given supply of credit, are unable to obtain loans at any interest rate, even though with a larger supply of credit, they would'* (Stiglitz and Weiss, 1981, pp. 394 – 395).

Stiglitz and Weiss (1981) suggested that there will always be some people unable to access finance because of the general availability of funds and importantly the perceived risk of '*identifiable groups of individuals in the population*' (p. 395). The identifiable features of the individuals could be their geographical location, race or poverty (Berkovec *et al.,* 1994; Tootell, 1996; Ross and Tootell, 2004). CDFIs attempt to bring financial inclusion to those excluded individuals. Similarly, the sub-prime lenders focus on the same potential borrowers.

Soon after the millennium it was identified that in the USA, the sub-prime market for home mortgages was increasing in the poorest communities with potential problems (Calem *et al.*, 2004). Unlike the USA, in the UK and other European countries CDFIs do not deal in home mortgages. There are two main differences between CDFIs and regulated or unregulated high interest lenders working in the sub-prime market.

Firstly, unlike the banks or sub-prime lenders, CDFI have distinct social objectives. In the USA the Coalition of CDFIs has stated on its website that CDFIs focus on:

> *'The "double bottom line:" economic gains and the contributions they make to the local community. CDFIs rebuild businesses, housing, voluntary organizations, and services central to revitalizing our nation's poor and working class neighborhoods. The positive effect that CDFIs have on their communities should not be underestimated'* (Coalition of CDFIs, undated).

CDFIs can attempt to stabilise local communities, rather than making profits from the lack of alternative sources of finance. Individual CDFI websites have been important sources of information and the Community First Fund (CFF) based in Pennsylvania assured investors that through the Small Cities Strategy it was:

> *'revitalizing downtown business districts and neighborhoods, bringing wealth back into our communities'* (CFF, 2007).

Similarly, the Louisville Community Development Bank (LCDB) offered to:

> '*Stimulate economic growth within the West End, and Smoketown, Shelby Park and Phoenix Hill neighborhoods of Louisville, Kentucky, by providing an array of financial and development resources'*
> (LCDB , 2007).

The LCDB was a registered CDFI and aimed to make a profit, but also carry out the social goal of promoting financial inclusion in its chosen location. CDFIs do work in the same geographical areas as predatory sub-prime lenders but seek borrowers that the major banks would avoid. Moreover, CDFIs have become firmly embedded in communities (unlike sub-prime lenders) and often call themselves after the district where they work. Some examples would be the Brooklyn Cooperative Federal Credit Union, the Montana Community Development Corporation and the Fresno Community Development Financial

Institution Fund. Possibly the most well known US example would be Shore Bank was created in the South Shore district of Chicago (Esty, 2006). They can attract capital for loans and keep funds circulating around an area.

The second difference between a sub-prime lender and a CDFI is that a CDFI will look at the client's ability to repay a loan. Sub-prime lenders have not been interested in documenting whether the borrower has had the ability to repay their mortgage (Gramlich, 2007). Within the sub-prime market there is the fringe banking sector made up of currency exchanges, cheque-cashing outlets, pawnshops, and rent-to-own stores (Benjamin *et al.*, 2004). In the USA cheque-cashing outlets can charge 10 percent for a two week loan on a pay cheque, which would be the equivalent of an annual interest rate of around 1,000 percent (Benjamin *et al.*, 2004). These organisations are conveniently located and give quick transactions, but offer high interest rates, have additional charges and draw customers into a cycle of regular borrowing.

In 2008, the Federal Trade Commission found that predatory sub-prime lending had four characteristics, *Equity Stripping*, *Packing*, *Flipping* and *Linkage of Loans* (Stock *et al*., 2001, p. ii). The report stated that *equity stripping* was based on the value of the asset, rather than the borrower's ability to service the loan (Stock *et al*., 2001, p. ii). These loans have had an increased potential for failure, foreclosure and repossession (Stock *et al.*, 2001). Research from the 1990s found sub-prime lending incurred greater levels of foreclosures (Immergluck and Smith, 2005). In a time of rising house prices, if the borrower failed to keep up the repayments the lender would gain an asset with an increased value. Another way of making money from the lender has been *packing*, when an additional premium credit insurance would be added to the cost of the loan (Stock *et al*., 2001, p. ii). In *flipping*, the lender has persuaded the borrower to remortgage the property a number of times as the value of the house increases. Often *flipping* will benefit the lender, rather than be in the borrower's interest (Stock *et al*, 2001, p. ii). It has been identified that certain sub-prime lenders such as Associates First Capital have attempted to '*effectively strip homeowners of their equity'* with '*stiff penalties for prepaying loans, and fee-loaded mortgage refinancing'* (Benjamin *et al.*, 2004, p. 183).

Finally, *linkage loans* for home improvements and other things can be added to the loan (Stock *et al*., 2001, p. ii). The lender or salesperson would gain commission on a loan that would not have added equity to the property. Sub-prime lenders have also used teaser rates to draw borrowers in, while penalties stop them from getting out of the mortgage (Gramlich, 2007).

In the UK, credit unions keep money within an area with savers and borrowers circulating funds within a district or workplace, but have concentrated on personal finance. Whereas, the USA's community development credit unions (CDCU) lend for a range of purposes including the purchase of property. It was suggested by CDCUs that home ownership loans was one way of getting people on low incomes out of poverty (Brown, Conaty and Mayo, 2003). Potentially, the CDCU would have to have a greater knowledge of the borrower than a generic mortgage application. The borrower would have built up a history of saving, borrowing, repaying and employment. Research has confirmed that trust and loyalty were necessary between the lender and the borrower (Fuller, 1998). The combination of local savers and borrowers and potentially some governmental funding (in the USA CDCUs can receive CDFI grant funds) can produce stability within a community as people move from being tenants to owners. In the UK, organisations such as the NEF and the North East Centre for Excellence have recognised the economic benefits of keeping money circulating within an area through research into local multipliers (Prove and Improve, undated; ONE, 2007). CDFIs attempt to draw funds such as governmental grants or social investment into an area and recycle this money through loans and repayments. Even though a CDFI may create a profit, it will have social objectives to serve a chosen community.

In the UK, even though organisations like NEF have tried to explain the distinctiveness of CDFIs, some of the research has tended to combine local loan funds with CDFIs (Irwin, 2006). CDFIs are not soft loan funds - the latter has a limited time period, while the social and economic benefits cease with the end of revenue or capital funding. Soft loan funds are loan funds often established by the public sector with a finite time period (Collin *et al.*, 2001b).

Soft loans can be subsidised with a low interest rate or can be high risk loan funds. There may not be a major need to recoup all of the funds or recycle the fund as people pay back the loans. These funds are different from CDFIs in that they do not seek to be sustainable (Collin *et al.*, 2001b). Soft loans can stimulate an area for a short period of time allowing some entrepreneurship to flourish, but this economic input will diminish over time. As part of the research for this thesis, one CDFI manager suggested that in the past their funds acted more like soft loan funds, because if a business failed, they would not follow up the debt. Even though many CDFIs have received capital and revenue grant funding they still saw themselves as being long term and aiming to be financially sustainable. If an organisation has permanence, then the borrower knows that a loan from a CDFI will have to be repaid. CDFI loan managers unlike sub-prime lenders and soft loan funds look at the ability of the borrower to repay the loan, rather than just merely making the loan.

A Typology of CDFIs

In the USA, a range of CDFI structures have been formed bringing social investment to their chosen areas of work (Bruyn, 1987). Each type will be suited to a particular problem. The US Treasury has supported the role of CDFIs to bring additional social objectives to disadvantaged areas and has funded a range of CDFI models. Overall, the choice of CDFI has depended on the perceived problem of a given district. A CDFI industry body, the CDFI Coalition, has stated there are six basic types of CDFIs:

- community development banks
- community development loan funds
- community development credit unions
- micro-enterprise funds
- community development corporation-based lenders and investors
- community development venture funds

(Source: Coalition of CDFIs, 2005).

The products offered by these lenders range from small scale personal loans to large scale equity investments. Table 1 illustrates the differences between these types of organisation and their similar purposes and markets. Non-profit community organisations could approach both Community Development Banks and Community Development Loan Funds. Similarly, businesses could borrow from a Community Development Bank, Loan Fund or Corporation and Micro-Enterprise Fund or a Community Development Venture Fund.

Table 1: The Characteristics of CDFI types in the USA

	Purpose	**Borrowers**
Community Development Banks	To provide capital to rebuild lower-income communities through targeted lending and investment.	Non-profit community organisations, individual entrepreneurs, small businesses, housing developers
Community Development Loan Funds	To receive capital from social investors and lend to non-profit housing and business developers in lower-income communities	Non-profit community organisations, social service provider facilities and small businesses
Community Development Credit Unions	To provide affordable credit/financial services to lower-income people, take deposits and make loans only to members	Members of the credit union (usually individuals) for personal loans and mortgages
Micro-Enterprise Funds	To aid business development through loans and assistance to low-income people involved in small businesses	Low-income individuals and entrepreneurs
Community Development Corporation	To revitalise neighbourhoods by producing affordable housing, creating jobs, and providing social services	Entrepreneurs, homeowners, business owners, consortia of community residents
Community Development Venture Funds	To provide equity for medium-sized businesses to create jobs and wealth that benefit low-income people and communities	Invests in small to medium-sized businesses in distressed communities that hold the promise of rapid growth

Source: Paraphrased from the Coalition of CDFIs website in 2010.

Each organisation has its own purpose such as a Community Development Bank (CDB) aims:

> '*to deliver credit, payment, and savings opportunities to communities not well served by banks, and to provide financing throughout a designated area for businesses too small to attract the interest of the investment banking and normal commercial banking communities'* (Minsky *et al.*, 1992, p. 3).

Potentially, one of the best known examples of a North American CDFI would be Shore Bank. Originally it focused on the specific issues of a Black African American community (Taub, 1994).

For Shore Bank:

> *'Their target was a community of approximately 75,000 residents most of them black, that had undergone rapid racial and economic change in the mid-1960s. As so often happens, housing vacated by the middle class, first white and then black, became occupied by the poor, with disinvestment and deterioration following'* (Taub, 1994, p. 3).

The development of Shore Bank was a reaction against financial, economic and social change. The majority of both Community Development Banks (CDB) and Credit Unions (CDCU) were located in low income areas (Benjamin *et al.*, 2004). These financial organisations allow customers loans for cars, health costs or education fees and start to give the borrower a credit record (Benjamin *et al.*, 2004). In the 1990s CDBs and CDCUs were the only sources of mortgages for low income families (Benjamin *et al.*, 2004).

Micro-enterprise funds (MEF) and community development venture funds (CDVF) provide business finance in low income areas (Benjamin *et al.*, 2004). CDVF make a capital investment in a business in exchange for partial ownership, which would give young businesses access to capital. This is patient capital and unlike a loan will not have to be repaid immediately (Benjamin *et al.*, 2004). MEFs offer small business loans often under $5,000 (Benjamin *et al.*, 2004).

The role of Community Development Corporations (CDC) can be harder to define, because they can be involved in a range of activities such as building houses in poor communities, stimulating economic activity and also offering training (Glickman and Servon, 1998). Robinson (1996) found them a defence against the gentrification of an area from outside redevelopment. Schill (1996) suggested that the creation of housing was part of the work of CDCs. Broadly, these organisations attempt to stop the economic decline of an area and stabilise the community. Increasing home ownership amongst local inhabitants with low incomes could be an important element of the work of a CDC. Schill (1996) found that enterprise development and equity finance were also aspects of their work. This combination of roles makes CDC difficult to comprehensively describe. However, they are an attempt to bring economic inclusion to an area.

Each structure would attempt to address the financial problems of a given area. The Coalition's website stated that '*all are market-driven, locally-controlled, private-sector organizations'* (Coalition of CDFIs, 2005). These lenders seem to be demand led, strongly linked to a particular location and separate from the public sector.

The locality of a CDFI, and their chosen target markets, does seem to help define lending organisations such as CDFIs. In the UK, CDFIs can be defined in different ways. One way would be to research their legal structures such as an Industrial and Provident Society, a charity, a bank, company limited by guarantee or a combination of structures. In the 1990s, organisations were experimenting and attempting to identify suitable legal structures (Mullineux and Mayo, 2001). Since many CDFIs were still in development there was no appropriate single model.

In the UK, some lenders have registered themselves as CDFIs to offer tax relief and others have joined the Community Development Finance Association (CDFA). In the UK CDFIs have been defined as:

> '*sustainable, independent organisations which provide financial services with two aims: to generate social and financial returns. They supply capital and business support to individuals and organisations whose purpose is to create wealth in disadvantaged communities or under served markets.'* (UKSIF, 2002, p. 3).

The CDFA used this definition on their website from 2002 onwards. Again, financial exclusion has helped to create this definition. Other ways to explore the character of CDFIs would be to look at the products, such as the size of the loan, or the chosen market, such as social enterprise (see Table 2).

Table 2: Characteristics of CDFIs

	Size of loan	**An Example CDFI**	**Area**
Micro-finance	£500 to £5,000	Street UK (currently Street North East)	Local
Small business loan	Up to £10,000	Aston Reinvestment Trust	Local
Loans to Third Sector organisations (social enterprises and charities)	Up to £250,000	Charity Bank	National
Equity investment	Up to £10 million	Bridges Community Ventures	National

Source: The websites of ART, Bridges Community Ventures, Charity Bank and Street UK.

The figures in table 2 need to be taken with an element of caution, because since the inception of each organisation their products have changed. For example, Street UK started out offering micro-finance and by 2004 offered loans up to £30,000 to previous customers.

CDFIs have attempted to bring about financial inclusion for their chosen market (Table 3). The regional Shell Fund administered by Project North East offered loans to young people without a past history of business.

Table 3: Area of financial exclusion

Market	**Example CDFI**
Young people	Shell Fund run by Project North East
People over fifty	Prime
Women	Women's Employment Enterprise Training Unit (WEETU)
Ethnic minorities	Black Business in Birmingham (3b)
Poor credit history (working in the grey economy / county court judgements)	Street UK
Personal finance (relatively small amounts)	Salford Moneyline

Source: The websites of 3b, Prime, PNE, Salford Moneyline, Street UK and WEETU.

WEETU has concentrated on helping women without business experience and Street UK, sole traders with poor credit ratings. 3b supplied loans and support to African Caribbean business owners based in Birmingham and the Black Country (CDFA, 2004a). Salford University's Community Finance Solutions (CFS) began research in the late 1990s and found banks were unwilling to lend to people from deprived groups (Tysome, 2004). CFS's Dr Karl Dayson found:

> *'most of the client group in question did not wish to borrow a lot of money, but they were so poor that any slight change in their circumstances would have tipped their budget over the edge'* and *'We saw that we could act as a broker between local and commercial partners to create trusts that could loan money for a range of purposes, including small enterprises such as setting up a window-cleaning business'* (Tysome, 2004, p. 6).

Dayson was speaking after the development of the Salford Moneyline and other Moneyline organisations (later mentioned in the mapping chapter).

All of these lenders offer a niche product outside the mainstream banking sector. The examples drawn from the USA and UK (in tables 1, 2, 3) would give the impression that CDFIs are small scale organisations. However, the Triodos Bank works in the UK and across Europe. In Bangladesh the Grameen Bank has ten of millions of borrowers (Grameen, 2008).

To recap, CDFIs are not mainstream lending institutions or sub-prime lenders, but they can have significant numbers of borrowers, such as in the case of the Grameen Bank. They have a range of structures and can be banks. CDFIs in the USA, UK and across the world adjust to suit their chosen markets. The following section will now explore the influence of the USA upon developments in the UK.

CDFIs in the USA

The United States of America has offered the UK examples of CDFIs and potential legislation to help these lenders. Even though the USA has Federal and State laws (unlike the UK) it has been influential on the development of CDFIs in the UK. Research has also shown that policies such as business improvement districts can successfully transfer from the USA to England and that there is a long history of policy transfer in the area of urban policies more generally (Cooke, 2008). A series of reports such as *Wealth Beyond Welfare* (UKSIF, 2000), *Small is Bankable: Community Reinvestment in the UK* (Mayo *et al*, 1998) and *The State of Community Development Finance* (Collin *et al*, 2001) all found beneficial policies in the USA. Later examples of looking across the Atlantic were found in *A model for funding and supporting CDFIs: Lessons from the United States* (Nissan, 2008) and *Reflections and Observations on the US CDFI Sector – A Report on a Study Trip to the US* (Vik, 2009).

Geographically, closer countries in Europe have not been as influential as the USA. This could merely be caused by the language differences stopping ideas and examples disseminating across the English Channel. Equally, it could also be because of legislative and socio-economic differences between the UK and France, Italy or Germany. The range of rules governing CDFIs across Europe were problematic and created issues of eligibility (Collin *et al*, 2001). The pan European organisation, INAISE with its publications in both English and French may have helped in some way spread ideas about alternative lending organisations. However, the USA can be seen as the testing ground for CDFIs and supportive policies.

One potential starting point for the inception of the modern CDFI sector can be found in the policies of Lyndon Johnson's administration and it's '*War on Poverty Campaign*' (Coalition of CDFIs, 2005) during the 1960s. In the introduction to The Economic Opportunity Act of 1964 stated that it was:

> *'the policy of the United States to eliminate the paradox of poverty in the midst of plenty in this nation by opening, to everyone, the opportunity to work, and the opportunity to live in decency and dignity'* (Federal Government, 1964, p. 1).

The rhetoric of the 1964 Act has an inflection similar to New Labour's '*Opportunity for All'* of the late 1990s and early 2000s. During the 1960s, the USA was a mixture of economic wealth and poverty with the poorest areas containing the poorly educated and low skilled. The Government aimed at giving people the opportunity to get themselves out of their poverty. It was recognised that entrepreneurship was one way of succeeding. The early CDFIs were established to fill gaps that '*materialized when mainstream financial institutions failed to supply capital to minority and lower-income individuals and communities'* (Moy and Okagaki, 2001, p.4). Furthermore, the Economic Opportunity Act covered the provision of education and training and community action programs. The Economic Opportunity Act programmes offered:

> *'services, assistance, and other activities of sufficient scope and size to give promise of progress toward elimination of poverty or a cause or causes of poverty through developing employment opportunities, improving human performance, motivation, and productivity, or bettering the conditions under which people live, learn and work'* (Federal Government Economic, 1964, Section 202.2)

The programmes seem to have tried various means to get people out of poverty including CDFIs. Moy and Okagaki (2001) have stated that only a small number of early Community Development Corporations were supported by funds from the Office of Economic Opportunity (OEO) in the form of the Special Impact Program. The OEO had in partnership with local Community Action Agencies supported the establishment of hundreds of credit unions. The National Federation of Community Development Credit Unions (NFCDCU) website explained that the government's support for credit unions in the USA was sporadic. In the 1960s many of these credit unions were given insufficient resources or technical support and had poor business plans (NFCDCU, 2004). By 1970, many of these organisations had failed, because of lack of funding. In the same year, credit unions successfully gained access to the deposit insurance, which helped a number of credit unions survive (NFCDCU, 2004). In the 1960s and early 1970s credit unions did not have national voice and in 1974 they formed the National Federation of Community Development Credit Unions.

During the 1970s, the fledgling sector was gradually finding funding to expand. Federal Funds from the Department of Housing and Urban Development, the Economic Development Administration and the Department of Agriculture all financed business development loan funds (Coalition of CDFIs, 2005). In addition to State finance, some early CDFIs received capital from '*socially-minded individuals, churches and local institutions'* (Moy and Okagaki, 2001, p.4). Moreover, from 1965, the private sector was allowed to make investments in community development (OCC, 2001a). This law, named Part 24, allowed banks to make loans that were for social benefits rather than purely for profit. So funding could come into the CDFIs from the State, philanthropic sources and now the private sector. This may have been small-scale investment from the private sector, especially the banks, because there was little incentive to persuade them to support the poorer parts of communities.

In 1977, Congress passed the Community Reinvestment Act (CRA) intended to encourage banks to '*help meet the credit needs of the communities in which they operate, including low and moderate income neighborhoods, consistent with safe and sound banking operations'* (CRA, undated). At the same time under the '*supportive administration of President Jimmy Carter'* the Federation of Community Development Credit Unions received funding for its first paid director (NFCDCU, 2004, p. 5). By 1979, the US credit unions had received a boost from the Community Development Revolving Loan Program for Credit Unions worth $6 million (NFCDCU, 2004).

With the change in administration from the Democratic President Carter to the Republican, Ronald Reagan, federal funding was drastically reduced (Cashin, 2000). The Community Development Credit Union sector was halved and had to find funding from new sources such as charitable foundations and social investors.

The literature available would suggest that the CDFI sector found it difficult during the 1980s and had to find non-governmental sources of funding (NFCDCU, 2004; Pinsky, 2001). Community Development Credit Unions found that the Community Development Revolving Loan Program was virtually suspended and the membership of their Federation had halved (NFCDCU, 2004). Similarly, Federal support for affordable housing, including CDFIs, dropped by 70 percent during the presidency of Ronald Reagan (Moy and Okagaki, 2001). It would seem that throughout the Reagan administration the Federal Government ignored CDFIs - leaving the financial market to solve the problem of insufficient investment in deprived communities. It has been suggested that one of the roles of CRA 1977 was to stop redlining by the banks and this benefited CDFIs during the 1980s (Moy and Okagaki, 2001). However, leaving CDFIs to market forces meant a segment of the financial market was ignored.

The banking sector was going through its own transformation and was having less involvement with poorer communities. In the 1980s, the State handed responsibility for lending in deprived communities to the banks, while the banks were withdrawing from the same communities. During the 1980s and 1990s there was large scale bank rationalisation with approximately 8,000 bank mergers occurring (Moy and Okagaki, 2001). Mark Pinsky of the National Community Capital Association commented upon this time stated that the: '*Disintermediation of local financial markets through the 1980s and much of the 1990s opened market niches for CDFIs'* (Pinsky, 2001, p. 6).

Overall, the banks were withdrawing from the poorer districts and were potentially excluding people on low-incomes and ethnic groups from loan finance, leaving a gap in the market to be taken up by under resourced CDFIs. During this time the CRA 1977 was becoming more of guide than an actual duty. The CRA 1977 influenced some of the banks that were withdrawing from poorer areas to support CDFIs through both gifts and loan funds. Even though CRA was in place, it produced an insufficient supply of funds to satisfy the demand for loans. Eventually, an unfunded initiative supported by President George Bush was taken up and remodelled by Bill Clinton in 1993 to produce the CDFI Fund (Pinsky, 2001). One of the industry's national bodies, the CDFI Coalition, participated in the modelling of the legislation. The CDFI Fund Statute ensured:

> *'that it would help build the CDFI industry and encourage banks and other conventional lenders to step up their work in under-served communities'* (CDFI Fund, 1994).

President Clinton's administration looked at the issues around bank funding and how banks had ignored the poorer areas and altered and improved the CRA making the banks more aware of their redlining policies. This measure was aimed at getting more money into the excluded areas. Similarly, the creation of the Community Development Banking and Financial Institutions Act (1994) was another way of increasing the funds available to CDFIs and disadvantaged communities (and was an influential model for the Phoenix Fund in the UK). While the CRA used bank finance, this Act also brought in Federal funding to:

> '*promote economic revitalization and community development by investing in and assisting CDFIs through equity investments, capital grants, loans and technical assistance support'* (CDFI Fund, 1994).

This act gave government recognition that both capital and revenue funding was needed to support CDFIs to play a role in the financial world in the nation's economy. The CDFI Fund provided:

> '*relatively small infusions of capital to institutions that serve distressed communities and low-income individuals'* and the Fund's activities levered in '*private-sector investments from banks, foundations, and other funding sources'* (CDFI Fund, 1994).

The CDFI Fund had four aims with the first being to increase financing to businesses and individuals desiring to start businesses with low wealth located in under served communities. The second focused on financing the supply of housing units for under served communities and populations. This was to increase home ownership rates amongst minority groups. Thirdly, it aimed to increase access to affordable financial services to those without bank accounts and increase financial literacy for low-income persons. Finally, it wished to increase the capacity of CDFIs to lend and provide financial services to disadvantaged communities.

Overall, the aims of the CDFI Fund were very much focussed upon inclusion and the creation of a financial environment within disadvantaged districts where enterprise and home ownership could increase with appropriate finance. It was important also in the same areas to supply financial services where potentially they had been lost, and educate people about finance. Unlike the UK, CDFIs in the USA lend for low-income housing to give people a stake in their communities.

This Act produced growth, doubling the number of lenders and tripling the managed assets of the CDFI industry by 2001 (Pinsky, 2001). A revision in the Community Reinvestment Act (CRA) regulations in 1995 recognised an investment in a CDFI as a qualified CRA activity. This meant that the banks, rather than working with higher risk borrowers from poor districts, could transfer their responsibility and lend to a CDFI. It would be for the CDFI to work with the riskier client, but the bank would gain the CRA recognition. If the CDFI had a guarantee fund then the bank would have an almost risk free investment and would still fulfil its CRA obligations. With the combination of the altered CRA and the banking act, the CDFI sector grew by around 38 percent per annum over a ten-year period (Pinsky, 2002).

However, forcing the banks into lending to poorer communities was problematic. There has been a division between CRA and the roles of the banking system on one side and CDFIs on the other (Haag, 2000). Banks or the market has been seen as the best way to solve the problem of supplying finance in low-income areas and similarly CDFIs have claimed the same position (Haag, 2000). However, banks working with CDFIs would be beneficial to all parties.

The *Performance and Profitability of CRA-Related Lending Study* (1999) sampled five hundred banking institutions and found that the majority of loans under the CRA scheme were profitable (Federal Reserve, 2000). During 1999, in the small business sector around half of loans were CRA applicable, some $58.9 billion from $117 billion overall lending and the CRA related small business loans had a very similar profitability to the overall sector (Federal Reserve, 2000). This could indicate that the criteria for CRA small business loans were too broad. Table 4 below illustrates that loans for small business and community development were profitable, but CRA special lending programs were less clear-cut.

It would seem that an investment in community development such as lending to a CDFI would be profitable. The CRA special lending programs worth $11.2 billion were mostly profitable, but from the data it would indicate this was the less profitable end of the market.

Table 4: The Profitability of CRA lending.

Profitability (percent of institutions)	**Profit-able**	**Margin-ally profitable**	**Break Even**	**Marginally unprofitable**	**Unprofit-able**
CRA Related Small Business Lending	85%	11%	2%	1%	1%
Community Development Lending	54%	39%	4%	2%	1%
CRA Special Lending Programs	29%	32%	14%	15%	10%

Source: Federal Reserve (2000): *The Performance and Profitability of CRA Related Lending,* pp. xxi - xxiv

Almost all surveyed cited the CRA special loans were a response to:

> *'the credit needs of their local community, promoting community growth and stability, and improving the public image of the institution'*
> (Federal Reserve, 2000, p. xiii).

It was thought that these programs would have produced '*either a satisfactory or outstanding CRA rating'* (Federal Reserve, 2000, p. xiii). Around 75 percent of the banks used third parties, possibly CDFIs, and offered reduced interest rates and provided pre-loan education. It would seem that the special lending programs were the place where the banks would have reduced their profits with possibly higher risk loans to CDFIs, but gaining the most CRA credits. However, if the investment was match funding to support a governmental grant, then the bank's funds would only be diminished after the other funding had been lost, which would minimise the bank's risk. In the late 1990s and early 2000s it could be argued that the government, banks and CDFIs had some success working together.

Potentially, without the revised CRA, there would be no special lending programs and there would be no pressure for the banks to put $11.2 billion into this form of lending. The Act had its supporters. Kenneth H. Thomas in his work for the Levy Institute reported that CRA was:

> *'proof that capitalism can have a corporate conscience without degrading into socialism or gambling on the other extreme of completely unregulated markets'* (Thomas, 2002, p.3).

In addition, he thought CRA was '*arguably a perfect example of the correct balance between government and market regulation in a capitalist economy*' (Thomas, 2002, p. 1). Overall, the CRA policy has attracted money to poorer areas, but it has also had an influence upon the CDFI sector.

A CRA investment could be used in conjunction with the next policy to effect investment. The Community Development Banking and Financial Institutions Act 1994 further increased the funds available to CDFIs. In November 2000, the CDFI Fund was extended to include a Small and Emerging CDFI Fund aimed at Community Development Credit Unions (CDCUs) and newer CDFIs. In the early part of the new century CDCUs and potentially other CDFIs had problems with rising unemployment, decreasing interest rates and a reduction in charitable budgets (NFCDCU, 2004). At the same time the Community Renewal Tax Relief Act (2000) was passed, giving a tax credit to investors aiding borrowing in disadvantaged communities. The tax credit aimed to raise $15 billion and offered 39 percent tax relief on the investment over seven-years. From the CDFI Fund data it would suggest that this target would be met.

The establishment of the CDFI Fund in 1994 marked the stage at which the US CDFI industry finally took off, as it now had the prolonged financial support that it needed. By the end of the 1990s, the USA had a growing CDFI sector, which was seen as a potential role model for a UK CDFI sector. From the National Community Capital Association, Mark Pinsky has attended a number of UK CDFI conferences such as Birmingham (2001), Melton Mowbray (2005) and Newcastle (2009). In 2002 he wrote that CDFIs had three goals with respect to self-sufficiency with some aiming to become totally self-sufficient, others wishing to cover core costs and others wanting to be 50 percent self-sufficient (Pinsky, 2002). Pinsky's admission that some CDFI wished to cover only 50 percent of costs was problematic, because in Britain, North American CDFIs have been viewed as being sustainable and successful.

George W. Bush's presidency started well when he appointed Mark Pinsky to the CDFI Fund Advisory Board. However, the funds given to CDFIs were reduced from almost $50 million (2001) to $46.6 million (2004) and further reduced to $26 million (2007) (CDFI Fund, 2006). This obviously led to a reduction in the sector as revenue funds decreased. In 2008, George W. Bush proposed around $50 million for funding CDFIs. However, President Obama suggested boosting this up to $400 million in 2010 (Kirchhoff, 2009). A commentator noted that this was small change compared with financing the banks, but each dollar invested in CDFIs levered in between $14 to $20 additional funds (Kirchhoff, 2009).

The CRA has not influenced the financial crisis and persuaded banks into the sub-prime market. The Federal Reserve Board researched whether the CRA played a substantial role in the sub-prime loan crisis using the 2006 Home Mortgage Disclosure Act data and other sources and concluded that the CRA did not contribute to or cause this crisis (Dallas Federal, 2009). It has been observed that CRA has strengthened the US economy, producing small-business loans totalling $2.5 trillion from 1998 through 2007 and according to the Small Business Administration producing a significant percentage of new jobs (Dallas Federal, 2009). Even in 2009, it was suggested that the UK could benefit from a measure like CRA to help access to credit and the new President Obama was a supporter of the Act (Rahman, 2009).

Despite the recession and the credit crunch, research has found that CDFIs were being approached by increased numbers of businesses. These had approached their banks and had been rejected (Vik, 2009). In 2009 CNN announced that CDFIs received loan applications worth over $400 million and in the fiscal year 2010, the CDFI Fund would be approximately $250 million. In addition Goldman Sachs was distributing $300 million (over five years) to CDFIs in grants and loans (CNN, 2009).

Overall, a number of organisations such as the New Economics Foundation, Community Development Finance Association and the Social Investment Task Force have all wished to see similar policies established in the UK. The USA has been an influence upon the modelling of policies in the UK. However, micro-finance has played a much smaller role and the following section will explore something of its background. In the UK a large majority of CDFIs made micro-finance available and the CDFA found that more established medium sized businesses were '*less likely*' to be excluded from bank finance (CDFA, 2009a, p.8).

Micro-finance: From the Developing to the Developed World.

As mentioned above, the majority of the CDFA membership offered small business loans unlikely to be attractive to the high street banks. There are links between alternative banking or lending systems in Bangladesh or Chile and CDFI loans in the UK or the USA. All of these lenders are working with individuals excluded from bank finance. This short section will discuss micro-finance travelling from Asia into Eastern Europe and finally into economically developed countries.

Micro-finance and micro-credit can be confused and used in a general way (United Nations, 2006). However, the European Micro-Finance Network, the Micro-Finance Centre and the UK's CDFA produced the following definitions:

> *'Micro-finance refers to the provision of financial services - micro-loans, savings, insurance or transfer services - to low income households. Micro-credit refers to provision of micro-loans for micro-*

enterprise development. As such, micro-credit is one of several financial services referred to when the term microfinance is used' (Lens and Menendez, 2007, p. 2).

Banks have had policies of expanding into new markets and spreading across national boundaries. One international bank (HSBC) has even called itself the '*World's local bank*.' However, an area where the banking sector has failed is in the supply of very small loans for business. Micro-finance is the supply of very small amounts to the unbankable individuals and groups. Some of the defining characteristics of micro-finance are:

- *'Small loans, typically for working capital,*
- *Informal appraisal of borrowers and investments,*
- *Collateral substitutes, such as group guarantees or compulsory savings,*
- *Access to repeat and larger loans, based on repayment performance,*
- *Streamlined loan disbursement and monitoring,*
- *Secure saving products.'*

(Ledgerwood, 1999, p. 1)

The level of loan needed would be dependent upon the country. Bangladesh is the home of the Grameen Bank and it would offer loans under £50. In the UK, a micro-finance loan would be around £1,000 to £5,000. However, because the amounts are comparatively small in the developing and also the developed countries, the banks have been unwilling to lend small amounts to businesses, especially those without sufficient records or a good credit history. The World Bank (2007) has stated that more than 500 million people world-wide need access to financial services, which would suggest a large percentage of the world's population is not catered for by the banking sector.

Micro-finance through CDFIs attempt to fill this gap created by the bank's unwillingness to supply small business loans. The United Nations recognised this problem and the General Assembly adopted 2005 as the International Year of Micro-credit to address the constraints that exclude people from full participation in the financial sector (United Nations, 2006). Kofi Annan, the Secretary General of the United Nations stated that:

'Inclusive financial sectors can go can a long way toward breaking the vicious circle of poverty…With more opportunities to build on their ideas, energies and visions, they will lead the way in working their way out of poverty with dignity' (United Nations, 2006, p. v).

Even though the United Nations and the World Bank have relatively recently recognised the problems of financial exclusion amongst the world's poor, organisations such as Accion and the Grameen Bank have attempted to address this problem for decades.

Across the globe there are diverse examples of micro-finance, but these different forms all have the common purpose of providing '*financial services directed at those most in need and proving, time and again'* (Ramirez, 2001, p. 48). These interventions are part of the development process aimed at moving people out of poverty (Ledgerwood, 1999). The supply of small amounts of money increases economic activity and gives people the opportunity to improve their lives. It has been suggested that micro-finance is a market based way of increasing self-employment and alleviating poverty in the developing world (Morduch, 1999). There have been numerous forms such as:

'the Grameen Bank's group lending in Bangladesh, the solidarity group method of Accion International first tried in the Dominican Republic and then expanded to many other countries, village banking and saving schemes or 'caisses villageoises' in Africa, the individual lending methodology of Bank Rayat in Indonesia and of FIE in Bolivia' (Ramirez, 2001, p. 48).

Micro-finance has become a major tool for development and has been seen as a solution to the challenge of poverty in the developing world (Fisher, Sriram and Harper, 2002). It can be understood as a form of self-help with the poor themselves borrowing and through entrepreneurship improving their own situation. It is not a replacement for capital projects, but an element to move the poor out of poverty. Over many years its importance has been recognised by the United Nations and other donor organisations. Micro-finance organisations often aim to be sustainable (Sinha and Sinha, 2002), but because of their outreach work and their inability to charge sufficient interest to cover costs financial sustainability has proved problematic.

Micro-finance has spread to the UK in the form of Street UK and Aspire. However it did not directly transfer from the developing world to the UK and there was an intermediate stage in Eastern Europe. After the fall of the Berlin Wall and the dividing up of the Soviet Union new forms of micro-finance were developed within Eastern Europe. The Micro-Finance Centre based in Warsaw, Poland found:

> *'In Europe the development of the sector started in the 90's and has not progressed at the same pace in individual countries. A rapid and strong development in the countries of Eastern Europe (including some of the new EU Member States) has contrasted with slower, patchier growth in Western Europe* (Micro-Finance Centre, 2007, p. 4).

There are a number of examples of micro-finance being established in Eastern Europe, but there is one direct link from Poland to the UK. In 1994 Rosalind Copisarow, an ex-banker for JP Morgan in Poland began the Fundusz Mikro with $24 million from the Polish American Enterprise Fund. Over four years this organisation had built up a large enough customer base to be self-sufficient distributing 25,000 loans worth $25 million with a 98 percent repayment rate (Copisarow, 2001). In 2000, Copisarow established Street UK in Newcastle, Birmingham and planned to work in Glasgow. It was the success of such models in Eastern Europe that allowed these ideas to be imported into the UK.

Since the fall of the Berlin Wall micro-finance in Eastern Europe may have had some success establishing micro-finance organisations and getting loans out. However, the picture has not always been successful, with organisations being unable to cover their costs across Europe (Evers, 2007). Similarly, the Micro-finance in Central and Eastern Europe newsletters have highlighted the problems of micro-finance since 1999 (Micro-Finance Centre, 2007a). However, the Micro-finance Centre was a network of 90 micro-finance organisations in the new independent states. Both WEETU based in Norwich, and the North East branch of Street UK tried lending circles / groups. This loan mechanism has been transferred from the villages of Bangladesh to Eastern Europe to UK cities with mixed results (see later chapters).

The European Connection

This section will use information from INAISE to illustrate other forms of CDFIs in Europe. The literature suggests that it would be difficult to transfer certain models from mainland Europe to the UK and that Europe has played a minor role in influencing UK CDFIs when compared to the USA.

One European influence would be the Triodos Bank setting up in the UK and Ireland in 1995. This expansion into the UK market meant that it transferred many years experience from Europe to become an important CDFI in the UK. Triodos Bank had 15 years experience of being a bank and developing environmental and social investments (Triodos Bank, 2002). It incorporated:

> *'social and ethical – as well as financial – perspectives into its business practices. This three-way approach is the source of the name Triodos'* (Triodos Bank, 2002, p. 5)

The Triodos Bank was a member of both INAISE and UKSIF; organisations involved in promoting CDFIs. In the UK, it later joined the Community Development Finance Association and became a registered CDFI distributing the tax relief (this UK policy will be mentioned in further chapters). Potentially, having many years experience in Europe has allowed the Triodos Bank to be a leading national CDFI. It and the Charity Bank have been the UK's only CDFI banks.

Some of the UK based CDFIs were members of the INAISE. Potentially, it was important for them to join a membership organisation that could help their sector. Organisations such as the Aston Reinvestment Trust joined, because they did not have their own UK based association and agreed with INAISE's principles. INAISE's members had two main characteristics:

- *'They tend to serve social economy organisations and small or micro enterprises which have social or environmental objectives.'*
- *'They finance (de facto) sections of the population, projects, sectors or regions which have been abandoned by traditional banks or financial institutions'* (INAISE, 1998, p. 2).

The late 1990s were a time when INAISE was defining social investment and building up a significant number of European members. At the First European Forum on Social Investment in 1999, social investment was an:

> '*investment which aims to recreate social bonds, by reintegrating excluded groups into the economic circuit, re-establishing these bonds by creating jobs and businesses'* (INAISE, 1999, p. 7).

This definition further stated that the:

> *'issue is to move out of welfare and to aim at making projects profitable. So as a general rule it is not a question of integration for the sake of integration, but to engender the development of real economic activity'* (INAISE, 1999, p. 7).

The INAISE membership of social lenders wanted to see entrepreneurship, and argued that the issue was:

> *'to move away from the philosophy of welfare to one promoting an economic approach which is not at odds with the market economy, so that the individuals, groups or localities to be "reconnected", to be "reintegrated", see themselves as being offered the means to become real actors in the process, and not merely "client's"'* (INAISE, 1999, p. 8).

The themes of reintegration by employment and opportunity, and moving people from welfare into work, were policies associated with New Labour and Third Way thinkers (Blair, 1998; Giddens, 1998; 2000). There was a connection between the UK lenders and other European lending organisations, but no definite transfer of policies. These debates held at conferences throughout Europe and posted on INAISE's website may have clarified and explained the role of social lenders or CDFIs. However it is difficult to identify direct influences from Europe on the UK CDFI sector. Europe had many member states, many individual examples and too many laws specific to individual countries.

One illustration of this would be the participation of local authorities in the development of a social bank, Banca Etica in Italy and its connections with social co-operatives (Defourny and Borzaga, 2001). It would be difficult to transfer Banca Etica's structure and funders across to the UK, because it does not have the same municipal co-operative culture or history. Similarly, in France the Association for the Right to Economic Initiative (ADIE) would be difficult to transfer to the UK. Begun in 1988, AIDE has acted very much like a CDFI lending to the individuals in receipt of welfare and potentially without prior business experience. The development of ADIE was not straightforward and it took the organisation ten years to introduce micro-finance to France (Nowak, 2001). ADIE has had to adapt each year to the changes in welfare affecting enterprise and financial and training support. The continual governmental changes were made worse *'by the phenomenon of regional and departmental decentralisation'* (Nowak, 2001, p. 246). This made policies inconsistent across the country and problematic for an organisation attempting to be national. In 2000, this lending organisation was looking to expand and also reduce its costs (INAISE, 2000). The costs and decentralised structure of government made AIDE a difficult example to transfer across to the UK. The developer of AIDE has suggested that in France there was no suitable legal framework for establishing micro-finance organisations (Nowak, 2001).

Overall, European developments have had little influence in the UK, despite INAISE reporting on different forms of lending organisations from across Europe, such as the Fund for Local Employment Initiatives based in Hamburg, the JAK Bank offering interest-free lending in Sweden and the Cigale movement in France (INAISE, 2000). However, micro-finance is one area where Europe has had some influence on the UK in the form of Street UK and Aspire. While INAISE played a role in supplying a membership organisation to spread ideas, once the UK received its own association many of INAISE's UK membership disappeared. It is possible that if more European examples had been shown in research reports, the character of the UK's CDFIs could have been altered.

Summary

Assessing the UK literature about CDFIs it is clear that the USA has helped form ideas and models. From a UK perspective, policy transfer from the USA has bequeathed two important policies aiding CDFIs, CRA (1997) and the CDFI Fund. Although the UK’s Phoenix Fund supporting CDFIs lasted less than a decade, in the USA the CDFI Fund has celebrated its 15th anniversary this year. Additionally, ideas on financial inclusion and micro-finance have spread from Bangladesh, to Eastern Europe and then to the UK. The next chapter will capture what can be described as the British ‘new wave’ of CDFIs.

Chapter Four: CDFIs – The British 'New Wave'

This chapter builds on the previous chapter examining the influences from the USA and Europe and it has two purposes. Firstly, to explore the issues and circumstances that led to the developing interest in CDFIs in the UK in the 1990s, and also to exam in detail the work of the Social Investment Task Force. While alternative lending organisations had existed since the 1970s, by the end of the 1990s there were clear links developing between lending organisations and the work of campaigning research organisations and this combination was helping to create a prototype sector.

The Formation of a Prototype CDFI Sector

CDFIs have been developed in the UK over the last 30 years. On a national level, there was the Prince's Trust Business Start-Up Programme, established in the 1983, and on a regional level Project North East (PNE) based in Newcastle set up its Shell Fund for young people in 1980. During this period many of the loan funds were described as soft loans not requiring the same security or ability to repay as a bank loan.

In the late 1980s ICOF had received local authority funding to create employment in the Midlands. It was used to stimulate financially fragile businesses and was more about the short-term employment gains, rather than creating a sustainable resource (ICOF, 1999). The UK picture for SME business loans during the 1980s was problematic, so the government's Small Business Loan Guarantee Scheme was established to help to reduce finance exclusion for businesses. However, in the 1980s there were still gaps or areas of exclusion, such as loans for ethnic businesses owners (Hughes, 1997). The recession of the early 1990s also meant that there less funding available and surveys identified more gaps in loan funding (Hughes, 1997).

The recession and high interest rates of the 1990s were influential in reducing the supply and demand for business loans. However, the banking sector was changing, with the introduction of technology and rationalisation (Leyshon and

Thrift, 1994; 1995; 1996; 1997). In both the USA and the UK the high street banks were withdrawing from poorer areas (Leyshon and Thrift, 1996). It was recognised that financial services were being rationalised through mergers and branch closures (Mayo *et al.,* 1998).

The Joseph Rowntree Foundation was actively funding research into financial exclusion during this period (Mayo *et al.,* 1998). Research showed that banking services were not universal and part of the population was excluded from basic banking (Kempson and Whyley, 1999). Nevertheless, the Bank of England and the major clearing banks thought that there was '*no generalised shortage of finance'* (Mayo *et al*., 1998, p. 9) and in this sense, the banking community were ignoring sections of the population. During the late 1990s it was discovered that 1.5 million people lacked basic financial services such as a current account and another 4.4 million were on the margins of financial exclusion (Kempson and Whyley, 1999). With a population of around 50 million people, around 10 percent of the total population of the UK had experienced some form of financial exclusion. Similarly, it was found that small business lending from the high street banks had diminished from £46.7 billion to £34.1 billion from 1991 to 1996 (Mayo *et al.,* 1998). This was a time of high interest rates that potentially helped to reduce economic activity and contributed to the lack of interaction between certain communities and the banking sector as the banks were rationalised (Jones and Maclennan, 1987; FSA, 2000; Leyshon and Thrift, 1994; 1995; 1997).

In the late 1980s and 1990s, there seemed to be an increased interest in sustainable loan funds and finding alternative forms of lending. The Charity Aid Foundation had loaned to the charity sector for many years, but expanded into social enterprise sector. In 1997 it formed Investors in Society to finance the social enterprise sector rather than the charitable sector. Later, this organisation became the Charity Bank. The Shared Interest Society (1990) was established to lend to fair trade importers and producers in the developing world. There were also a series of local funds established, such as the Aston Reinvestment Trust (ART) (1997), Women's Employment, Enterprise and Training Unit

(WEETU) (1998), Aspire (1999), Salford Moneyline (2000) and Portsmouth Area Regeneration Trust (PART) (2000).

Figure 2: Timeline for a sample of CDFIs

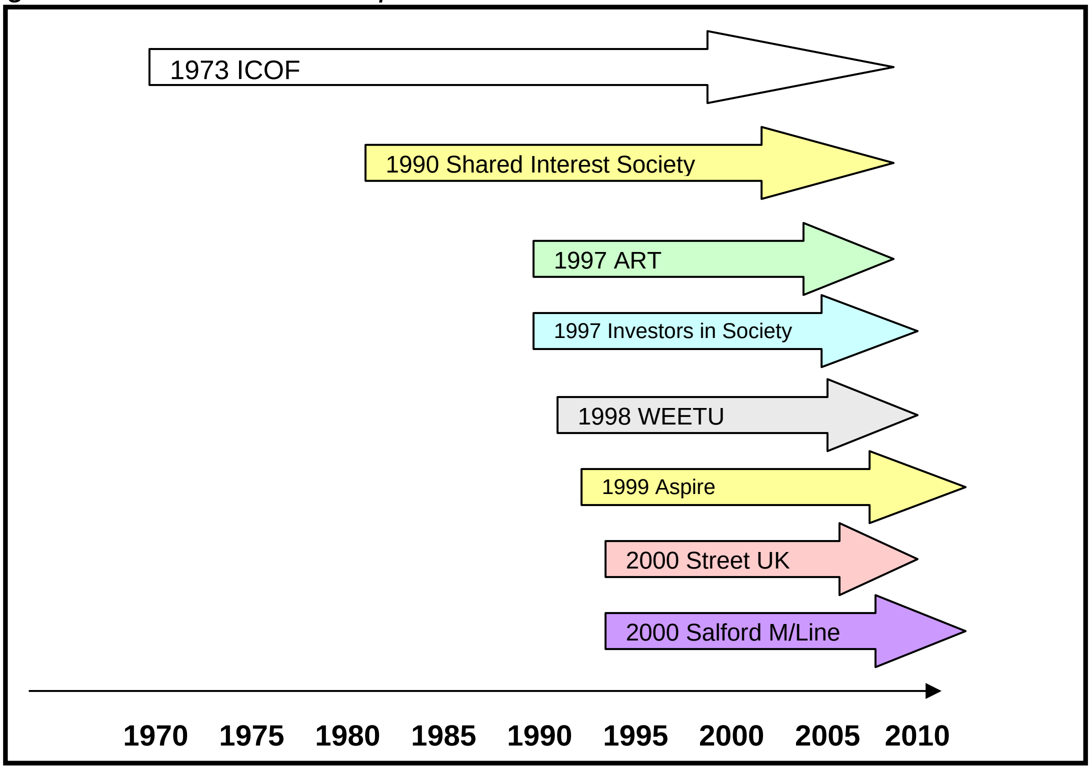


Figure 2 shows the dates when the lenders started lending. In 2010 all of these organisations still existed, but their names and aims may have changed over time. These lending organisations were not established in haste, taking a number of years to work out their company structures and raising funds. The development of ART was reported in the Independent newspaper in the mid 1990s (Gosling, 1994) even though it did not start lending until 1997. The Shared Interest Society took around two years to be developed and has been included in figure 2, because similar to ART and ICOF it was a member of the UK Social Investment Forum and funded by social investments. Interviews with members of staff and their chairman indicated that the organisation wanted to be recognised as a CDFI, so it could gain tax benefits for investors. Shared Interest like the other lending organisations wished to attract additional investments through tax relief. However, unlike other lenders it loaned money to the developing world, which eventually meant it was not recognised as a CDFI by government. WEETU, a business support and lending organisation for women in Norwich, was established in the 1980s, but only began peer-group lending in 1998. They were establishing themselves as potential solutions to financial exclusion in particular areas. Organisations such as ART were being seen as important examples, even within government (House of Commons, 1998; 2000).

Campaigning Organisations

Some of these organisations such as ART, ICOF, Local Investment Fund and Triodos Bank were members of UKSIF. At the time, UKSIF membership ranged from banks, such as the Co-operative and Barclays, to ethical investment advisors and ethical investments for the developing world to CDFIs (UKSIF, 1998; 2000; 2005). It was not a cohesive body, because the membership did not have a single purpose. Many of the CDFIs had received some of their funding from social investors and hence their membership of UKSIF. In the late 1990s the membership also included Demos and the NEF.

In addition, many of these same organisations were members of INAISE. In the late 1990s the membership was concentrated within Europe with a few North American and Asian members. INAISE will be mentioned later, but at present it is important to note that networks were being established within the UK and across Europe. Having these two membership organisations may have given these lenders a place to exchange information and campaign for greater recognition.

Building up evidence on the problems caused by financial exclusion was an important factor in gaining recognition for community development finance. In the 1990s research was being carried into financial exclusion and problems with finance (Kempson and Whyley, 1998; BoE, 2000; Leyshon and Thrift, 1996), but very few solutions were being found. In 1998, research published by the NEF and JRF explored the problem of exclusion and identified five solutions to financial exclusion. These were:

- Credit unions: financial co-operative organisations offering personal saving and borrowing, owned and controlled by the membership. Each credit union membership has a common bond, such as location or a workplace.
- Community loan funds: serve community regeneration initiatives by making capital available. Their loans can be used to lever in additional finance.
- Micro-finance funds: make very small loans to micro-businesses such as sole traders.
- Mutual guarantee societies: are formal associations of SMEs pooling their savings to offer collective guarantees.
- Social banks: are for-profit financial service providers dedicated, typically in their constitution, to social or environmental objectives (Mayo *et al.,* 1998).

These organisations offered both personal and business finance. It should be noted that the term Community Development Finance Institution was not being used at this time. NEF used the phrase '*community finance initiative*', which illustrates that ideas and terminology were still being developed (Mayo *et al.*, 1998, p. 3).
The NEF/JRF report also set out an agenda for community finance and produced a vision for the following ten years:

- Credit unions would be serving at least 10 percent of UK households.
- A national micro-finance scheme serving 100,000 enterprises.
- Community loan funds in every major city.
- An extended social economy / charitable enterprise sector.
- One hundred mutual guarantee societies across the UK.
- Community finance as a significant force for sustainable local regeneration (Mayo *et al.,* 1998).

To carry out this agenda the report suggested a number of policies. The first policy response was to improve access to technical assistance, such as business training. The second policy recommendation was to enable community finance initiatives through a capital fund to support micro-finance. The third policy recommendation explored improving the risk and return for the investor. If the risk was decreased then loan funds would be more attractive to investors. It was suggested that loan guarantees and tax relief could act as incentives. Finally, the last policy involved social responsibility and the banks disclosing the level of loans in poor communities. In the 1990s the banks had physically moved out of the poorer areas of towns and cities, so it was unknown how many loans were being given in these places. This policy of disclosure focused heavily upon the USA's Community Reinvestment Act. This research and additional studies external to government over time were influential within government.

In 1997 the Labour Party had been out of power since 1979 and had little or no experience of being in government. When New Labour came to power unemployment was the third most important electoral issue behind education and health (Labour Party, 1997). In addition, the New Labour Government had promised to stick to the spending plans of the previous administration. In the early years, Gordon Brown was prudent and he avoided raising public spending. In the late 1990s, the Government had limited funds available and was looking at Public-Private Partnerships as a form of finance for public capital projects (Ruane, 2002).

The Prime Minister, Tony Blair, and others were discussing the potential of a Third Way in politics at a national and international level (Blair, 1998; Giddens, 1998; 2000; 2001). The government were exploring ideas that were a middle-way between the state and the market (Driver and Martell, 2000). This emphasised that policies could take into account the positive attributes of both state intervention and the free market.

Tony Blair in promoting '*Opportunity for All'* policy stated that:

> *'Gross inequalities continue to be handed down from generation to generation, and the progressive Left must robustly tackle the obstacles to true equality of opportunity'* (Blair, 1998, p.3).

He was not specifically writing about financial exclusion, but any form of exclusion that would stifle opportunity. In 1997 New Labour established the Social Exclusion Unit to investigate inequalities across employment, health and education. The new government decided to take stock and evaluate the UK and established Policy Action Teams (PAT) to look at different problems within the UK. In 1999, PAT 3 researched enterprise and social exclusion and found there were issues around access to finance. When looking at finance in deprived communities it recommended that the:

> '*Government should encourage an innovative and competitive banking market to serve poor areas – but in the end market mechanisms will not be enough. So the Government should also encourage new initiatives to provide finance for enterprise where justified by the high potential returns to society'* (PAT 3, 1999, p. 3).

The majority of the report concentrated on the banking sector and the members of PAT 3 wanted the banks to take a major role in filling a gap in finance. The report offered two routes to supplying finance. The first suggestion was to persuade the banks to become involved, even though the market had already failed. The second accepted that CDFIs were an alternative solution that needed to be built upon. It suggested that even soft loans were preferable to grants, because loans were seen as a more efficient use of limited public resources. Continuing the theme of reducing the public purse it proposed that the public and voluntary sectors were:

> *'too stuck in a culture of grants'* and if an organisation created *'positive financial returns'* then there should be *'a presumption in favour of loans'* (PAT 3, 1999, p. 4).

According to the report, organisations such as social enterprises, charities or voluntary groups with an income ought to have been taking up loan finance rather than grants. The report indicated that the Third Sector could, if there were positive financial returns, actually move away from state maintenance.

PAT 3 was also linked with the Treasury, and the Team had Patricia Hewitt followed by Stephen Timms (both Financial Secretaries for the Treasury) as their '*Champion Minister'*. In 1999 the Treasury established the Phoenix Development Fund, which ran from 2000 to support mostly business development organisations. In a foreword to a later evaluation, Patricia Hewitt directly linked PAT 3 to the Department of Trade and Industry's (DTI) Phoenix Fund (DTI, 2004). A few CDFIs such as WEETU and Project North East did receive funds for their developmental work. The New Labour government were thus finding ways to invest in disadvantaged communities at a local level (Wallace, 2001; Affleck and Mellor, 2006). This emphasis on localism will be discussed in greater depth in later chapters.

The value of the Phoenix Fund was that it was able to galvanise the UK CDFIs into a more coherent sector. Firstly, the Phoenix Fund was worth £100 million and split into streams (SITF, 2002). Over 250 organisations bid for funding in the first round of the Phoenix Development Fund in 2000 and over 350 in the second round in 2001 (DTI, 2004). The Development Fund was aimed at business support and £29 million was disbursed (DTI, 2004). However, the Challenge Fund that followed was aimed at CDFIs and in the first round in 2001 £5 million was awarded to 16 organisations. In the following year, the second round gave £14 million to 32 organisations (SITF, 2002). Eventually, around £41 million was distributed to CDFIs. These sums supplied by the Small Business Service (SBS) to business support organisations and CDFIs helped to change language. CDFIs became Institutions rather than Initiatives, because the SBS and others were using the term. The Challenge Fund financed 41 organisations and 48 projects (SITF, 2002). However, other later figures show that 59 national and regional CDFIs received Challenge funding. The combination of gaining a UK based association and having funds allowed the sector to solidify.

The Social Investment Task Force

As well as the influential PAT reports, the work of the Social Investment Task Force (SITF) was also important in stimulating governmental interest in community development finance. As this document has been an important influence upon policy makers and CDFIs, it will be helpful to consider the message in some detail.

Wealth Beyond Welfare (2000)

The *Wealth Beyond Welfare: Enterprising Communities Report* was addressed to the Chancellor of the Exchequer and written by the SITF. The Task Force was made up of people from the business community, which included:

- Ronald Cohen of Apax Partners and Co, an equity finance business;
- David Carrington the Chief Executive of the PPP Healthcare Medical Trust;
- Philip Hume, the Chair of Computacenter;
- Tom Singh, an entrepreneur and the Managing Director of New Look, a clothes retailer;
- Geraldine Peacock, the Chief Executive of Guide Dogs for the Blind;
- Another task force member with a background in CDFIs, Joan Shapiro formerly the Vice President of South Shore Bank based in Chicago;
- It also included Ian Hargreaves, an academic and journalist.

There was mix of people from both the business and the charitable sectors and a North American social bank that would bring a range of expertise. However, there was no one directly associated with social enterprise or tackling exclusion. Joan Shapiro from South Shore Bank would have been influential and explains why the report tended to duplicate the policies followed in the USA.

Since the Task Force was made up of Chief Executives they were quite distant from the problems of SMEs within disadvantaged communities within the UK. However, having important figures from industry gave the report credibility. Similarly, the endorsement of Gordon Brown gave the document some importance. It found poor communities were in a spiral of decline and even though an estimated £3 billion per year was invested in public regeneration within the UK's poorest areas nothing had changed to improve the wealth of the residents. The physical environment had changed and what was needed was a:

> *'new approach to addressing the needs of under-invested communities would help to rebuild their economic base'* (SITF, 2000, p. 10).

It was thought this could reverse the spiral of decline leading to rising property prices, increasing enterprise and creating more purchasing power, which would in turn produce more opportunities for entrepreneurship. This development would need greater co-ordination and importantly:

> '*a major cultural shift from the public, charitable, voluntary and community sectors towards a more entrepreneurial approach'* (SITF, 2000, p. 10).

The SITF also confirmed the importance of rebuilding the:

> *'economic base of under-invested communities' it needed recognition of their financial needs and viewing as 'an economic opportunity'* (SITF, 2000, p. 15).

Like the PAT 3 report, the document highlighted tackling social exclusion through bringing employment to disadvantaged areas through enterprise. It also noted that research undertaken in Scotland had argued that the contracting out of public services gave the charitable sector opportunities to raise income through service delivery. This was seen as illustrating the potential for charities to change and be more businesslike. However, the transfer of public services to the charitable sector could also be understood as a cost cutting exercise, rather than an example of truly entrepreneurial spirit.

Financial exclusion was seen as an issue and CDFIs were viewed as a way of funding these enterprises in disadvantaged areas. The SITF thought that what was needed for '*neighbourhood renewal'* was to restore '*local market forces'* and this required '*a market-driven system that harnesses entrepreneurial drive'*

(SITF, 2000, p. 15). Those Task Force members from entrepreneurial backgrounds may have influenced this message. However, from another perspective, market forces were part of the problem in creating disadvantaged communities with businesses including banks finding insufficient profits in these areas and rationalising their branches. In the PAT 3 report it was identified that business support with loans was necessary, but the SITF was very much aimed at investments and loans.

Overall, the Task Force's report focused on supplying finance for enterprise and made five policy recommendations;

1. Community Investment Tax Relief
2. Community Development Venture Fund
3. Bank Disclosure
4. Greater latitude for investment in Community Development Initiatives.
5. Support for CDFIs through a national trade association.

These recommendations were to bring support and finance into the CDFI sector and targeted at communities excluded from finance. Each of these will now be considered in turn

Community Investment Tax Relief

At the second CDFI conference in 2001, Paul Boateng MP announced that there would be tax relief for investments in CDFIs. The SITF suggested that demand for finance outstripped supply and therefore an incentive was needed to attract further capital funds. At the conference there was a call for further revenue and capital funding and the tax relief would create larger loan funds. CDFIs were thought of as looking:

> *'for higher social returns than traditional private investment and higher financial returns than traditional public expenditure and grants'* (SITF, 2000, p. 15).

In terms of returns, CDFI were thought of as a potential Third Way between financial and social returns. The Community Investment Tax Relief (CITR) would move the CDFIs towards a commercial return by reducing their amount of tax and diminishing the public spending. This policy was to adjust the balance for the social and financial returns and make the sector more attractive. By investing in accredited CDFIs the investor could apply for 5 percent per annum tax relief over the five-year period of the investment. In a period of low inflation and falling interest rates (2002 – 2003) the tax relief of 5 percent of the investment was a positive return. Early in 2003 the first batch of seven CDFIs were accredited, and by 2004 this had increased to twenty-three. This was unlike the Phoenix Fund, which was supplying grants for capital and revenue costs. The tax relief measure was purely aimed at attracting private capital and only capital into a number of CDFIs. Nevertheless, it was proposed that revenue support would be given for CDFIs with CITR accreditation providing wholesale finance nationally (SBS, 2003). CITR has remained an important element of the Government's policy for attracting funds to CDFIs and in December 2006 it begun a review to assess further developments of this tax relief. It attracted around £38 million by 2006 (Hackett, 2006).

Community Development Venture Fund

Ronald Cohen of the Apax partners (a venture capital business) and the chair of the SITF, would have been influential in deciding upon this second recommendation. The Bridges Community Development Ventures (Bridges) Fund was established in 2002. Venture capital was chosen as a tool for enterprise within poor districts, because it had the ability to enable businesses to grow rapidly. It could utilise the skills of venture capitalists and bring new skills to disadvantaged businesses. In the UK, venture capital was an important measure helping business expansion and the SITF reported that venture capital backed companies increased their number of employees by 24 percent between 1994 to 1998 (SITF, 2000).

The Bridges Fund was made up of £20 million private equity funding and another £20 million from the Government and focused on disadvantaged areas.

The fund would make an equity investment into a SME and after a number of years the business would buy the stake back or it would be sold on to another financier, potentially making a profit. The Government's funds would be the first to absorb any losses made from poor investments, so it had safeguards for commercial investors. The Bridges Fund aimed at finding SMEs in disadvantaged areas wanting equity finance from £100,000 to £2 million. By making equity finance available to SMEs in disadvantaged areas the fund could be seen as an incentive for entrepreneurs to start up in these areas. Additionally, it was also designed to support indigenous SMEs trying to grow.

The investment had built in safeguards making sure that the majority of employees came from the deprived community. Ronald Cohen with knowledge in his field stated in a press release *'a grass roots approach – we do not expect it to be easy or quick, but over time we do expect it to be very successful'* (Bridges, 2002). As of 2009, Bridges had around £150 million in two funds (Bridges, 2009).

Bank Disclosure

The third recommendation, bank disclosure, was aimed at persuading banks to report on the amount of business they performed within disadvantaged areas. It was thought that the banks needed:

> '*to play an essential role in under-invested communities, not only in providing finance for bankable business, but also in ensuring that viable businesses operating below market levels of financial acceptability can grow and become bankable*' (SITF, 2000, p. 20).

Figures from the USA had shown that involvement by the banks was essential in turning around under-invested communities. The Task Force pointed out that there was the perception that banks were withdrawing from poor communities through branch closures and this gave the impression that certain areas were becoming limited in terms of enterprise. This recommendation of bank disclosure came after a number of high profile reductions of inner city and country branch closures during the1990s. Both the PAT 3 report and the SITF thought that the banks were part of the solution to finance within excluded communities, but without suitable information it was impossible assess the problem.

This suggested policy was partially influenced by the system in the USA with the fair lending laws including the Community Reinvestment Act (CRA). The Act worked in three areas with the first being disclosure allowing lenders to identify gaps. Once gaps in the market were found they then could be addressed. The second area was ratings that would be adverse or favourable to a bank's reputation and the third was sanctions imposed upon the worst performers. Disclosure has remained purely voluntary with Barclays, the Co-operative Bank and the Unity Trust Bank having made some disclosures. The SITF linked disclosure by banks with the tax relief. This would give an incentive to banks to invest in poor communities and would have been a more holistic approach, but it would need legislation to force the banks to give the information.

Greater latitude for investment in Community Development Initiatives.

The fourth measure had a direct input into the finance available for social enterprise, the charitable and voluntary sectors and even possibly for SMEs. Under the heading of '*Greater latitude and encouragement for charitable trusts and foundations to invest in community development initiatives'* (SITF, 2000, p. 6) the SITF recommended that:

> '*charitable foundations and major charities should undertake programme-related investment via an appropriate CDFI rather than by making such invests directly'* (SITF, 2000, p. 22).

This policy allowed charities to make programme related investments (loans) to CDFIs to fulfil their charitable remit. This was possibly one of the most controversial recommendations, because it reduced the amount of grants available and increased finance through the CDFI sector. Since there was some confusion over the charitable status of CDFIs involved in regeneration, the SITF wished for clarification. It suggested that a key consideration was the balance between the public and the private benefits flowing from the regeneration initiative. For the initiative to be charitable, any private benefits generated would be outweighed by the wider public benefit (SITF, 2000). If the loan was to a social enterprise or the trading arm of a charity then the balance would move towards the creation of a *'wider public benefit'* (SITF, 2000, p. 22). In May 2001, the Charity Commission published guidance on Programme Related Investments allowing charitable trusts to pursue their charitable aims by lending money. This has meant charitable trusts can lend some of their money out, rather than giving it all in grants.

The Task Force used the example of the USA with 22 percent of loan capital coming from the charitable foundations. Both the Northern Rock Foundation (NRF) and Esmée Fairbairn Foundation (EFF) have in the past set aside funds for distribution through the Charity Bank (EFF, 2006; 2007). The charitable foundation could either use their money directly to lend to an enterprise - and have the CDFI monitor the loan for a fee - or invest in the CDFI and direct the enterprise to their investment. This policy has diminished the availability of grant finance to some extent, and potentially persuades grant recipients into accepting a combination of loan and grant finance.

A suggested advantage to this policy was to make the enterprise or trading arm of a charity more financially aware (NRF, 2004). Once the loan was repaid then it could be recycled and borrowed again giving increased social benefits for the same money. As a representative of the NRF stated at a conference it '*would give more bangs per buck'*, therefore improving the efficacy of the limited annual funds available (NRF, 2004). The NRF went on to supply some North East England based CDFIs with loan funds.

Support for CDFIs (A trade association for UK CDFIs)

The fifth and final recommendation was to establish an association for the CDFI sector. Similar to many of the other policies it was influenced by examples from the USA :

'the USA, after 25 years of development, each part of the community development finance sector now has at least one dedicated trade association' (SITF, 2000, p.23).

In the USA, the different types of community finance institutions had developed a sense of coherence (as a movement or an industry) during the 1980s and 1990s by forming coalitions and associations. The SITF formulated that a potential UK trade association would be a source of networking for CDFIs, strengthening the sector and supplying representation in Government and amongst the regional development agencies. In addition, an association would aid CDFIs by providing appropriate training, the promotion of best practice, supplying model business plans and news on the sector.

The trade association for the CDFI sector, the Community Development Finance Association (CDFA) was launched at the Treasury by Paul Boateng, the Financial Secretary to the Treasury and Sir Ronald Cohen in April 2002 (UKSIF, 2002). Paul Boateng pledged support, stating that the Government thought the CDFI sector could '*make a valuable contribution to our efforts to make opportunities for enterprise open to all'* (UKSIF, 2002, p. 2). Sir Ronald Cohen urged CDFIs and the banks to join the CDFA and support the association. It was supported by Barclays, the DTI, Royal Bank of Scotland, NatWest, the Bank of Scotland and membership fees from the CDFIs.
The newly formed CDFA had six aims and objectives:

1. *'Provide an excellent service to members*
2. *Promote growth in the size and diversity of the sector*
3. *Improve performance levels of CDFIs*
4. *Enhance reputation for CDFIs*
5. *Influence the policies of key stakeholders*
6. *To be a sustainable organisation'* (CDFA, 2003, p. 3).

These aims were an attempt to establish a sustainable and professional sector. In 2001 there were as many as 250 loan and equity funds across the UK established to provide last resort lending for SMEs (Collin *et al.*, 2001b). These soft loan funds had a very high closure rate and had high loss rates (Collin *et al.*, 2001b). A membership association with guidance, support and examples of best practice could help make these loan funds more professional and convert temporary soft loan funds into established credible lenders.

The SITF's recommendations have had some success in developing financial support and policies to address the needs of CDFIs. It could be argued that the establishment of lenders during the 1990s, the highlighting of financial exclusion, and the rationalisation of banking services, all led to the eventual support from government.

Conclusion

By the late 1990s, CDFIs had gained government recognition and moved from being grass roots organisations funded by small amounts of local money to gaining large scale Phoenix Challenge grants. The reason for the increase in interest in CDFIs reflects changes in national and international finance. The banks had merged and withdrawn from areas in both the UK and the USA. CDFIs were being established to counteract this change. In the UK organisations such as ART can be seen as a grass-roots or community answer to an area's problems. In the late 1990s the evidence would suggest that CDFIs were gradually being established to cover gaps in the financial market, often without direct government input.

Research reports from the Joseph Rowntree Foundation, the New Economics Foundation and, to a lesser extent, INAISE helped to identify financial problems and offer solutions. PAT 3 led to the setting up of the Phoenix Fund, which brought money to business support organisations and importantly CDFIs. With additional funding established, CDFIs were able to build on their experience and grow.

From 1997 onwards, the government used examples such as ART and North American CDFIs to build up their knowledge and bring support to the sector. The UK government accepted that the market was not working and decided to do something about it. With the change from a Conservative to New Labour government more interventionist policies took place. These lending organisations could be interpreted as having Third Way attributes being between the private and public sectors. With the introduction of tax relief, CDFIs were more attractive investments for the private sector, but without the government's intervention the number of CDFIs would not have grown. The free market did not supply opportunity for all, but the CDFIs attempted to supply finance to viable businesses.

The following chapter will look at three national case studies and how government's policies such as the Phoenix Fund and Community Investment Tax Relief have influenced their development.

Chapter Five: CDFI Case Studies – The National Level

This chapter will be the first of two case study sections, and will look at the development of national bodies such as the Charity Bank, ICOF and the Triodos Bank. While two of these national lenders have histories going back to the 1970s, the Charity Bank is part of the 'new wave' of CDFIs in the 1990s. Beginning with a discussion of the case study methodology employed, the chapter will go on to examine each organisation's development, failures and successes as they have developed over time. In addition, it will look at the diversity of the sector with individual organisations attempting to solve particular breakdowns in the loan finance market.

Case Studies Selected

A variety of information sources were utilised. The initial research was desk based and examined the literature being published by NEF (Collin *et al.*, 2000; 2001b; Fisher, 2000). This helped to build up a picture of a developing sector with many national, regional and local actors. Case studies were then used as a way of gathering information and comparing data (Bell, 2005; Somekh and Lewin, 2005). The national CDFIs case studies were chosen partly because these lenders were keen to broadcast about their organisations and developing products and partly because of the range of information available, including websites filled with both qualitative and quantitative information and annual reports offering a descriptive narrative of their lending and a balance sheet.

An interview schedule was produced which was made up of closed and open questions (see appendix 2) (Gillham, 2000). Initially, a first draft was tested on a local CDFI. I used a number of academic colleagues and two individuals from business support agencies to check the survey. These questions were then emailed to senior members of staff and replies were received. During the research some CDFIs were reluctant to give financial data or their results while others posted out large annual reports and displayed their results on websites. Some were very generous in their time and information. The CDFA conferences were vital sources of information as a number of organisations looked to promote their products and services. Before the conferences I planned to speak to certain individuals and organisations and arranged some meetings.

The conferences also allowed some formal face to face interviews to take place with employees from the CDFIs. Action research methods were used and I would reflect on the interview results and alter questions as I built up knowledge about CDFIs and the sector's terminology. In addition, observational research was used at the conferences. The seminars and workshops were good sources of data and stories about lending. The real life examples of CDFI lending given by practitioners were helpful in fully describing the sector and the issues (Connelly and Clandinin, 2000). Interviews can give perceptions of an organisation, but observation can reveal what really happens (Bell, 2005). Unstructured observation allows the researcher to postpone definitions and develop their ideas (Bowling, 2002). This method allowed data to be gathered and ideas to be developed through the fieldwork (Bowling, 2002).

It was found at the conferences the loan managers would give frank answers to attendees from similar organisations. In interviews they could be more careful and reserved in their comments. Observational research was a useful methodology, because the CDFI sector was still young and ideas were being developed. At the conferences there were a range of delegates from experienced managers and new employees from recently formed organisations. Observational research gave me the opportunity to choose appropriate interviewees.

At the conferences I collected the reports and the promotional literature. Stringer (1999) suggested using memos, minutes, records, official reports, press accounts, public relations materials, information statements and newsletters. Ephemeral materials such as websites, leaflets and publicity materials were gathered to support the case studies. Often press releases on the CDFI websites would have a lifespan and then be removed. This material was printed and filed with other information. Stories from newspapers and evidence to parliamentary select committees have been sourced to develop a picture of a changing group of organisations. The different types of information have been amalgamated into the following three national CDFI case studies.

Charities Aid Foundation (CAF) to the Investors in Society to the Charity Bank.

The Charity Bank has its roots in the Charities Aid Foundation, an organisation more involved with distributing funds and administering office facilities for charities. The Charity Bank can be seen as an attempt to mainstream CDFI finance. As a bank it could be more recognisable to the general public than a CDFI. It still acts like a CDFI, but uses the bank structure to be an alternative lender for organisations excluded from bank finance. By 2009 the Charity Bank had been in existence seven years and this section will explore the successes and failures during this period.

This section is based on a series of questions I emailed to Malcolm Hayday in 2002, press releases, promotional materials, company websites and the annual reports of the Charity Bank. Initially, the Charities Aid Foundation website was an important source of information, but this was superseded by the Charity Bank's own website.

From Charities Aid Foundation to the Charity Bank

Opened in 2002, the Charity Bank has its origins with the Charities Aid Foundation (CAF), which has its roots in the 1920s. CAF was started in 1924 as a department of the National Council of Social Service. Its purpose was to aid efficient giving to charity, which still remains one of CAF's tasks. The organisation was renamed in 1959 and finally became CAF in 1974. In 1986, the organisation became a licensed deposit taker, so began to start acting like a bank. In the late 1990s, CAF's success in the sector can be illustrated by the fact it controlled over £1 billion for donors and charities per annum. In the financial year 1998/9 it distributed £130 million on to charities (CAF, 1999). It acted as an agent investing money for charities and distributing charitable gifts.

However, this was only one aspect of CAF's work. It also wanted to help charities by acting like a bank and giving loans.

CAF was a complex financial organisation with products and services aimed at both charities and businesses. In terms of social lending CAF tentatively began with a brokerage service in 1993. This led to the establishing of Investors in Society (IiS) in 1995 with £500,000 of CAF's money. During the initial research around 2001, CAF administered the distribution of grants for other organisations, including Barclays Bank. It offered consultation, fundraising and financial services for the charity sector and NGOs. In 2000, CafCash Limited was developed, offering '*a range of traditional bank account facilities to UK charities'* and two types of account '*specially designed to meet the needs of charities of all sizes'* (CafCash, 2001, p.1). CafCash acted as a bank investing in other banks, building societies, local authorities and short term UK gilts to produce interest for its customers. The 2001 accounts declared a '*commission charge is deducted from the total rate of interest earned and the remainder is declared as the rate payable to customers*' (CafCash, 2001, p. 3). Any profits were covenanted to the charity CAF, which amounted to £1.5 million in 2001. In addition, there was another CAF Fund offering ethical investment funds. It also offered administrative services such as pay roll giving. CAF had a multi agency approach towards the charitable sector fulfilling many services within the sector. With all of these products and services it would easy to lose sight of the CDFI element, Investors in Society.

The sole purpose of Investors in Society (IiS) was to give registered charities access to loan finance across the UK. In the director of loans, Malcolm Hayday's own words, the fund was:

> *'not about replacing charitable impulses and philanthropy. It is about making money work many times over while responding to donors' changing financial circumstances. At the same time, it provided charities with loans and guarantees on affordable terms, thereby filling some of the gaps that mainstream banking leaves open'* (Hayday, 1997, p.2).

He recognised that there was a gap in the market and also acknowledged that philanthropic donations were not infinite.

The fund was offering a different way of helping charities and the website stated '*Give a man a fish and you feed him for a day, give him a fishing rod and you feed for life'* (Just Insights, 2002, p. 2). This approach was seen as being sustainable and offering financial discipline, accountability and a long-term solution to some of the problems within the charitable sector. It was a departure from philanthropic gestures towards charities and a produced a different relationship with donors. To illustrate the potential change in relationship between donor and charity the Bank of Scotland gave IiS a £500,000 interest free loan and the press release contested that it '*allow charities to secure much-needed funding through loans they would be unable to obtain under commercial terms'* (Caf, 2000). The Bank of Scotland was making a social investment by foregoing the interest. IiS was borrowing money, lending it to charities, having it repaid with interest and then returning it to the investor. It was the temporary use of an investor's money rather than a gift. Around this time CAF was thinking about a mechanism using temporary investments called '*Returnable Donations and Gifts'* (Hayday, undated). This trade marked mechanism would allow interest to be paid on short to medium term investments for social aims.

From the initial £500,000 supplied by CAF, IiS gained over £3 million from individuals, companies, charitable trusts and other agencies. In the late 1990s the fund was comprised of 55 percent in donations and capital from CAF and the remaining 45 percent in loans. By 2000, the fund had increased to £6 million and in four years 140 loans had been made (IiS, 2000). During this time the fund only had one failure and since the borrower had security, no money was lost. In 2000, the organisation announced thirty-one borrowers had repaid their loans allowing the money to be recycled.

What IiS offered was loans from £5,000 to £150,000 at an interest rate of around 6 percent with up to a 1 percent arrangement fee dependent on the amount of work necessary. The competitive interest rate of 6 percent was in place from 1996 to 2002. Malcolm Hayday described IiS's and the Charity Bank's role in an email:

> *'We do not exist to displace bank lending but to provide credit where it is not available or only on terms which are not affordable'* (Hayday, 2002).

With an interest rate of around 6 percent in the late 1990s, IiS were fulfilling their aim of making finance affordable. If a loan application was too large for the IiS Fund then the organisation would help to put a proposal together to approach a bank and get a deal. IiS could gain an income through brokering a loan.

In their 2000 review, it was recommended that IiS continue its development towards gaining authorised bank status (IiS, 2000). IiS was attracting money into its fund and aimed to get Financial Services Authority (FSA) approval to become a bank and move its fund into the bank (Social Enterprise, 2001). In 2002, the Charity Bank was established to potentially change charity funding and hoped to attract £6 million of investments for the public in its first year (James, 2002). The Charity Bank as a charity could not be owned by another charity, so it became independent of CAF. The Charity Bank can be seen as a hybrid having the FSA regulation of a bank and charitable status.

A Bank Aimed at Supporting Charities

The Charity Bank was officially opened by the then Chancellor, Gordon Brown in October 2002. At the Charity Bank's high profile launch at No.11 Downing Street the Chancellor, Gordon Brown suggested that:

> *'You do not rebuild communities from the top down. You can only rebuild from the bottom up – one family, one street, one neighbourhood at a time'* (Just Insights, 2002, p. 1).

It marked a change in finance and a move from grants to loan finance. The CAF chairman, Sir Brian Jenkins stated:

> *'It challenges charities and social enterprise to look beyond grants and it challenges each one of us to think about how our money can work harder for the common good'* (Just Insights, 2002, p. 1).

Both Gordon Brown and the Governor of the Bank of England, Eddie George became investors, which gave the Charity Bank credibility. The organisation's publicity leaflet stated it aimed *'to build a bridge between charities that are looking for finance and investors who are willing to provide the capital'* (Charity Bank, 2002). Its Chief Executive, Malcolm Hayday thought the bank had to work towards making loan finance acceptable within the charity sector and saw the benefits as *'Unlike a donation, people can get their money back when they need to if they invest it. And while it's in the bank, they know it is benefiting communities'* (James, 2002).

The bank had two roles:

1. Attracting investors both corporate and individuals.
2. Attracting borrowers both charities and social enterprises.

In 2002/2003 the bank investors could have received an interest rate of 2 percent, which at a time of relatively low interest rates would have been competitive. Investors could decline or reduce this interest payment to increase the social benefit of their investment. In 2003 the bank received an important boost becoming one of the first organisations to gain CDFI accreditation and be able to attract funds using Community Investment Tax Relief (CITR). The CITR scheme offered investors tax relief of 5 percent per annum for five years. In the organisation's marketing it noted that this was worth '*8.33% gross per year to higher rate taxpayers, 6.41% per year to standard rate taxpayers and 7.14% per year to main rate corporation tax payers'* (Charity Bank, 2003). In 2002 and 2003 the Bank of England base rate was around 4 percent, this would be an attractive five year investment proposal. This fund proved to be attractive and produced an investment of £25 million (Finch, 2006). This was the largest CITR investment amongst all of the CDFIs. At the same time, potential borrowers had the opportunity to borrow sums from £3,000 to £250,000 at an interest rate of between 5 – 7 percent with an arrangement fee of around 1 percent.

Overall, the bank in its first year was endorsed by Gordon Brown and Eddie George, the Governor of the Bank of England, and was being mentioned in the national press (James, 2002). With endorsements from leading financial people it could have been thought that the Charity Bank's successful progress would have been assured. In 2007, the Charity Bank expanded with a Northern office based in Leeds with a £2.5m loan fund given by the RDA, Yorkshire Forward. It also received a capital investment of £500,000 by the Community Foundation Northern Ireland. By 2008/9 the bank had around 25 staff based in two offices and representatives spread across the country.

The Performance of the Charity Bank

The Charity Bank took on the loan portfolio of IiS and its fund, so it already had an income and a reputation for lending to charities and social enterprises. It would have expected that during the first year there would be one-off costs to establish the organisation. The results from 2002, the transition period, showed expenditure of over £1 million, which outstripped its income of £375,000. However, this loss of £755,000 would have been linked to the increased administration costs and the transformation into a bank.

Table 5: Performance of the Charity Bank

	Loans and advances to banks	**Loans and advances to customers**	**Annual Operating Loss or net deficit**
2002	£2.1m	£4.4m	£755,000
2003	£8.2m	£6.1m	£733,557
2004	£8.8m	£7.8m	£817,000
2005	£24.8m	£10.1m	£597,000
2006	£20.0m	£16.4m	£560,000
2007	£20.1m	£18.9m	£676,000
2008	£26.4m	£18.9m	£1,143,000

Source: Taken from the *Charity Bank Annual Review* 2003; 2004; 2005; 2006; 2007; 2008; 2009).

Table 5 shows the sums of money the Charity Bank had in banks and borrowed by customers. The last column of the right shows the annual operating loss with 2006 being smallest loss over the seven year period. In the first few years the organisation would experience some financial problems and one off costs. However, the Charity Bank as a national organisation seems to have had a number of problems on a larger scale. In its first full year of trading (2003) it lost another £733,557 and in 2004 its losses peaked at £817,000. By 2006, its cumulative losses came to over £3.4m. The Chief Executive, Malcolm Hayday described 2004 as a '*challenging year*' (Charity Bank, 2004, p. 4). In the 2005 statutory accounts and report, he suggested that they would impact on the bottom line and move into surplus until 2008. In 2008 the bank had exceptional losses, because of increased regulatory costs and payments to the Financial Services Compensation Scheme. Overall, an analysis of the operating accounts indicates the Charity Bank will continue producing an annual deficit in future years.

In the process of exploring how well this CDFI was performing, it was useful to look at how much money was being borrowed by customers and how much was in other banks. The Charity Bank started off well, with £4.4m being borrowed and £2.1m in other banks (table 5). The Charity Bank was one of the first CDFIs to offer the CITF to investors. Table 5 shows that there was a sudden increase in sums in the banks from £8.8m in 2004 to £24.8m in 2005. This was a result of the CITF attracting new customers. In 2003, the Charity Bank had £8.2m in the bank and £6.1m out to customers. By 2005 this disparity had grown to nearly £25m in the banks and only £10m being borrowed by customers. In a publicity article, the Charity Bank wished charitable organisations to benefit from £20m raised by depositors (Charity Bank, 2006). It is important for banks to have reserves, but Charity Bank had a large proportion of its funds in the bank.

The annual reports have been a key source of data with the balance sheet and the profit and loss accounts. In 2006 the annual report gave the loans portfolio, which showed that money has been borrowed and returned.

Table 6: The Portfolio of loans

The Loans Portfolio as of 31/3/06	
Loans approved to date	£45m
Number of loans approved to date	489
Total value of loans drawn	£22.1m
Loans fully repaid to date	£8.8m
Number of loans repaid in full	166
Average loan size of drawn loans	£97,400
Total value of projects supported	£127m

Source: Charity Bank Annual Review 2006

Table 6 illustrates the large difference between loans being approved (£45m) and taken up or drawn down (£22.1m). Over half of the potential borrowers have not taken up their offer of loan finance. In a rough calculation using the average loan amount, borrowers have taken up 226 loans, but the bank has approved 489 loans. The Charity Bank may have done a great deal of preparatory work to assess the loan and the organisation, but a loan has not been taken up. This figure is not for enquiries, but organisations that have filled in the forms, had visits and had its forecasts and business plans checked to be finally been accepted. This can be expensive and time consuming for the lender. In 2007, the bank had agreed loans worth nearly £15.4m, but the take up will have been less. In the year 2008, the bank lent £11.7m and made a deficit of over £1m. From interviews with a number of CDFI loan managers some of the potential reasons for not taking up a loan were:

- Reluctance from the management board;
- Issues of security;
- A change in circumstances, especially changes in contracts or funding;
- Producing a good business plan allowed the charity or social enterprise to approach another lender with a better interest rate.

However, no-one mentioned an organisation not taking up a loan, because they had received a grant.

The Charity Bank's accounts make uncomfortable reading, because it has lost approximately £5 million over a seven year period. It is hoped that the bank can reverse this pattern. Since the bank was built on the experience of Investors in Society started in 1997, it has had ten years to produce a working model. The bank aimed to attract deposits and attract borrowers and it has successfully increased its deposits and loans each year. However, these depositors may have been attracted by the idea of helping charities, and a large percentage of funds have remained in banks and earning interest, rather than working in communities. It has not been successful in attracting sufficient borrowers, so potentially there could be too much supply of other loan and grant finance. From the loan portfolio there has been significant interest, but this has not been translated into organisations signing the loan agreements. It is difficult to understand why the gap has been so large. The preparatory work involved will have proved expensive and contributed to the bank's losses. Interviews with loan managers from CDFIs have highlighted a number of potential reasons for not taking up loans such as reluctance by the board. Overall, demand for loans from charities was less than expected.

In early 2010, it seems difficult to see the Charity Bank becoming self sustaining without major changes. There does not seem to be enough of a market for its products and services.

Co-operative and Community Finance, formerly known as Industrial Common Ownership Finance (ICOF).

At a CDFA workshop in 2002, Andrew Hibbert, the development manager, announced that ICOF was '*the only self-sustaining provider in the UK'* and in its past it had a loss rate of 18 percent. This raised the question of how did this organisation survive? This section focuses on the UK's longest existing CDFI, the Co-operative and Community Finance, formerly and better known as ICOF. This organisation has had a long history of lending to the co-operative sector. The introductory chapter mentioned ICOF as an early example. ICOF has recently changed to the Co-operative and Community Finance. However, this thesis will continue to use the acronym ICOF, because of the name's longevity and all of the interviewees recognised the organisation by ICOF. The following section will recap some of the history of the organisation, look at changes within the last ten years and look at its performance.

In the initial research I found that ICOF was both a member of INAISE and UKSIF. The organisation's website explained the history of the organisation and its aim and objectives. I expected to find academic literature about this organisation, because of its links with the co-operative movement and longevity and this presumption was not the true. ICOF's own annual reports proved informative. ICOF's history, purpose and structure make it unique and individual, so the basic survey was supported with additional questions.

This section is based upon interviews with staff members, workshops held by ICOF in the early to mid 2000s, publications and the website. ICOF also produced a 25 year history of the organisation which recorded its successes and failures.

A Brief History of Lending to the Co-operative Sector.

Started in 1973, ICOF was established to finance cooperatives with funding from another co-operative, Scott Bader. Later in 1976, the Industrial Common Ownership Act provided ICOF with £250,000 to lend. This was successfully recycled from 1976 to 1994, producing over 120 loans amounting to £725,000 (ICOF, 1999). Eventually, there were too many losses for the fund to continue. In the 1980s, ICOF began to manage co-operative funds for local authorities such as West Glamorgan, Luton, Northampton, London and York. In the 1980s the creation of co-operatives was seen as a cost effective way of increasing employment (ICOF, 1999). ICOF noted that high risk loans were made causing the cumulative losses to reach 30 percent in 1986. The organisation was helping failing businesses to become co-operatives and quickly these businesses also failed. Around 1991 ICOF wrote-off the significant sum of over £100,000. During the early 1990s the write-offs peaked about a year after the loan balances had peaked and declined as it made more prudent loans. Potentially, in the late 1980s ICOF was lending to organisations that were surviving only a year or two before closing and debts being written off. In an

ICOF workshop it was explained that from 1987 to 1991 the losses were 18 percent (Hibbert, 2002). So some of the businesses they funded were not fully viable, but they had political pressure to create and sustain employment.

These losses were from local authority funds and separate to other funds. In 1987 ICOF plc was formed with the purpose of attracting finance by a public share issue to create a national fund. Over £500,000 was raised in shares redeemable after ten years. When the shares became redeemable in 1997 many investors transferred them to the new issue. In 1994, ICOF created Community Capital an investment society with membership shares. This raised £450,000 to be borrowed by community and social enterprises. ICOF's supporters were making investments in Community Capital and the publicity materials advertised it as a '*Social Investment*.' The 1990s was a decade of stabilisation with ICOF reducing its write-offs and making lower risk loans. The company has gradually improved its sustainability by working with the potential borrowers and around the millennium the organisation had a loss rate of only 4 percent of its lending portfolio (Hibbert, 2002).

What does ICOF do and how does it do it?

ICOF unlike other smaller CDFIs, has many roles. It firstly acts similar to the Charity Bank or other CDFIs attracting money into its funds and distributing loans. It continues its lending role and manages funds for other organisations such as local authorities. However, unlike other CDFIs it has offered 'back office' services since 1996. It has many years experience in lending and had invested in the technology for loan management. In the early 2000s its clients included the Aston Reinvestment Trust, the London Rebuilding Society, Radical Routes, a loan fund for housing initiatives and Opportunity Micro Credit International (ICOF, 2003). ICOF has managed to achieve mixed sources of funding.

ICOF lending policy has been very clear cut and disseminated through the website:

> *'ICOF will only invest in the social economy, co-operative and employee owned businesses which are economically viable. Each enterprise must be able to demonstrate the ability to pay interest and repay the capital on any agreed loan finance'* (ICOF, 2007).

In 2002 the Department of Trade and Industry (DTI) published *Social Enterprise: A Strategy for Success*, which stated that a social enterprises may only be covering 75 percent of their costs and being supported by grants. For ICOF a potential borrower had to make a profit, but not a private profit and this profit or surplus would service the debt.

ICOF's market has been established over many years. It had basic loans products for co-operatives and social enterprises. In 2009, the loans started from £5,000 to £50,000 at an interest rate based on individual circumstances. However, other managed funds could increase the loan to £125,000 and £250,000 in London. In addition, there would be a loan appraisal and arrangement fee of between 1 to 2 percent. This fee ranged from £250 up to a maximum of £1,000. Finally, borrowers had to become members and invest £250 into the organisation. Over a number of years these percentages remained constant.

ICOF has been over time entrusted with a number of funds available on a geographical basis (Newsector, 2001). Potentially, a loan could be mix of funds with ICOF being paid to manage one fund and in receipt of an arrangement fee as a percentage borrowed from another fund. This would spread the risk around their different funds made up of investor's money and local authority funds.

While the lending has been straight forward, its investment policy has been more complex. ICOF has previously advertised its Community Capital Fund as a social investment with '*a priority on people rather than profit*' (ICOF, 2000, p. 1). Investors would buy shares in the organisation and receive dividends. In a BBC interview Andrew Hibbert explained:

> *If you're looking for an investment that is not for a financial rate of return but a social rate of return, then that is what you get … We do manage to pay interest or dividends at around the rate of inflation so*

> *your investment doesn't go down in value, but nor does it go up. So if you're looking for a rate of return or a pension for your old age that's not what we offer. We do offer, hopefully, a better social environment in the UK* (BBC, 2001).

In 2006 the minimum investment was £250 and the maximum £20,000. Interest was paid on the investment, but it was at risk. Investors can withdraw funds with six months notice. Since 1987 ICOF also had a ten year share issue with investors giving their money to ICOF to lend and recycle. The last share issue was in 2007. Since ICOF was asking investors to buy shares within the organisation it would be important to safeguard these funds as much as possible. Investors, especially social or ethical investors often expect to receive a rate lower than the market, but do not expect to lose their money. ICOF has gradually produced a structure appropriate for taking investments and making loans. Rather than attempting to become a bank, ICOF is a series of businesses, which can seem complex. Throughout the 2000s there were two main organisations:

- Industrial Common Ownership Finance Ltd, which traded as Co-operative and Community Finance. It had two subsidiaries, the ICO Fund Plc, which held investors money to be borrowed by co-operatives and ICOF Guarantee Company helping to preserve the fund. In the annual accounts this part of the organisation is called the Group.
- ICOF Community Capital, which was a separate organisation that contained the East Midlands and East of England Community Capital.

Investors, both individual and corporate make an investment to support co-operatives or social enterprises. The company structure has been aimed at preserving these social investments, while producing a small dividend and social return. The Guarantee Company has been made up of investors contributing their interest or dividends to allow the organisation to make a few more high risk loans. The Group accounts can illustrate the fragility of the organisation with 2002 producing a retained profit of £12,202. Four years later, in 2006 there was a loss of £13,252, which reduced the retained profit to be carried forward to only £21,404. Any losses would reduce their Guarantee Fund.

The Community Capital element of the organisation does not the have a guarantee and has to regularly make provisions for bad debts. In the 2006 accounts the organisation wrote off two loans worth £47,159 from the previous year and sustained a loss of £16,152. These failures did reduce the opportunity to pay a dividend on their social investment.

ICOF was one of the first lenders to become a registered CDFI and has offered the CITR offering a 5 percent reduction in tax on the amount invested for five years. The majority of ICOF's shareholders have been supporters of the co-operative structure. However, the tax relief has made the investment financially more attractive. Again, ICOF has to be very careful with investor's money, because it must be returned, so it cannot make significant losses. The tax relief attracted £1 million to the organisation (Finch, 2006).

ICOF's Performance

The Charity Bank has managed to attract large sums into its funds using the CITR, but could not get sufficient borrowers. It is possible that ICOF may have done better because of its longevity and experience. In 2006, the Chair of Co-operative and Community Finance stated he was unaware of any other CDFI lending 75 percent of their CITR funds by the third year (ICOF, 2006). Potentially, it had performed better than the Charity Bank. However, by comparing figures from before and after the tax relief scheme a less favourable picture is shown. In 2002, the ICOF Group had debtors worth £1.1m and cash in the bank worth £0.98m and it was a similar amount to previous years. In 2006, the debtors amounted to £1.2m and funds in the bank £3.9m. The amount being borrowed had hardly changed, but the amount of cash had dramatically increased. It would seem that the CITR has attracted funds to produce for the organisation.

ICOF has had good grounds to claim to be sustainable. In 2001, the ICOF Group were covering 81.6 percent of operating and administration costs from loan and bank interest (ICOF Group, 2001). In 2002, it was announced that ICOF was covering 90 percent of these costs (Hibbert, 2002). This efficiency has been achieved by keeping costs to a minimum. This can be illustrated the fact that the ICOF Group only employed three workers, but had a £1.1 million loan balance (ICOF Group, 2001). However, the profit and loss accounts from the early 2000s illustrate that some of their income came from consultancy. In 2006 the accounts for the Group showed a small loss of £13,252, but ICOF Plc made a profit of £17,900. In 2007 and 2008 the group made approximately £61,000 and £68,000 profit respectively. From the 2008 annual review, the organisation had £269,542 in loans to be repaid within the year and another £921,278 over a year. It also had £2.8m in cash at the bank and in hand. In 2008, ICOF had £1.1m out on loan and had increased the members of staff to five. Like the Charity Bank, ICOF has successfully attracted funds in, but still had considerable funds available. ICOF's financial accounts illustrate the organisation has survived by making small profits and retaining profits for less successful years. Its sustainability has potentially come from its ability to attract mixed streams of income.

Because of its longevity, ICOF is an important example of a CDFI. However, for a national lender it does seem to be a niche market lender. The small amounts being borrowed may indicate that there is a limit to the number of borrowers or too much competition. ICOF has seemed to have settled on being a small-scale, yet national organisation. In the early 2000s it was only employing three people and later this was increased to six. By 2008 this was down to five. It could be that expansion beyond a certain point would make the organisation less efficient.

At the CDFA conference in 2003, a member of staff stated that ICOF had always been sustainable, because it had survived by managing governmental, local and national funds and making loans from its own funds. However, at certain periods of time it had a loss rate of 20 percent to 30 percent, which would be clearly unsustainable if it was investor's money. However, the governmental funds were aimed at establishing businesses, rather than producing successful loans. In the 1980s it had been noticed that taking failing businesses and turning them into co-operatives did not help the employees, because the enterprise could still fail (Mellor *et al*., 1988). Potentially, during this period the lender was setting up high risk loans just to satisfy a wish to create enterprises. A later chapter will explore the balance between creating opportunity and risk. Even in the mid 2000s a small number of ICOF's loan failed. However, diversification into managing other funds has kept the organisation going.

The Triodos Bank

This example of a CDFI is a trans-national bank working across Europe. However, the term CDFI would be meaningless on the European mainland, because it is a North American term. The Triodos Bank can be seen as a potential role model for the Charity Bank paying interest on its accounts and managing to make a small profit for its shareholders. Currently, the Charity Bank is a not-for-profit bank, but does pay interest on its accounts. Originally in 2002/3, I researched the Triodos Bank and was sent the annual report. I sent emails and questioned certain aspects of the business and again the bank was helpful in supplying available information. I regularly checked their website throughout the research period and updated figures in 2009. This section will look at the bank's history, the views of the bank's managing director to give an idea of the philosophy behind the organisation, some of its different accounts and the effect of CITR. It will also look at how the organisation has adjusted itself for the UK market in the mid to late 2000s.

A Brief History of this European bank

Triodos Bank has been associated with the Third Sector and ecology in Europe since its establishment in 1980. The original organisation based in the Netherlands, has its roots in a study around the conscious handling of money in 1968. This led to the development of foundation in 1971 and a guarantee fund for social projects in 1973. The Triodos Bank was opened in the Netherlands in 1980, then a Belgian office in 1993 and finally the UK and Ireland office in 1995. A merger with UK Provident plc aided the establishment of the UK branch (Warwick and Tickell, 2000). In the late 1990s and early 2000s Triodos across Europe established a series of ethical and environmental accounts including a wind fund. In 2003 the bank expanded to Spain, in 2005 into Germany and in 2006 created a Luxembourg fund.

Like ICOF and the Charity Bank, Triodos became a registered CDFI in the UK. This allowed the bank to offer the Community Investment Tax Relief to their UK investors. In 2003, the Community Investor Account used the CITR to give 8.33 percent to higher tax payers and 6.41 percent gross to those paying the basic rate of tax. In addition, the investors received the variable interest rate of around 2.1 percent. The new account closed after two weeks when it reached its full subscription of £3 million. This fund proved to be attractive, was over-subscribed and produced £3.8 million (Finch, 2006). Charles Middleton, the managing director stated in a press release that:

> *'In a climate of low interest rates and growing interest in ethical investment, the account simply made sense to hundreds of people…The challenge now is to lend the same money to the organisations and enterprises that need it most'* (Triodos, 2003).

This gave a gross interest rate equivalent to 10 percent and 8 percent and was a very attractive five year financial investment. Current investors were unable to transfer existing funds into the account, so the scheme attracted only new social investment money. The bank has established itself within the ethical financial market by its history of financing green projects. Another area of investment success was the sponsoring of the Cafédirect share issue to raise £5 million. Begun in February 2004, after two months £3.5 million had been raised from mostly private investors (Triodos, 2004). This increased to over £4 million after another month and the limit of £5 million was reached soon after. This was remarkable for an ethical investment with a potentially low financial return.

What Products are Available?

The CDFI element of the Triodos Bank's is only a part of larger organisation. The organisation has over years tried to link investors to borrowers to cover its costs and make a profit. From the research it was found that Triodos Bank had many different accounts as though it was attempting to appeal to the broadest possible range of social investors. These account options eliminated the gap between depositor and borrower offering investors to target their funds and receive a lower rate of return (Warwick and Tickell, 2000). This policy of being trans-national and offering many products illustrates the bank’s competitiveness to extend into new markets. In the early 2000s during the original research the bank concentrated its lending in four areas:

- The first being social businesses for example co-operatives, organic food retailing, employment creation and fair trade. This covered a large range of potential borrowers.
- The second sector was environmental initiatives such as organic agriculture, conservation and renewable energy.
- Charities working with special needs, complementary therapies, the arts and education were the third area.
- Finally, community projects such as social housing, community services, local investment and voluntary groups were their last market (Triodos, 2002).

From this list it would seem that every potential commercial or social enterprise or charity would be covered by this broad remit. Potentially, employment creation could be an extensive area of lending.

By having the experience of working in Europe and possessing sufficient funds, the bank was able to offer products and loan amounts different from other UK based CDFIs. Its loans began at £20,000, but went up to £5 million illustrating the range and scope of projects the bank would fund. Interest was based on the merits of each project, but in the UK would be approximately 2 – 3 percent over the base rate (Triodos, 2002a). Triodos Bank like the Charity Bank and ICOF, also charged a 1 percent arrangement fee. The bank expected 100 percent security. In the early 2000s, unlike other banks, Triodos would accept group guarantees making a number of people liable for the loan repayments. This could be seen as the influence of the Grameen Bank. However, it also shows that the bank has been open to innovative ideas. By the late 2000s, the bank stopped suggesting interest rates on the website and advised the potential borrower to consult with one of their loan managers. Potentially, this was because of the low UK interest rate, property prices and the strength of each individual loan application.

Over the research period, the bank's accounts and funds have been trialled and altered appropriately. An example of Triodos Bank's approach to supporting organisations with social objectives can be found in their work with investors and charities. The '*Charity Saver*' product allowed '*depositors to target a proportion of their interest to a charity of their choice*' (Triodos, 2003a, p. 25). The Social Target Account was innovative in that supporters could help their organisations by moving their savings to Triodos. The interest on supporter's accounts could be partially or totally used to help pay off their charity's loan. The supporter would not risk their savings, but by choosing zero interest would offset some of the repayments of their chosen charity. Alternatively, charity supporters could become guarantors for their chosen charity if it did not have sufficient security. This guarantee was limited to a maximum of £2,000 per person. This was another new way of linking the investors with the charity borrower. Similarly, a charity could borrow without security if donors formed a Triodos Bank Borrowing Community turning their regular donations into loan repayments to benefit their chosen charity (Triodos, 2001). Money for a minibus was used as an example for these repayment donations, because the bus service could guarantee an income from donations and charges.

As further proof of Triodos exploring the market in 2004, it had eighteen personal accounts. These included the Amnesty Saver Account, which donated 0.25 percent of the average yearly balance to Amnesty International, the Charity Saver, Fairtrade Saver, Organic Saver, Just Housing accounts and the Quaker Social Housing Account providing finance social housing schemes (Triodos, 2004a). Earlier in 2002, there was the North South Plan, which was a savings account that helped to provide the funds for the Development Investment Unit. This was used to invest in micro-credit organisations in the developing world (Triodos, 2002a). However, this account seemed to have been taken off the market by 2004 indicating a lack of demand and Triodos testing different financial products linked to social causes.

In 2007, its products are less diverse with around six accounts including a mini ISA. On offer was a renewable energy bond allowing investors to invest in green forms of energy and receive an interest rate of 4.5 percent. Similarly, savers could decide to have their funds used for organic farming, social enterprise, charities or the developing world. As a CDFI it has a mixed portfolio of investments, loans and products on a national and international level. The bank has lent to British social enterprises and also to the developing world and Russia with micro-finance. One of the characteristics of a CDFI is to bring about financial inclusion and Triodos seems to have actively found markets in Europe and beyond.

The ideas behind the Triodos Bank

In 2000, Peter Blom, the Chair-person of the Triodos board gave an insight into the philosophy of the bank. He stated that:

> *'Orthodox economic thinking holds that growth is good – but the quality of such growth and long term costs are not taken into account. The problems we are now experiencing with food and agriculture are a result of this way of thinking and may be the pressure point which brings about change'* (Triodos, 2000, p. 3).

Blom was speaking at a time post Bovine Spongiform Encephalopathy, better known Mad Cow Disease, debates over genetically engineered crops across Europe and high stock market prices. He commented that:

> *'Twenty years ago, customers were prepared to donate their interest to charity and research. Now our customers expect to get market-level returns and the warm feeling that we use their savings to finance positive projects'* (Triodos, 2000, p. 3).

He recognised that even social investment was becoming more commercial while keeping a social goal. Triodos took a Third Way path between philanthropy and the very commercial market. This perspective was illustrated by Peter Blom's statement,

> *'I don't believe in pure altruism, but short-sighted egotism doesn't work either. It is in the interaction between altruism and self-interest that business and society can both benefit'* (Triodos, 2000, p. 3).

People's choices for investment were based upon being a businessperson and a citizen. Blom was suggesting social and financial investment judgements working together.

In the mid 2000s the bank questioned the '*light green varnish'* of the other banks offering ethical and green products (Triodos, 2005, p.1). The bank even questioned the role of money and how it needed to measure its social outputs. In 2005, celebrating twenty-five years of the bank, Blom saw that the bank's expansion had not weakened the social mission. He suggested that in the future '*we will play more of a gateway role; an exchange where money and initiatives for a sustainable society can be brought together'* (Triodos, 2005a, p. 3). This gateway idea can be seen in the bank offering such a wide range of products and issuing ethical shares.

The bank had introduced green products in the 1990s before the mainstream banks had explored this market. In the late 2000s, with the banking crisis the bank was able to show its difference. Peter Blom announced in the 2009 annual report that:

> *'Deal with a financial system that has so singularly failed to provide for the majority of people it serves and we could build the basis for a lasting solution to our most pressing environmental and social problems … and despite well-publicised problems in the financial system, sustainable banks like Triodos Bank continue to be successful. Attracting over euro 100 million in a capital raising issue to support further growth, just as many high-street banks were using tax payer's money to fill holes in their capital base simply to survive, was proof of that'* (Triodos, 2010, p. 9).

Again, this CDFI was able to show its innovation, sustainability and its superior social benefits.

The Performance of the Triodos Bank

Triodos Bank has had success in three areas, investment, sustainability and recognition. The organisation has run some very successful share issues and opened some popular accounts. In 2004 and 2010 Triodos Bank was given the Queen's Award for Enterprise in the sustainable development category (Triodos, 2004b, 2010a). Charles Middleton, the managing director of Triodos Bank in the UK commented that:

> *'Mainstream business and many consumers appear to have woken up to the power of ethical money… in a crowded market place it is increasingly important that organisations genuinely committed to positive change are able to make themselves heard* (Triodos, 2005a, p. 37).

He found environmental and social issues were becoming more mainstream and thought the award recognised the support of its many savers and social enterprise borrowers. In 2005, it won best cash ISA in the Consumer Finance Awards run by the Guardian newspaper group. It has gained recognition for its ethical policy and its openness giving customers lists of borrowers (Guardian, 2004). Unlike the larger banks, Triodos Bank had not made excessive profits and avoided criticism from their customers, because their aim was to produce only moderate profits for their investors so allowing them to work for social benefits (INAISE, 2001).

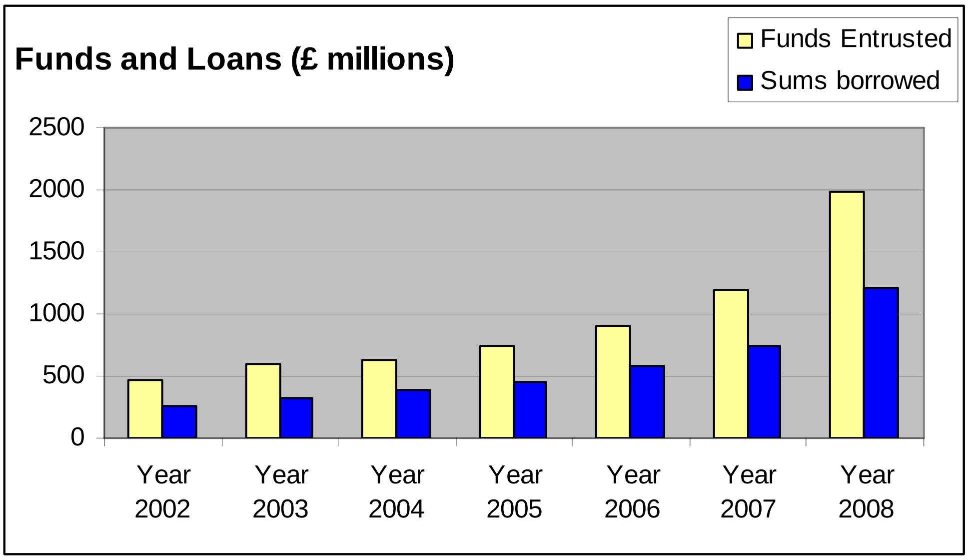
Table 7: The Key Figures for the Triodos Bank (International figures)

	2004	**2005**	**2006**	**2007**	**2008**
Number of accounts	79,883	87,989	102,318	130,644	169,517
Funds entrusted	£632m	£735m	£911m	1,186m	1,978m
Loans	£386m	£456m	£574m	£747m	£1,210m
Number of loans	3,255	3,682	3,977	6,181	9,381
Net profit	£2.6m	£3.6m	£4.1m	£6.6m	£9.7m

Source: Taken from the Triodos Bank Annual Accounts

The figures in Table 7 are for the whole bank and not just the UK and Ireland branch. However, the figures show the bank has successfully covered its costs and each year been profitable.

Figure 2: Growth of savings and loans.



Source: Taken from the Triodos Bank Annual Accounts

Figure 2 illustrates the regular increases in savings and loans. This CDFI has around 60 percent of savings out on loan. With further analysis it was found that their Netherlands operation was the most successful at producing loans.

The UK branch has gradually increased its number of loans to be comparable with the other European branches. The Netherlands branch would have subsidised its UK counterpart for the first few years. In 2007/8, the UK bank had approximately £207 million out on loan (Triodos, 2008). It also had a share issue for Triodos Renewables and raised £10 million from 4,000 private investors (Triodos, 2008). Unlike the Charity Bank, it was managing to cover its costs and create surpluses. This was due to earning interest on their loans and receiving management fees for their work with share issues. The annual reports indicate that supporting environmental projects and promoting ethical banking had paid dividends. In 2008, the UK operation experienced a successful year, even though its growth was hampered by the decline in the Pound and rise of the Euro. However, this fluctuation in currencies also increased profits for the UK business.

The Triodos Bank has been innovative and groundbreaking and came to the UK with fifteen years of experience as a bank. Rather than starting from scratch it took over an existing organisation and imported its range of products. Its loan portfolio has been diverse, including organic farming, renewable energy, health care, social enterprise and the arts. However, financial exclusion is the link between the separate parts of their loan portfolio. The mainstream banks would be unlikely to support environmental projects that would take many years to pay off a loan. This CDFI has thought long term with the conversion to organic farming taking a number of years and green energy equally taking many years to recoup the investment. Triodos have not been short term investors in environmental schemes. Only a small percentage of its work is involved in lending to social businesses and creating employment. Possibly concentrating too narrowly on enterprise can be detrimental to the sustainability of a CDFI.

Conclusion

Are these national or international CDFIs on the way to ensure sustainability? ICOF has remained small within a niche market of co-operatives and social enterprise and has succeeded in being sustainable. Its supporters believe in co-operative principles and it has social principles behind it. The Triodos Bank in the UK has had larger aspirations and has produced loans in the millions. It, like ICOF, has social ideas behind it. In 2009/10 the Triodos Bank stated it aimed '*to achieve its mission as a sustainable bank in three ways'* (Triodos, 2010, p. 5). The Bank aimed to be a sustainable service provider, a product innovator and an opinion maker (Triodos, 2010). It knew it had environmental and social credentials and offered them the right products. The Charity Bank has not yet achieved sustainability possibly because it is has not found its market yet. It may continue to make losses and eventually disappear as its financial supporters diminish.

What connects these organisations is their work in financial inclusion and the investment by the public and organisations in their funds. All of these CDFIs have amounts of investor's money out on loan and in the bank. A balancing act is needed between investments and loans. The Community Investment Tax Relief initiative seems to have brought in investment that has largely remained within the CDFI rather than being borrowed. With hindsight, this form of support may not have been ideally suitable for younger or smaller CDFIs.

The demand for loans has been as issue for many CDFIs and research has shown that corporations attempt to firstly find internal funds and then external funds (Myers and Majluf, 2004). It has been argued that there is a '*strict ordering or a hierarchy of sources of finance'* (Benito, 2003, p. 7). This could be true of UK businesses, especially trading charities and social enterprises. Charities may seek other options, such as fund raising or applying for a grant before seeking a loan.

Sustainability is very much linked to diversification, such as managing a fund belonging to a local authority, having a large range of products, running back office services or managing share issues. Larger loans for capital projects bring in more money. At CDFI conferences many loan managers have commented that it takes just as much work to give a £5,000 loan as it does a £250,000 loan. Triodos Bank with its environment loans has capitalised on long term, larger loans for renewable energy.

Overall, things look financially problematic for the Charity Bank, because it still has not found its route to sustainability. ICOF has had large fluctuations, but now seems settled as a small-scale niche lender. The Triodos Bank has continually acted as an innovator and tried new products with social, environmental and cultural benefits. It has a market, but will continue to offer new things. All of these CDFIs are still in development. The following chapter will show that the regional and local CDFIs have been innovative and have had major problems too.

Chapter Six: CDFI Case Studies: Local and Regional

This chapter looks in detail at individual examples of three CDFIs working at the sub-national level. The majority of these case studies will come from what I previously called the ‘New Wave’- those organisations that began in the late 1990s or the early 2000s. This was an area of interest for my research as these organisations have had to assess and gradually work out their roles through a mixture of success and failure. While both ICOF and the Triodos Bank have survived over twenty five years of trading, Street UK, the Aston Reinvestment Trust and the Community Loan Fund North East are more youthful in comparison. The two CDFIs based in the North East of England were selected because they offered two different models. The third CDFI, ART, was chosen because of its profile – it has appeared extensively in the national press (Gosling, 1994; Mgadzah, 1995; Gosling, 2001; Parker, 2001; McCurry, 2002).

Data collection involved accessing secondary sources, and collecting primary data through a number of interviews. In the case of ART based in Birmingham, Steve Walker, the manager, visited Newcastle and this was used to gather information. Similarly, the annual CDFI conferences were used in keep up to date with changes within organisations. Both the Community Loan Fund North East (CLFNE) and Street UK were interviewed at least twice over a five year period.

ART had very a good website that was updated with their annual reports and news stories of their work around Birmingham. The CLFNE website was quite static with limited information and therefore a greater need to interview the loan manager again. During the research period Street UK changed staff and became Street North East. Once again it was important to re-interview the organisation.

Other CDFIs, business support agencies, social enterprise development workers and a Barclays’ Bank business manager were interviewed to attempt to gain a more holistic picture. The CDFIs hoped to gain referrals from the banks and business support agencies, so these additional interviews were important.

Street UK: Bringing Micro-finance to the UK.

In previous chapters it has been noted that micro-finance has been successful in developing countries and the Grameen Bank is often cited as an important example. Street UK took its inspiration from the Grameen Bank and its model and experience from Fundusz Mikro. The Polish micro-finance organisation, Fundusz Mikro was set up in 1994 with $24 million from the Polish American Enterprise Fund. Rosalind Copisarow, an ex-banker for JP Morgan was the Chief Executive of this lending organisation. Over four years the organisation had built up a large enough customer base to be self-sufficient, distributing 25,000 loans worth $25 million with a 98 percent repayment rate (Copisarow, 2001). The success of Fundusz Mikro led Rosalind Copisarow to begin establishing a similar organisation in the UK. Rosalind and Martin Hockley, formerly of ICOF aimed to establish a micro-finance organisation in the economically developed UK.

Street UK was established to provide loans to small businesses unable to access finance from high street banks. The starting date for the organisation has proved slightly problematical with the NEF report claiming August 1999 and its own website suggesting its launch was in September 2000 (Street UK, 2000). Originally, Street's aim was to establish 40 branches serving 20,000 active clients and a £40 million loan portfolio over a seven-year period (NEF, 2005). It was offering loans between £500 and £10,000 and introduced its first business loan product in April 2001.

In the first year of Street UK its website stated that it aimed to '*fill the gap left by mainstream banks, credit unions, credit card companies, money lenders and charities'* (Street UK, 2000). The zeal and philosophy of the organisation can be illustrated in an interview with Rosalind Copisarow, the chief executive of Street UK. She stated:

> *'When we first talk to them there is often a dead look in their eyes because they're so tired, they're trying so hard to just tread water,*

> *and they don't see the point in going on because there is no-one there to help them. But once they realise you're for real this light comes into their eyes – in that moment you re-ignite hope and it's wonderful'* (Loney, 2003, p. 15).

There was fervent desire to solve a series of social problems. Street's founders claimed:

- *'There was a growing gap between 'haves' and 'have nots'.*
- *There was growth in the number of people becoming self employed.*
- *The restructuring of financial services had led 'less availability of trust-based, appropriately structured, small business loans'* (NEF, 2005, p. 10).

Street UK thought they had identified a need for small loans for start ups (in business for six months), the grey market (people trading while receiving benefits) and the existing self employed and micro businesses. In an interview with a Street UK loan manager based in Newcastle it was suggested that there were still people being denied credit, because of county court judgements dating back to the Poll Tax of the early 1990s. Others were denied credit, because they did not have sufficient experience or had poor records. Rosalind Copisarow cited the importance of her organisation and micro-finance on the World in Need website:

> *'The rewards (of micro-credit) are immense: for individuals, micro-credit can improve their psychological, social and financial well-being: for communities, it can strengthen their ties of mutual support and reach out to the needy; and for the country as a whole, micro-credit can create tens of thousands of unsubsidised jobs in only a few years'* (World in Need, 2002).

It was perceived that the opportunity to access the correct form of loan finance would bring about great social and economic benefits. Street UK was to use its knowledge of Polish micro-finance to give people this opportunity and develop into a national organisation.

Street's Proposed Methodology

Street UK had intended to use a Grameen Bank type model with groups of lenders mutually supporting each other. An early version of the website stated:

- *'Borrowers join together to form groups of between 4 and 7 members. Borrower groups are self-forming and self-regulating;'*
- *'No collateral is required but each member of the group mutually guarantees the obligations of the other group members. Access to further loans is dependent on all group members fully repaying their loans.'*
- *'Loans are structured to meet the needs of each borrower in terms of size, purpose and terms'* (Street UK, 2000).

It was planned that group borrowers would receive a discounted interest rate and individuals would supply three personal external guarantees. From these statements it would suggest that Street UK was going for a peer group model where liability would be transferred to others ensuring full repayment. This peer pressure and joint liability model was a copy of the Grameen Bank (Yunus, 2003). Street UK aimed to transfer peer pressure, group loans from rural Bangladesh to the urban United Kingdom. In an early promotional leaflet, Street UK attempted to get across the message of group loans and their publicity leaflet stated:

- *'Use your contacts not your assets to guarantee your loan.'*
- *'Involve family, fellow traders, even fellow borrowers.'*
- *'Successful repayment will open the door to further immediate loans' (Street UK,* Newcastle, 2001).

This may have been potentially a new and therefore difficult concept for many business people. The first North East loan manager Sarah Mackey had some difficulty with the proposed methodology. However, she found that amongst ethnic minorities there was an acceptance and knowledge of group loans. Since this method did not entirely work, most loans were not to groups, but individual loans backed by guarantors. When interviewed Sarah Mackey stated:

> '*We ask for guarantors, three guarantors or a group… the taxi drivers is a case in point, they all borrowed £1,500 for their premises* (Mackey, 2002)

A group of Asian taxi drivers took a group loan and guaranteed for each other.

The Street UK branches altered their methodology of lenders and guarantors after an initial period. In Street UK's own evaluation it suggested after a number of years trading that:

> *'Loans need to be made individually, group loans having been found not to work on a large scale, mostly due to the lack of peer group support and peer pressure levels prevalent in developing countries'* (Copisarow, 2004, p. 6).

The transfer of group loans to the UK failed, because of cultural differences. It was found that an individual guarantor provided better security than a group (Copisarow, 2004). Similarly, NEF's evaluation of 2004 suggested that it proved difficult for potential borrowers to form groups with a mixed range of risk profiles suitable for Street's lending criteria. John Hall, the second loan manager based at the Newcastle branch found parents would be guarantors for their sons and daughters and trust was limited to immediate family members. The group loan methodology was confusing to many potential borrowers and was an element that slowed the progress of the organisation.

Street's Performance 1999 – 2004

Street UK's performance was evaluated by itself in 2004 and at the request of the Esmée Fairbairn Foundation (EFF) by the NEF in the same year. Street UK's history can be divided into two phases, pre and post 2004. After 2004 the London office was closed and the organisation changed, with the North East office becoming a separate entity. Street UK seems to have gradually attracted funding from the banks (Bank of Scotland, Northern Rock, Co-Op Bank, Alliance and Leicester and Barclays) for onward lending (Street UK, 2000). The role of the Northern Rock Bank has been difficult to clarify, because the website and Street UK's staff used '*Northern Rock'* interchangeably to mean both the Bank and the Foundation. The second source of significant revenue funding was from many charitable foundations such as the EFF, the NRF and the Gulbenkian Foundation. Some of its funding was aimed at certain areas such as operating expenses from the Newcastle Employment Bond, Scottish Enterprise and Leaside Regeneration. Overall, by 2004 it had attracted over £4 million in funding (Street UK, 2004).

The NEF report stated that the first phase of Street UK was the research period and the second phase was its pilot stage up to the end of 2001. In its second it:

> *'explored locations and opened branches in Glasgow and Bradford, developed their lending policies, procedures and documentation and marketed themselves to potential clients. Street's first loan was made in March 2001'* (NEF, 2005, p. 22).

In an early press release the organisation announced the first branches would be in Edinburgh/Glasgow, Newcastle/Sunderland, East London and Manchester/Preston (Street UK, 2000a). Street UK opened branches in Birmingham, Newcastle and London (BBC, 2002). However, Sarah Mackey, the loan manager in Newcastle mentioned the Glasgow office on a number of occasions and the NEF (2004) evaluation stated that an office in Glasgow was set up. The Glasgow branch may have been a pilot project over a very limited period.

During this time there was speculation that Street UK would merge with unLTD, a new charity to support social entrepreneurship. unLTD was in receipt of the Millennium Awards Legacy Fund worth £100 million endowment offered by the Millennium Commission. Rosalind Copisarow became the CEO of unLTD in March 2001. unLTD was aimed at supporting charitable causes through grant funding and was not looking to create sustainable businesses. However, the two organisations never merged and Rosalind resigned from unLtd in December of the same year (NEF, 2005).

In 2002 it entered its third phase, a period of stock-taking post the unLTD experience and the development of a new business plan (NEF, 2005). Since Street UK had not succeeded in reaching its projected targets the EFF suspended their funding. There was insufficient business in Glasgow and Bradford, so these branches closed during the year. From 2002 Street UK modified its products and services. This was a period of diversification developing Street Lab to perform research and campaigning and Street Serve offering back office services.

Between the start of April 2001 to the end of September 2002 it had 116 enquiries. In this eighteen-month period Street UK Newcastle had:

- Made forty-eight loans worth £82,650
- The average (mean) enquirer wanted £2,053, but the actual loan was £1,722.
- The majority of its enquiries and subsequent borrowers came from press and media advertising.
- A majority of loans were to improve the income of the enterprise and maintain /upgrade machinery.
- Three quarters of borrowers were male and one quarter female.
- Only seven from forty-eight loans came from the grey economy.
- Six borrowers or twelve percent approximately were British Asians.

Source: A fax from Martin Hockley based at the Birmingham branch: 4th October 2002.

It was stated by a member of staff that these loans had produced or maintained approximately seventy one jobs. The difference between the enquiry and the actual loan (of around £300) could be seen as a sign of the staff working with the borrower, identifying exactly the finance needed, and how much the borrower could afford to repay. From these early figures it would seem that Street UK was attractive to ethnic minorities with around 12 percent of loans going to British Asians. Similarly, their product may have tapped into the female market with 25 percent of their borrowers being female. The organisation was not achieving a large loan book, but was making some progress.

In 2004, NEF carried out an evaluation for the EFF, one of Street UK's main funders. The reason for the evaluation was the limited success of the organisation. In Street UK's own evaluation it found that the number of micro-entrepreneurs wishing loan finance and '*sufficiently creditworthy to receive a* *loan'* was less than expected (Copisarow, 2004, p. 6). Examining the data from the Newcastle office again; 116 enquiries translated into 48 loans, which is just over 40 percent. Demand was coming from business people with low levels of financial literacy and cash flow management skills and with debts already. Potential borrowers needed a range of additional business support

The NEF evaluation stated that there was a high level of customer satisfaction and the organisation had produced well developed systems for credit assessment and delinquency management. Potentially, through its problems, successes and failures it had been able to learn and develop lending systems. The cost of lending seems to be quite high at £2.80 to lend a pound or £4,300 per loan. However, the NEF considered it to be comparable to other CDFIs (NEF, 2005). This £2.80 included the costs of Street's wholesale operations (StreetServe) and its policy work (StreetLab). In Birmingham, it was only costing Street UK a total of £1.60 to lend £1. Street UK had not fully costed the amount of development needed to get enterprises up to the point of being able to take a loan. NEF suggested that diversification of products and services would be important to Street UK's future. The organisation changed its mind about its sustainability and stated:

> *'Overall, although Street UK no longer believes that micro-finance organisations in the UK can achieve scale and sustainability with a single loan product only, it does still believe that sustainable organisations can be created by a combination of:*
>
> - *Adding to their revenue stream through new product development for micro-entrepreneurs…*
> - *Finding synergies with other organisations…*
> - *Reducing costs through greater use of volunteers, secondees and non-executive directors, as well as technology in place of staff'* (Copisarow, 2004, p. 8).

The Chief Executive (2000 – 2004) Rosalind Copisarow was prophetic about some of the developments at the Newcastle office.

Developments after 2004

The EFF Evaluation, and the separation of Street UK and Street North East, marked a major change. Street UK had not taken off and produced the expected benefits. Hence, it was facing an uncertain future with funders. Nevertheless, both organisations have continued in their different ways.

Street UK based in the Midlands was supplying personal loans and Street North East was still lending to enterprises. The Midlands operation concentrated on small loans averaging £600, debt advice and back office services. It followed the available funding streams and has achieved longevity by changing its original purpose. Street UK never achieved targets of forty offices and a loan portfolio of £40 million. Recently, the Street UK website claimed that it had lent over £1.5 million since 2001 (Street UK, 2007), which was a fraction of its expected total.

In 2004, Street UK closed its London branch and its Newcastle branch became independent being renamed Street North East (NE). Potentially, keeping the Newcastle branch open was necessary, because it had raised significant sums locally for running costs (Newcastle Employment Bond £150,000 and NRF £225,000). In addition, the Northern Rock Foundation was willing to give them sums to be drawn down to lend on. After the split of Street UK and North East my research concentrated on Street NE, because it was still lending to businesses.

The closure of the London branch was expected since the Community Development Finance Association had five CDFIs members all working in the poorer parts of London and offering similar products. There were potentially too many CDFIs competing for borrowers. Street UK based in Birmingham was supplying personal loans and offering debt advice. Since the focus of this research has been business finance it seems appropriate just to concentrate on the North East organisation.

At a presentation in 2004, the organisation seemed to have a new found confidence and it announced that its interest rate was 26.8 percent. Previously, the organisation would avoid broadcasting this interest rate. It was explained that the borrowers could not gain cheap bank finance and this rate was still cheaper than many regulated and unregulated lenders. An early leaflet never mentioned the interest rate, but a leaflet from 2004 contained a table very similar to Table 8. After four years in the region it was becoming accepted and had an understanding of its potential market.

Table 8: Street NE's Interest Rates

The Cost of Borrowing from Street NE over Twelve months (2004)		
Loan Amount	Interest Paid	Interest Rate
£1,000	£130	26.8%
£2,000	£270	26.8%
£5,000	£616	22.0%
£10,000	£1,003	17.2%
£30,000	£2, 659	12.4%

Source: A Street NE leaflet 2004 and Copisarow, 2004.

In an attempt to reduce the cost of loans, the organisation was offering larger loans to repeat customers and reducing the interest rates so that businesses would not move on to the high street banks. Table 8 shows the reduction from 26.8 percent to 12.4 percent, but the lower rate would be for trusted repeat customers.

In 2004 Street UK's performance was disappointing compared with its intended targets. From 2001 to 2004 Street UK as a whole:

- Lent over £600,000 to 260 self employed people and micro-enterprises in some of the UK's most deprived areas.
- Gave business advice to more that 1,000 micro-entrepreneurs.
- Produced a repayment level of 83 percent on-time collection rate and less than 4 percent write-offs.
- Helped safeguard at least 50 businesses and created 130 new jobs (NEF, 2005).

Street NE has continued and in 2007 was making around 5 loans per month.

As mentioned earlier, Street NE has continued as a supplier of micro-finance. As of May 2007, Street NE's average customer was a male, aged 41 and most likely working in the service sector wanting a loan of around £5,250 (Street NE, 2007). The majority of its lenders (63.2 percent) were in rented accommodation and 79 percent of its clients had been previously refused credit (Street NE, 2007). The average turnover at application was around £80,000 per annum and after the loan this average increased to over £95,000. It has successfully increased the economic activity, because of its finance. By borrowing for vehicles, equipment or stock the businesses had increased turnover. Now Street NE offered larger loans, but seemed to have remained working with individuals excluded from bank finance.

When interviewed again (in mid 2007), Street NE were increasing their staff from two to four. The organisation had concentrated upon one member of staff managing the business and seeking sufficient revenue and capital funding and the other building and sustaining the loan portfolio. They had managed through having a very lean operation to have a portfolio of around £600,000 and importantly were covering 20 percent of costs. In a research interview the staff noted that they *'we're setting the benchmark for microfinance'* (Street NE, 2007a). They planned to cover more costs each year as the lending increased. Gradually, they had honed their systems down with six years experience and few staff. However, one of their major costs was the process of giving a loan:

1. The initial conversation would take 20 minutes.
2. Staff would make a site visit to the micro-enterprise, which would take two hours.
3. Staff would analyse the figures from the business and fill out an application for the credit committee, which would take approximately two days.
4. If accepted the borrower and their guarantor would come to the office to sign the legal agreements.

The organisation had managed to gain some interest free funds to lend on, which helped them reduce their costs. It had 57 customers and a write off rate of 5 percent, which was acceptable amongst CDFIs. They judged that there would always be some failures, because they were lending in a very risky part of the financial market. They would spend time with a borrower, who missed a payment and encourage them explain their difficulties. In 2007 it was going to become registered for the Small Firms Loan Guarantee Scheme giving it some protection from bad debts.

When asked about the problems experienced over six years in the North East, long term funding was identified as an issue (Street NE, 2007a). What was needed was long term funding of ten years to establish the organisation. Things had taken longer then expected and the organisation needed both revenue and capital funding. Overall, the organisation was optimistic about its new staff and the throughput of business. It believed it was heading in the right direction and hoped to increase its ability to cover its costs. Ideally it hoped to be eventually sustainable, but realistically expected to cover 50 percent of running costs within another three to five years.

In 2008 Street North East, after seven years moved to a new address in the same building as Entrust, a local business support agency. Throughout the year there were discussions that Street NE would merge with Entrust, because of the synergies between the two organisations. Eventually in 2009, Street NE became part of Entrust as the business support agency and the Newcastle based CDFI Newcastle merged.

Street UK: Conclusions

It is important to note that, in relation to micro-finance, there was not the expected large-scale latent demand to be found in the economically developed UK, unlike Poland. It is possible that Street NE could become a successful model covering a significant element of its costs over time. Street NE may only have 57 lenders but it only had one member of staff processing loans. It was felt that with the additional staff the number of loans would increase to 20 – 30 per month. Aspire, a micro-finance organisation based in Northern Ireland experienced similar difficulties to Street UK, which indicates that lending small amounts of money has intrinsic sustainability problems.

Overall, the supply of this micro-finance service has increased economic activity for the lenders and increased opportunity to access finance for a particular group of people. By joining a larger organisation such as Entrust there will be synergies, economies of scale and potentially lower costs.

Aston Reinvestment Trust: The expansion beyond Aston.

This section will explore another of the '*New Wave'* of CDFIs, the Aston Reinvestment Trust (ART). It was inspired by the South Shore Bank in Chicago and was '*modelled on the Community Development Loan Funds in the US which are set up to regenerate targeted areas'* (House of Commons, 1998, section 2). In 2009, ART was in its twelfth year of its existence and had gradually grown beyond its original area, the district of Aston in Birmingham. It was set up in 1995, but was formally launched in June 1997 '*in response to a recognised gap in provision of small-scale loans to small businesses and Third Sector organisations'* (House of Commons, 1998, section 2). ART can be seen as an innovative organisation and also an opportunistic follower of funding. This section is based on an interview with Steve Walker, the Chief Executive, the annual reports, newspaper articles, parliamentary papers and various sources on the Internet.

What is ART?

ART's original market was to support enterprises that were '*viable business and enterprises which provide social or economic benefit to local people'* (House of Commons, 1998, section 1). These businesses would be too risky for the banks, but could be seen to be trading sufficiently to produce a surplus to repay a loan. Steve Walker suggested that his organisation was not part of the social or micro credit part of the market like the Prince's Trust or WEETU, but, '*we are at the next area with ART, near bankable'* (House of Commons, 2000, question 382).

Unlike Street UK, ART's loans were not entirely at the micro-finance level and ranged from £2,000 to £40,000 in 1997 and from £10,000 to £50,000 in 2007.

Early in its life, ART had two main products, a business loan and the Key Fund aimed at social enterprises. In the early years of this lending organisation the rate was 1.25 percent over base reflecting their social aspirations. Commercial lenders at the same time had a rate of around 8 percent over base (Renewal.net, 2002). In 2007, ART's had increased the rate to 5 percent over the base rate, which would be a more sustainable rate. In 2009, the interest rate was 6 - 12 percent over the base rate reflecting the low Bank of England base rate. There was a setting up fee of between 2 - 4 percent to pay for some of the initial work by ART to assess the borrower. In the late 2000s this arrangement fee had increased to 3 - 5 percent. In addition to these rates and fees, borrowers have to become members for the duration of the loan. The fee of £250 was returned after the loan is repaid.

A Brief History of ART

As its name suggests, The Aston Reinvestment Trust was an organisation that began its life in Aston, a disadvantaged district of Birmingham. The Aston Commission, a community initiative made up of local groups, voluntary organisations and business identified a need for a community financial institution (LEDI, 2002). The organisation was seen as being innovative, because it was using a North American CDFI model (Gosling, 1994) even before it had began trading. Some years later, Steve Walker stated the:

> *'People in Aston and Newtown were looking for some link between the banks and building societies that were moving out of the area. There were 28 banks in the area and there are now only three'* (Naqvi , 2002, p. 25).

This was a similar story to those that occurred in many disadvantaged areas, with the banks closing down and leaving an unsatisfied need for both personal and commercial finance. What followed was a feasibility study, which eventually produced a business plan in 1992. This led to the development phase supported by the Newtown South Aston City Challenge (LEDI, 2002). Steve Walker admitted that ART was influenced by ICOF with a history of lending to co-operatives with an office in Birmingham and the Newcastle based Shared Interest (House of Commons, 2000). Both these organisations had been supported by share issues with individuals and organisations making social investments for little or no financial gain.

In 1997 ART begun with a donation of £40,000 from the Barrow Cadbury Fund for a guarantee fund. This sum was supported by approximately £300,000 being raised by a public share issue. ART's target of £500,000 was reached after nine months *'led by personal investors followed by banks, housing associations and local businesses'* (ART, 1998, p. 6). ART's structure followed ICOF and Shared Interest being an industrial and provident society. Since ART was a mutual society one of the conditions of an ART loan was that the borrower had to become a member. ART had a similarity with ICOF in its multi-organisation structure. The initial company was an industrial and provident society called ART Share (Social Help Association for Reinvesting in Enterprise) Ltd. Its purpose was to accept shareholdings, loan money and receive capital repayments. In addition, there were two wholly-owned subsidiary companies, Aston Reinvestment Co Ltd and the Aston Reinvestment Guarantee Co Ltd, which both played additional important roles. Aston Reinvestment Co Ltd worked as the trading company receiving grant funding from a number of sources (House of Commons, 1998). This company can be seen as giving social value to ART through working with clients to give them suitable loan finance. Finally, there was a Guarantee Company, which supported the original share issue. Both the CDFI sectors in the USA and the UK have recognised the importance of having a guarantee as the first line of loss (Canale, 2003). ICOF has successfully used its guarantee fund to protect investor's money for losses.

During this early period, Pat Conaty and Danyal Sattar were part of the Birmingham Settlement (Walker, 2003). Both have gone on to work with other CDFIs and write publications for NEF. Danyal Sattar worked for Investors in Society, a national CDFI lending to the social enterprise sector and later the development of the Charity Bank. Pat Conaty worked with the London

Rebuilding Society and has produced a number of documents in the area of social finance (Mayo *et al.*, 1998; Brown, *et al.*, 2003). It has been suggested that Pat Conaty was an inspired social innovator (Walker, 2003), but his role can also be seen as a conduit for North American ideas for community leading organisations fitted to UK circumstances. It has been recognised that the South Shore Bank of Chicago and community development loan funds were the inspiration for ART (Sustainability, 1998; House of Commons, 1998).

In 1998 ART had loan funds for small businesses and social enterprises up and running and were planning others to aid energy reductions and housing improvements. In the early years of ART the Sustainability website (1998) stated the organisation aimed:

> '*to build up self-sustaining funds with money raised from socially concerned investors, including endowed trusts, some High Street banks and the public sector.*'

In ART's first annual report the Development Manager, Pat Conaty wrote;

> *'The American Community Development Loan Funds which ART has modelled itself on, highlight the potential to which we aspire. One example established fifteen years ago, the Delaware Valley Community Reinvestment Fund (DVCRF) achieved a capital base of $250,000 and made half a dozen loans in its first year. Today, its community reinvestment funds exceed $25 million and DVCRF is making more than one job creating investment every week. More than 30 other community development loan funds in the USA have successfully followed this development strategy'* (ART, 1998, p.7).

At this point in time the ART Group and the Society had capital and reserves of around £300,000 and £250,000 respectively.

ART's innovation

During this time of development ART was calling itself a '*Local Social Investment Society'* (Sustainability, 1998; ART, 1998), linking local investors with the localised problem of financial exclusion. This descriptive title seems to have gone out of favour to be replaced with the ubiquitous title of CDFI. In the early years, ART had two main products, the Business Development Loan Fund and the Key Fund. Both these funds were aimed at trading businesses, with the Key Fund being for charities and social enterprises and the Development Fund for commercial enterprises. ART had spread its remit across a series of disadvantaged wards across Birmingham. In the early years, these loans were between £2,000 and £40,000 repayable up to ten years. The two funds were quite similar, but the social lending was charged at 1.25 percent over base (1997) and the commercial firms 8 percent over base (Renewal.net, 2002).

In 2000, the Parliamentary Select Committee for Trade and Industry looked at community finance institutions and the potential for the Phoenix Fund and Steve Walker was asked to give evidence. During giving evidence he explained why ART's commercial lending rate was above that of the bank. His first reason was that borrowers would eventually move from CDFI finance to bank loans with lower rates. The second reason for the higher rate was to aid the financial sustainability of ART (House of Commons, 2000). Borrowers were being offered a sensible rate that could give the CDFI some level of sustainability. ART had some bad debts and Steve Walker explained to the select committee that if they had not they would have failed in their purpose (House of Commons, 2000).

ART's goal was to become sustainable by having sufficient funds and developing further products. ART learnt that certain pilot funds did not entirely work. The Self Employment Loan Fund failed to become established. At the same time another organisation, Enterprise Link gave grants of up to £2,500 to start ups, so making loan finance unattractive (Sustainability, 1998). In the late 1990s when Pat Conaty was acting as Housing Investment Consultant, ART was piloting a Mortgage Rescue scheme with help from the Charities Advisory Trust and partnership with the National Debtline (ART, 1999). This pilot project did not become a mainstream product of ART. However, it is an example of ART trying new products, attracting additional funds and working with partners.

ART's proficiency of bringing in funds and developing partnership made it an example of innovation and best practice. In 1997/8 ART's revenue funding came from the Birmingham City Council, Barclays, NatWest, the Co-operative

Bank, the Charity Aid Foundation and the Energy Saving Trust. A briefing document cited that ART had partnerships with twenty eight organisations and was a member of ten citywide, regional and national organisations (ART, 2002a). In 2003 ART signed a contract with Birmingham and Solihull's Business Link to formalise the support for ART to compliment its loan provision with enhanced business support for borrowers – both before and after receiving a loan. The extent of the contract was unknown, but the statement would suggest that ART was receiving financial support for their business development work. When I interviewed Steve Walker in 2003 he knew ART had to work across Birmingham to aid sustainability.

Since ART's beginning it had a strong relationship with the banks. Steve Walker stated *'the banks have been heavy supporters of ART in terms of revenue costs. I was seconded from Barclays Bank, and NatWest themselves have been supportive'* (House of Commons, 2000, question 385). In 2001 ART received a £200,000 guarantee from the Phoenix Fund and it levered in an additional £600,000 from Barclays. ART's publicity materials stated Barclays bank gave ART a discounted loan rate for £500,000 and a donation of £100,000. Barclay's money can be considered as being quite secure and a low risk, because the £200,000 guarantee would absorb the bad debts first. Barclays Bank has supported ART Homes and ART's Business Development Fund consisted of £100,000 as mentioned above from Barclays.

Steve Walker's ability to develop external relationships has given ART a national reputation. Steve has given evidence to a select committee looking at the establishing of the Phoenix Fund. Since then the organisation seems to have been regularly consulted by government, social enterprise committees and other CDFIs. ART accessed the Phoenix Fund in the first and second rounds gaining a £200,000 guarantee fund, £875,000 for their loan fund and £150,000 for running costs. In 2003 ART was one of the first seven lenders to become an accredited CDFI. This accreditation would allow ART to offer investments that would benefit from Community Investment Tax Relief (CITR). CITR gave the investor a 5 percent tax reduction on tax liability. In 2005, ART was looking to raise £200,000 from private and corporate investors and offering tax relief (BFE, 2005; Reinvest, 2005). When interviewed in 2002, Steve Walker explained that ART's ability to bring in additional investments from individuals had failed. The introduction of the tax relief was equal to 6.3 percent interest per annum on the sum invested, which has made ART a more attractive financial investment.

An example of ART's innovative nature was its acceptance of a £200,000 loan from the EFF, another loan for £80,000 from the Polden-Puckham Foundation (PPF) and another from Shared Interest. The Guardian journalist, McCurry (2002) highlighted that the PPF invested their spare funds in ART as a social investment rather than a commercial return. By attracting funds to lend, ART could both receive the interest from the loans and have money in the bank to improve its sustainability.

It may seem that ART has been a highly successful organisation attracting finance and establishing partnerships with many organisations. Nevertheless, the organisation has had its difficulties and in 2000 Steve Walker stated:

> *'We have had losses. If we had not had losses we would have been failing already. The loss rate at the moment is in the region of the six percent'* (House of Commons, 2000, question 384).

When I interviewed Steve Walker in 2003 the default rate had increased to around twenty percent. In both the annual reports from 2005 and 2006 it was highlighted that the organisation had problems with bad debts. In 2006, the annual report announced that the bad debts were running at 22 percent of total loans, but with the support of its partners it had this sum covered. ART had recognised that business support was necessary to improve the chances of success, and in 2006 it established ART Development Services, a business support pilot to help aid enterprises. This would bring in additional funds to help the businesses grow and diminish bad debts.

In 2008 / 2009 ART had received a £1m loan fund from the RDA and had a series of large and high profiles investors, such Jaguar, Severn Trent, Natwest, Barclay's and Sir Digby Jones (Reinvest, 2009).

The Performance of ART

By 2008 / 2009 ART had lent a total of £7m to over 400 borrowers since 1997. This enabled them to create or protect in excess of 3000 jobs in the Birmingham area. However, ART has had more than one loan fund and some did not survive because they were under used.

In 2001, ART had their social enterprise (Key Loan) fund, independently evaluated. The fund had been in existence for approximately two and a half years. During this time the Key Loan Fund had made 14 loans averaging £28,913 with a total value of £404,785 (Enterprise and Tym, 2001). It had created 30 new jobs and safeguarded 79. The evaluation attempted to assess the potential market for loans within the social enterprise sector. From the Third Sector support agencies it was identified that Birmingham had 27 large scale, 168 small to medium and 138 community organisations totalling 333. However, it was found that ART had enquiries from 49 social enterprises unlisted by the support organisations. This gave Birmingham a total potential market for finance of 382 social enterprises. ART's Key Loan Fund received 63 enquiries in total (16.5 percent of all social enterprises in the city) and gave loans of 14 (3.7 percent of all social enterprises in the city). The number of enquiries to loans given produced a conversion rate of 22 percent (Enterprise and Tym, 2001).

These figures highlight some of the problems with demand within the social enterprise sector. Firstly, there were a limited number of organisations. Secondly, the enterprises listed by the support organisations contained a large number of voluntary organisations that may have relied purely upon grant finance. Thirdly, there was the question of was ART too expensive? The arrangement fee and membership fees were added to the interest rate. However, the product of a loan 1.25 percent over the base rate plus 1 percent arrangement fee (in the late 1990s) was potentially being highly subsidised. The report noted '*that the majority of enquiries, loans approved and potential loans from open enquiries'* came from enterprises not linked to support agencies (Enterprise and Tym, 2001, p. iii). This would indicate that social enterprise support agencies would point organisations towards grants and therefore would not be a good source of referrals. The 2001 evaluation gave a snapshot of a loan fund after three years. It was not as successful as hoped, but ART has still continued lending to social enterprises.

By 2009, ART was in its twelfth year, so it has achieved longevity and some form of sustainability. In an evaluation from 2006, ART had lent £4.67m and had created or preserved 2310 jobs. These figures seem quite substantial, lending on average around £0.5m and creating or preserving approximately 250 jobs per annum. These figures have continued at a similar rate. However, figures in Table 9 show that for five years it made very few loans. Between 2005 – 2006 ART made 80 loans, whereas previously it was always less than 50 per annum. ART's performance seems to have stuck at around 80 loans per annum. This could indicate that ART has begun achieving some recognition by the banks and business support agencies signposting customers, or it may now be sufficiently established to attract borrowers through its longevity within Birmingham.

Table 9: Performance of ART

31st March	**Capital and Reserves (Group)**	**Number of Loans since 1997**	**Cumulative loans since 1997**	**Average loan amount**	**Jobs created and job preserved since 1997**
2001	£500,639	70	£1,239,385	£17,705	124 Created 440 Preserved
2002	£863,097	93	£1,749,695	£18,814	193 Created 567 Preserved
2003	£955,474	141	£2,694,110	£19,107	320 Created 636 Preserved
2004	£1,263,596	200*	£2.7m*	£13,500	347 Created 783* Preserved
2005	£1,379,915	241	£3,773,540	£15,658	1545 Created and

					safeguarded
2006	£1,605,157	321	£4.67m	£14,548	2310 Created and safeguarded
2007	£1,674,598	360	£6m	£16,666	2900 Created and safeguarded
2008	£1,812,360	375	£6.3m	£16,800	3000 Created and safeguarded
2009	£1,680,019	438	£7.5m	£17,123	3715 Created and safeguarded

*Source: The Annual Reports 2001 to 2009 and The Report of the Birmingham Strategic Partnership, 2004. After 2005 ART combined their job creation and safeguarding figures.

Table 9 shows that over time ART has increased its capital and reserves per annum, but the average loan amount has fluctuated. With Street UK in Birmingham concentrating on personal finance after 2004, ART may have absorbed the demand for smaller business loans.

Evidence in the 2005 and 2006 annual reports show that the organisation still had monies from the Phoenix Fund, Single Regeneration Budget, City Challenge and New Deal for Communities. It thanked the EFF, Tudor Trust, George Cadbury Fund and Newtown Business Group for their donations and indicated the need to cover revenue costs. In 2006, operating income (£596,515) was covering their expenses (£584,845) and creating a small surplus. However, £311,184 of the expenses was assigned for bad debt provision. This would indicate the risky nature of working with borrowers in the sub-prime market. Interestingly, the organisation still had £723,591 as cash at the bank, £453,600 capital reserves and just over £1 million in other reserves indicating that ART was still not getting enough enterprises wishing to borrow.

In 2008 / 2009 ART was still struggling to find sufficient borrowers for its loan funds. During the recession, Advantage West Midlands gave ART a £1m loan fund, because enquiries had increased (Scotney, 2009). The Chairman's report found in 2008/9 there had been a substantial increase in bad debts, but the systems were adjusted to reflect this (ART, 2009).

It would seem that business loans had similar problems. In 2000 at the Parliamentary Committee, Steve Walker mentioned that ART relied on Birmingham Business Link and Enterprise Link, but was finding that the banks were becoming good sources of referrals (House of Commons, 2000). However, two years later he commented that the local bankers had further to go in the area of referrals (ART, 2002). This was a very specific area of work with ART having a business conversion rate of one in eight (House of Commons, 1998). Time would be spent looking at eight enquiries with only one enterprise receiving finance. The reason for this low rate was because applications were not viable, had ill-prepared plans or only offered limited benefits for the area. Often ART would be the sole lender, but would on occasions work with the enterprise and a bank to share the loan between itself and the bank (Parliament, 2000). In an interview to celebrate the fifth birthday of ART, and when questioned what had he learnt over the last five years, Steve Walker replied;

> *'It's taken longer than we thought! Partnership is the most difficult thing, because of the changing facets of partnerships. We started saying five years ago that what we really needed, as well as financial support, was referrals, referrals, referrals and we're still saying that'* (ART, 2002, p. 7).

Similarly in late 2006, the ART website hoped for referrals from accountants stating;

> *'It can be hard to attract the attention of busy small to medium sized business owner/managers, but that's where accounting professionals, who are likely to have routine contact with them, have a golden opportunity to ensure that they don't miss out on sources of finance that could help them grow or diversify'* (Reinvest, 2006).

Since ART's market was sub-prime customers unsuitable for the banking sector, there would be some losses working within this more risky area. In 1999 ART reported its first bad debt, which gave it a bad debt ratio of 6.2 percent and in addition it had a number of enterprises struggling to make the repayments (ART, 1999). In an interview from 2002 it was noted that this rate had increased to 20 percent. However, it is not known if this figure was for the previous year or a cumulative total. Later in 2003, ART recorded a more stable situation with a default rate of 8 percent overall (measured as a percent of all loans delivered to date) (ART, 2003b). This loss rate indicated that ART had been lending to more risky enterprises (but not to the extent of the Prince's Trust who had a failure rate of 40 percent after two years). ART had lent a cumulative total of £1.7 million in its first five years and at a rate of 8 percent this would have meant that £136,000 had been lost. In the 2006 Annual Report Steve Walker stated that businesses had failed to find their markets, which led to a series of bad debts. However, its partners / funders were covering the bad debts and '*even at a rate of 22% of total loans delivered since launch, fall within the range anticipated for our model of finance provision'* (ART, 2006, p. 7). The organisation could have lost over £1m in bad debts and still survived. ART had a substantial buffer protecting the investor's money and sums borrowed by ART.

During the recession Steve Walker in his Chief Executives report stated:

> *'In spite of an increase in bad debts and a necessary review of our decision making processes, we remained true to our mission and looked to each borrower to not only exhibit viability but also reveal economic and social benefits of their business in terms of support for local jobs and services'* (ART, 2009, p. 6).

He argued that there was value in the businesses that succeeded and also the ones that failed. In 2009/10 with the reduction in public sector expenditure and the end of the Regional Development Agencies, ART aimed to show its social and economic value to Birmingham.

Conclusions

ART has been successful in surviving for twelve years and recycling funds through lending. It has been innovative in trying out home improvement loans and lending to reduce energy usage. However, these funds seem to have only been short lived pilots. By testing the markets for improvements or energy efficiency, ART has proved that there was insufficient demand. The early years were a period of trial and error. In this initial period, it was doing very little business and was potentially relying heavily on grant funding. It only allocated seventy loans, but had administrative expenses of over £500,000. ART has had an income from the interest from their debtors and funds in the bank, but it was potentially an expensive way of spreading financial inclusion. Since ART has greatly increased its annual loans it is now more cost effective in giving potential customers access to finance. ART has been managed to show funders the potential of a lender such as ART. Over the years it has gradually achieved a greater financial sustainability, but it still not reached the point of covering all of its costs from the interest earned. It is possible that because of its chosen market - with higher rates of defaults - ART and other localised lenders will never become sustainable purely from loans.

Community Loan Fund North East: Lending to Social Enterprise.

The Community Loan Fund North East (CLFNE) makes up the final local/regional case study. CLFNE lends to a single market, social enterprises. These could be Third Sector organisations, such as trading charities, mutuals or social enterprises. Unlike ART and Street NE it works within a particular region, but is also part of a national organisation (England only) called the Local Investment Fund (LIF) (SITF, 2000; Bryson and Buttle, 2005).

This regional lender has been in operation since 2001. However, LIF was established early in 1994 by a partnership between the Department of the Environment and the private sector. LIF was set up to finance voluntary organisations with loans for economically viable enterprises in areas of regeneration where loans could not be raised from conventional sources. The North East fund was set up in response to an invitation from ONE North East, (the Regional Development Agency) to work in conjunction with its Regional Investment Fund. ONE North East in its Regional Economic Strategy identified community enterprises as having a role in the regeneration of disadvantaged areas.

Unlike ART and Street NE, this regional lender can lend between £15,000 and £100,000, beyond the micro-finance level. In addition, loans can be linked with the national lender and LIF can bring in match or additional loan funding starting from £25,000 to £250,000. Unlike the other local CDFIs, CLFNE lends larger amounts, which allows the borrowers to potentially invest in property. This loan fund works not within a city or a county, but across the whole North East region of England, which could provide for economies of scale.

The following section is based upon two interviews with Rod Jones the loans manager, the first held in 2003 and the second in mid 2007. It explores the process of making a loan and some of the failures and successes. Unlike other organisations the CLFNE has not produced reports, received attention from the national press or given evidence to select committees.

The Market for Loans

The remit of CLFNE has been to provide loans to not-for-profit organisations such as charities and social enterprises based in the North East region. In 2003 and 2007, the potential borrower had to fulfil the following four criteria:

- Be unable to access funds from traditional sources (banks) or need further funding.
- Be able to produce a business plan showing an ability to repay the loan.
- Be able to show that the enterprise or organisation would aid economic regeneration and social inclusion in the locality.
- And be keen to build sustainability and reduce its dependence on grants.

Financial exclusion was important to CLFNE and the potential borrowers had to be unable to access bank finance. This could be a total rejection by a bank or the bank would only offer part of the loan needed. However, the loans manager did not see his organisation as the lender of last resort or the final lender that an enterprise would approach. He believed that CLFNE’s role was more part of *‘a cocktail of finance’* (CLFNE, 2003).

In the early 2000s, and again in 2007, the banks found it difficult to lend to social enterprises, charities or the voluntary sector, because they were uncertain of their company structures. The introduction of the Community Interest Company may have added to the confusion for banks. At an early CDFI conference it was noted that the banks were fearful of lending to charities and later finding out about their financial problems. The example of closing a charity was cited as problematic in terms of creating bad publicity. For the banks, lending to the Third Sector could be difficult, but not impossible and part of CLFNE's role would be to show that an organisation would be able to repay a loan. In 2002, I contacted by email a number of Barclay's Bank business lending managers across the North East of England and received three replies. I asked about lending to social enterprises, charities, community organisations and co-operatives and one manager had five enquiries over a six year period. From this small sample there was little demand for loan finance from this sector.

Previously, Rod Jones (like Steve Walker of ART) had worked for Barclays Bank. Rod Jones had been seconded into the position of loan manager. He had a number of years experience lending to enterprises and perceived the business plan as being very important, because it would show that the organisation would have the ability to repay the loan. The plan would be questioned and challenged by him to confirm that the organisation could repay. However, what was equally important was to see the manager of the organisation face to face. In the first interview Rod Jones stated that:

> *'A kind of judgement on people I am making, because we are largely unlike a conventional banker, we are looking to lend to people who can manage a business and an idea to help with regeneration'* (CLFNE, 2003).

The plan and the people within the organisation were seen as important factors. CLFNE offered bridging loans to organisations between contracts or grants. If an upcoming grant or contract was confirmed then this would help to show that the organisation could repay the loan. Occasionally, the process of improving the business plan and proving the ability to repay a loan allowed some potential borrowers to return to their bank for the loan.

This loan fund has gone beyond the scope of the regular banking sector, because it would spend time clarifying issues. The manager would carry out the process of due diligence, making sure that everything was correct before a loan was put forward to the lending board.

Originally, the loans were from £15,000 to £50,000 but this was increased to £100,000 during the decade. In addition, the national fund could be used to double this amount and spread the risk across two loan portfolios. Potentially, this increase reflected the rises in the cost of property over the time period. As the price of property rose, then the national fund could also share the risk of a loan. The minimum of £15,000 was chosen because anything under that amount would not be cost-effective given the time spent in discussions, visiting the enterprise and checking the business plan. Interest was charged at between 2 percent and 3 percent over base (around 5 percent at the time of the first interview). This interest rate changed to around 3 percent or 4 percent over base in 2003. The repayment time was usually between two to five years, but could go up to ten years. A repayment holiday could be taken, so that the organisation could have time to see the benefits of the cash injection. A lending fee of between 1.5 to 2 percent was paid at the start of the loan. This was an attempt to cover the costs of writing the proposal by the loan manager to the loan board and the time spent seeing the client.

Even though potential borrowers had their business plans tested there was a need for security. The manager did not wish to reduce his loan fund through bad debts, so security was important to maintain the size of the fund. When interviewed the loan manager stated he *'was not a pawnbroker, but needed security*', which meant the borrowers needed to have assets such as a building. The Newcastle based NRF lent the CLFNE money to lend to charities and social enterprises. Potentially, this would make security even more important, because the fund would be liable for any losses.

The original loan fund was made up of monies supplied by Barclays, Home Housing, the Community Fund and European money (Table 10). The initial funding from Barclays and Home Group were five-year loans at an interest rate 1.5 percent over Barclays Bank Base Rate. The loan was unsecured, but was structured so that the public sector monies are the first line of loss. This funding brought in also European money, which did not have to be repaid.

Table 10: The Original Finance Structure of CLFNE (2001)

Funding Organisation	**Amount**
Barclays Bank plc.	£80,000
Home Group	£40,000
LIF National Fund	£160,000
ERDF Objective 2 (European Regional Development Fund).	£120,000
Total	£400,000

Source: The Community Loan Fund North East, Roger Brocklehurst, Director of LIF, 2001.

The £120,000 of ERDF European funding as shown Table 10 had produced some difficulties. The Objective 2 programme:

- Excluded retail activities,
- Had geographical boundaries,
- And the ERDF could claw back repayments that were not re-lent on the expiry date of the ERDF programme.

Nevertheless, it was hoped that over the five years the money would be borrowed and recycled a number of times. CLFNE hoped to become sustainable through the repayment of loans and interest. In interviews with the loan manager it was mentioned that with the Government's announcement on Community Investment Tax Relief that the national organisation would become a source of investment. In 2003 LIF the national organisation became an accredited CDFI accepting Community Investment Tax Relief. It had received finance from the Phoenix Fund in 2005 and in 2006 the North East fund received a boost with an interest free loan of £300,000 from the NRF (2006). Having a local and national fund allowed larger loans, shared risks and ensured sufficient funds to lend on.

Performance at a local level

In the first three years the CLFNE had made seven loans totalling £310,000. These loans were secured and created 49 jobs across the region. At that point in time the small amounts being borrowed indicated sustainability could be problematic. During the early research period the loan manager was a Barclay's Bank secondee and therefore CLFNE did not have the cost of a salary, so costs were kept low. From this early interview it seemed as though the fund was having little impact. However, when interviewed in 2007 about the problems of the last few years the manager noted that when he started there was no money to lend and this had to be raised. The first year of the fund was spent creating a fund and hence the slow start and poor performance.

By 2007 things had changed and the fund had nearly £1m out on loan and the fund was the most successful LIF regional fund (CLFNE, 2007). The fund was creating a small surplus and covering some of the overheads. The majority of loans were for smaller amounts, but there were the occasional £100,000 deal. It made around twelve loans per annum at an average of £45,000 per loan. Ninety-five percent of enquiries produced a loan. This success rate was aided by another organisation working in the region. CapitaliSE prepared organisations for lending larger amounts. CapitaliSE funded by ONE, the RDA was heavily linked with the North East Social Enterprise Partnership and worked with CLFNE to filter out the poor quality potential borrowers. The CLFNE gained a high level of successful loans, because some of the due diligence was carried out before hand. A presentation by CapitaliSE highlighted the interest in the fund with the organisation receiving 487 enquiries over a four year period (Probert, 2007). This had created 51 loans worth over £3 million. However, CLFNE was one of a number of lenders with the Charity Bank, Unity Trust Bank and Triodos Bank and Future Builders all contributing. CLFNE had successfully worked with the Unity Trust Bank to lend St. Aidan's Community Trust £120,000 to renew a community pub (Social Economy, 2006).

The future for the organisation pointed towards sustainability and the possibility of employing an additional staff member. The Community Loan Fund and the Local Investment Fund had thought about rebranding. It was planned the CLFNE would become the North East Social Enterprise Loan Fund (NE-SELF). In 2008, the organisation was renamed The Social Enterprise Loan Fund (TSELF) for the North East.

A Changing Environment

After some uneven early performances, by 2008 things had significantly improved. Potentially, the environment for loan funding has increased and it has become more acceptable.

When interviewed in 2003, the Loan Manager stated that:

> *'the benefits of the community loan fund are that for the first time an organisation can look at sustainability and independence. Most of the organisations we have dealt with have been around a while and are totally grant funded. Grant funding has a limited life, dependency is at the political whim of the grant provider and who is to say that particular grant funding will be available next year for example … part of our position is to help organisations get established and wean them off grant funding, not to take it out completely, but to start to give them a commercial product.'*

Hence, loans could be seen as part of a process of reducing, but not eradicating, grant dependency. By 2006, CLFNE was working with other funders such as the Unity Trust Bank and being helped by CapitaliSE. Due to the help of CapitaliSE the North East fund was the most successful LIF regional fund even though it was in an area with the lowest amount of Third Sector organisations in England.

The CLFNE planned for borrowers to become more business orientated. Once a financial track record has been achieved these organisations will be suitable and acceptable for the formal banking sector. During research in the early 2000s, many socially-minded organisations had a mixed response to the opportunity to access loan finance and preferred to gain total grant funding.

In 2007 there were signs that the barriers to loan funding were gradually being reduced. Rod Jones suggested that grants were being reduced and organisations were becoming more prepared to take on loan finance. In addition, the manager mentioned that loans were not tied to producing the required amounts of social outputs or strict criteria. This could have made a loan slightly more attractive. As mentioned previously, the CapitaliSE had helped prepare social enterprises to take on larger amounts of debt.

CLFNE: Conclusions

Over a six year period the CLFNE seems to have had some success with increased loans from 2007 onwards. By lending larger amounts across the whole North East region the organisation was going to have a better chance of becoming sustainable than if it was smaller amounts in a single city. When the loan manager was interviewed in 2007 he was only working part time, which would reduce the costs of the organisation. By having an external organisation filter out the less suitable clients CLFNE had achieved an exceptional success rate with many clients receiving loans. Overall, this CDFI had survived the last eight years, but there had been a number of problems to face during this period.

Three Local Case Studies: An Overview

From these three case studies it is apparent that all of the organisations had the expectation of becoming sustainable. The quality of businesses wishing to borrow has been an issue across the three organisations. They have all had demand problems (at times too little) and changed in some ways over time. Finally, they have all survived into 2010. The CLFNE has made the most progress in sustainability by being a one person operation (and part time) and lending larger sums across a region. All of these lenders have gradually increased their loan portfolios. As time has passed these CDFIs have become more accepted and recognised as a valid source of funding. However, ART has been the only local CDFI that has not changed its name.

Some of these CDFIs over estimated the demand for loan funding for businesses excluded from bank finance. There were hopes for referrals from banks, business support agencies and accountants that never materialised. There was a wish to supply group loans that was foreign to the developed world. A lot of aspirations have not fully worked out. However, their funders have given these CDFIs longevity. The funders have accepted the importance of financial inclusion for entrepreneurship. The funding bodies have accepted the outputs and have continued supplying funds to increase economic activity and create jobs and even individual wealth.

All three lenders under estimated the amount of work involved proving that a business can repay a loan. In a time of technology, where personal loans can be given in minutes CDFIs processes and procedures hark back to an earlier age. The CDFI loan managers act like ‘old’ bank managers building a relationship with the borrower. Potentially, the human interaction and the build up of trust between the lender and borrower becomes an important factor in receiving a loan. The CLFNE achieved some success through having a separate organisation, CapitaliSE, promoting the loan fund and rejecting the poor quality business plans. However, even though extra time has been invested, all three CDFIs have experienced businesses failing. If they had not experienced any failures would they have been lending to financially excluded businesses? This question will be discussed in later chapters.

During the research it became apparent that these CDFIs had over time become more realistic about their chances of sustainability. There was still optimism about success, but in interviews the loan managers agreed it would be hard to cover all costs. Some partnership working had occurred with CDFIs, other lenders and support agencies working together. Overall, local CDFIs were not perfect, but had services to offer. It just needed a number of funding bodies to appreciate their role in regeneration and building social and economic value.

Chapter Seven: Mapping the Sector

In this chapter I will geographically map out the membership of the CDFA in 2004. This research was carried out in 2005 to ascertain the character of CDFIs in the UK. The aim was to produce a benchmark for comparison and create a database to monitor the development of CDFIs. A longitudinal approach was taken comparing the CDFA membership from 2004 and 2009. During five years organisations will have changed, strengthened and even disappeared.

The research methodology of mapping the CDFA membership was chosen because it was systematic and would be visually interesting. Mapping can be used to create an overall image of a sector and illustrate characteristics. It has been used to identify inequalities in education (Gillborn and Mizra, 2000) and social programs (Radke and Mu, 2000). Both local and central government have used mapping to ascertain the size and character of certain organisations such as social enterprises (East Lothian Council, 2005; ECOTEC, 2003; Forster *et al.*, 2009). Similarly, the government has mapped out financial exclusion (HM Treasury, 2004) and compared the location of credit unions and CDFIs with the Index of Multiple Deprivation (2004). These maps show the level of deprivation for an area and their distance from a credit union and highlight some gaps in services (HM Treasury, 2004).

This chapter will be divided into three sections. The first section will contain a map illustrating the membership of the CDFA in England, Wales and Scotland. It will discuss the potential gaps and duplications of services in a number of areas. The second section will discuss the change in membership from 2004 to 2009. Finally, the chapter will draw out findings about the development of the CDFI sector and the CDFA membership.

Mapping the CDFA Membership

Annually the CDFA has produced a report containing the names of its members. As part of the research process I decided to map out and list the membership of 2004. The aim of this research was to:

- Identify where CDFIs were located
- Determine their markets
- And find out when they were established.

I decided to identify if there was a correlation between the setting up of a CDFI and poverty and financial exclusion in a region. I extracted data on the level of multiple deprivation and financial exclusion for England.

Table 11: The Number of Super Output Areas (SOA) in the most deprived 20 percent in England using the Index of Multiple Deprivation 2004 and CDFA membership 2004

	No. of SOAs in the most deprived 20% of SOAs in England	**% of SOAs in each region falling in most deprived 20% of SOAs in England**	**The CDFA membership working in the area**
East	220	6.2	1
East Midlands	482	17.6	2
London	1,260	26.4	5
North East	631	38.1	2
North West	1,461	32.8	7
South East (excluding London)	271	5.1	3
South West	278	8.6	2
West Midlands	917	26.3	4
Yorkshire and the Humber	976	29.6	3

Source: *The English Indices of Deprivation 2004*: Summary (revised), ODPM and CDFA Annual Review 2004

The Index of Multiple Deprivation (IMD) showed areas of deprivation were found in many of the large English cities. The IMD found that the North East had the highest percentage of SOAs in the most deprived 20 percent in England. Table

11 shows that the North East had 38.1 percent or 631 SOAs in the bottom 20 percent. London had more SOAs (1,260) in the bottom 20 percent, but this only equated to 26.4 percent. The IMD showed that the ex-mining and heavy industry areas such as Easington, Hartlepool and Middlesbrough had increased levels of deprivation. Similarly, areas of Newcastle, Gateshead and Sunderland had some of the most deprived areas in England. The CDFA had two members, Project North East (PNE) and Street UK based in the North East region. These members were both located in Newcastle and had regional remits. From interviews with PNE and Street UK, they mainly worked in Tyne and Wear leaving a large area of the region not served by any CDFIs. In the North East there was no correlation between the levels of deprivation and number of CDFIs.

In the North West there were high levels of deprivation and seven CDFA members:

- The Blackburn based East Lancashire Moneyline (ELMS).
- Manchester had the Enterprise Fund and Salford Moneyline.
- Bolton Business Ventures worked in Bolton, Bury, Oldham, Wigan, Rochdale and North Manchester.
- Preston Moneyline
- Around Liverpool the Merseyside Special Investment Fund and Train 2000 operated a number of loan funds.

The North West had high levels of deprivation in districts of Liverpool and Manchester and some of the areas around Wigan, Rochdale and Bolton (ODPM, 2004). Bolton Business Ventures administered five different loan funds including a general business loan fund for the Bolton Metropolitan Borough. The 3D loan fund was directed at three disadvantaged communities in Bolton and another fund was aimed at business women across the whole North West (CDFA, 2004a). Only the 3D loan fund was directly linked to areas of deprivation.

In London areas such as Tower Hamlets, Newham and Hackney in the North East, Haringey, Camden and Westminster in the West and Southwark and Lambeth, South of the Thames were shown as boroughs of multiple deprivation. The East London Small Business Centre focused on BME businesses in the inner boroughs of Tower Hamlets and Newham and three outer boroughs of Barking and Dagenham, Havering and Redbridge (CDFA, 2004a), which all had high levels of deprivation. Other CDFIs such as the London Rebuilding Society and ONELondon worked across the city.

Similarly, in the West Midlands areas of Birmingham, Wolverhampton, Walsall and Sandwell were identified as having high levels of deprivation (ODPM, 2004). An office of Street UK, Aston Reinvestment Trust and Black Business Birmingham (B3) were all based in Birmingham. B3 and Sandwell Advice and Moneylink had different markets but both worked in Sandwell, an area singled out for its high level of deprivation.

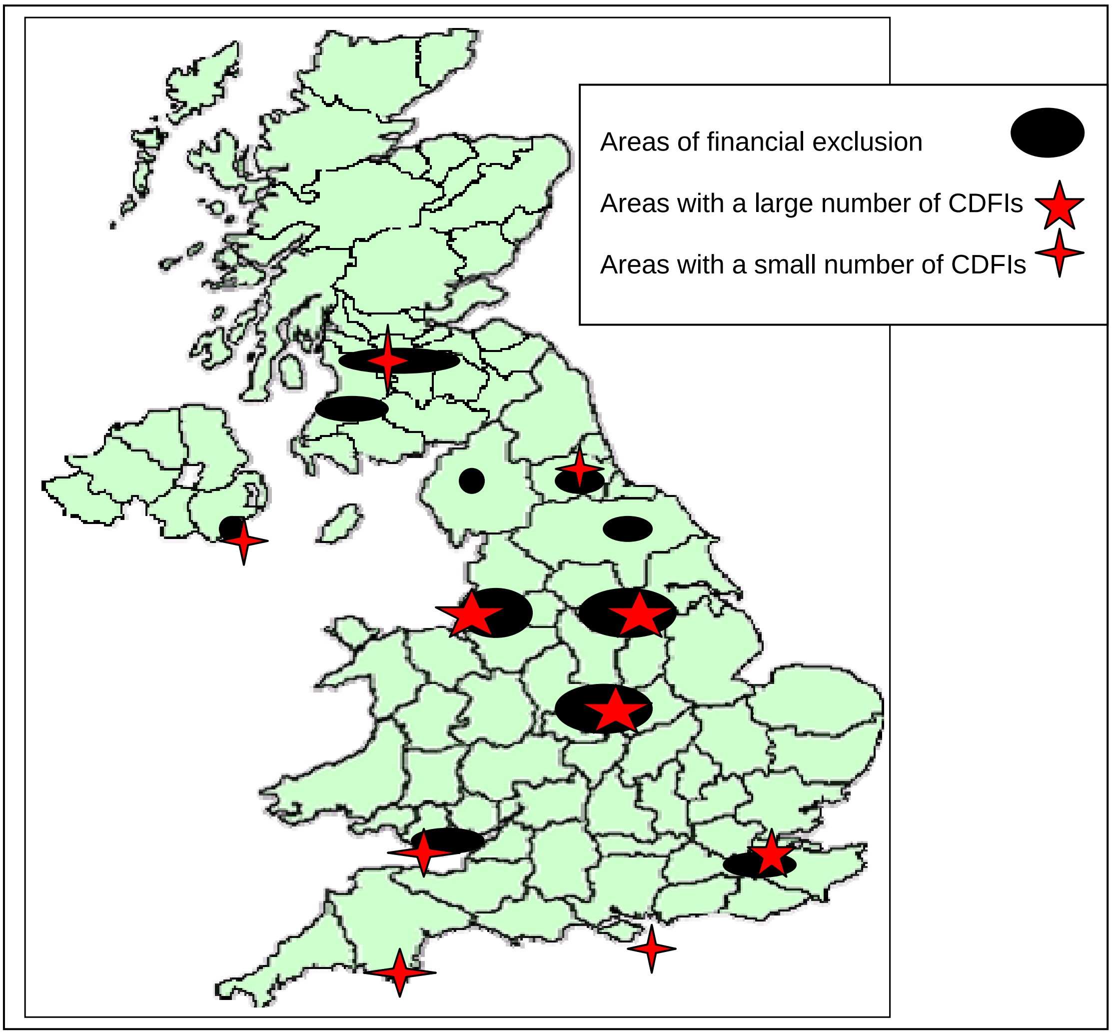
The two regions with fewer areas appearing in the top 20 percent of IMD were the East and South East and they still had CDFIs. WEETU was based in Norwich in the East supplying business loans and advice to women. The Suffolk Regeneration Trust (SRT) offered a generic loan open to businesses unable to access mainstream finance. This CDFI took into account its environment and was invested in lending for agricultural diversification (CDFA, 2004a). In the South East both Fund2Grow and the Portsmouth Area Regeneration Trust (PART) targeted both BME groups, the disabled and older people. Looking at the IMD, Fund2Grow worked in the moderately affluent counties of Berkshire and Wiltshire. PART definitely worked in areas of high deprivation.

The membership list of CDFA would give the impression that all CDFIs worked in cities. However, the South West Investment Group offered five types of loan including a Rural Enterprise Fund. It had an emphasis on manufacturing and service businesses exporting outside the South West (CDFA, 2004a).

Figure 4 broadly shows the location of a sample of the CDFA membership in 2004 and areas of financial exclusion. By comparing the membership of the

CDFA of 2004 with the IMD (2004) there was little or no correlation between the level of deprivation and the number of members in a region.

Figure 4: Areas of financial exclusion and a sample of CDFA members 2004



Source: Based on the CDFA membership in 2004 and HM Treasury (2004) *Promoting Financial Inclusion*.

Some CDFIs worked across cities or areas that would have districts within the IMD top 20 percent. However, by examining the target markets of individual CDFIs a picture of exclusion can be shown. The Bank of England identified ethnicity as a factor in gaining business finance (BoE, 2002) and many CDFIs focused on this market. In addition, it found in disadvantaged areas the self-employed were younger than in wealthier places, which was another target market for CDFIs. Women have found it difficult to receive loan finance (Buttner and Rosen, 1989; Harding, 2007) and this was the area of work for a number of

CDFIs (BoE, 2002). Overall, the membership was tackling different forms of exclusion. In figure 4 the black areas indicate locations where more than 50 percent of the population were financially disengaged (HM Treasury, 2004). The financially disengaged group were low paid and unemployed that would use cash (HM Treasury, 2004). In the 1990s Leyshon and Thrift (1994, 1995) had highlighted the withdrawal of banking services from certain areas. However, the Treasury's own research found no overall correlation between financial exclusion and a lack of physical banking services (HM Treasury, 2004). The Treasury's research found that financial exclusion was concentrated into certain areas especially:

> *'parts of East and South-East London, Middlesbrough, Manchester, Bradford, Birmingham, Glasgow and Liverpool'* (HM Treasury, 2004, p. 14).

Many of the CDFA membership were working in these areas. Figure 4 shows a select sample of CDFI members. London had five and the North West had seven CDFIs, which would be cluttered and confusing. However the map highlights the gaps such as the CDFA having no members in North Wales or Cumbria. Around Carlisle the black area indicates wide spread financial exclusion.

Figure 4 shows that pockets of financial exclusion occurred across from Glasgow to Edinburgh and around Dumfries and Galloway. In Scotland the CDFA had two members: Developing Strathclyde (DSL) and Social Investment Scotland (SIS). DSL served Glasgow and gradually Edinburgh, while SIS worked across Scotland. Similarly, Northern Ireland had two CDFIs, Aspire working in Belfast and Londonderry and the Ulster Community Investment Trust (UCIT). Both the SIS and the UCIT gave loans to community business and social enterprises across Scotland and Northern Ireland respectively. The limited membership in Wales, Scotland and Northern Ireland will have been caused by powers being devolved to the Welsh Assembly, the Scottish Parliament and the Northern Ireland Assembly. CDFIs outside England would have approached their governing bodies for funding and therefore would be less interested in a national membership organisation. DSL was the only CDFI outside England to receive a Phoenix Fund grant. The funding for these lenders would have come from different sources. In 2004 when there was a debate about the transfer of funding to the regional development agencies it was argued that:

> *'The impact of the fund becomes obvious when one considers the geographical spread of CDFIs. The Phoenix Challenge Fund provides support in England, which has the highest density of CDFIs in the UK. In Scotland, Northern Ireland and Wales, where there are no equivalents, the density of CDFIs is relatively low'* (Palmer, 2004, p.12).

That premise could have an element of truth about it. However, the CDFA has attempted to encourage membership in Scotland, Wales and Northern Ireland through their annual conferences. In the early years of the CDFA (started in 2002) it held annual conferences in Glasgow, Cardiff and Belfast (table 12).

Table12: The Community Development Finance Associations Annual Conferences

Year	**Location**	**Name of Conference**
2000	Norwich	Small Change for a Better Future*
2001	Birmingham	Money for Change: The Second Annual Community Finance Conference
2002	Glasgow	Money £or Change 02: The Third Annual Community Finance Conference
2003	Cardiff	Money £or Change 03
2004	Belfast	Money £or Change 04
2005	Melton Mowbray	Money £or Change 05
2006	Bristol	Money £or Change 06
2007	Ashford	Money £or Change 07
2008	Leeds	Money £or Change 08: Evolution or Revolution?
2009	Newcastle Upon Tyne	Money £or Change 09 Crisis or Opportunity?

Source: Conference literature and the CDFA website

* Small Change for a Better Future was the first annual conference of CDFIs even though the Association was not formed until 2002. WEETU helped host the event and the conference chair was Malcolm Hayday (Director of Investors in Society and President of INAISE).

The Phoenix Fund aided some national CDFIs and the CDFA had seven members working nationally; Bridges Community Ventures, the Charity Bank, ICOF, the Local Investment Fund (LIF), the Prime Initiative, Prince's Trust and Triodos Bank. Street UK was listed as a national organisation, but it only had offices in East London, Newcastle and Birmingham, which offered:

> '*loans advice and support to micro-enterprises and small businesses within a 20 mile radius of each of these offices'* (CDFA, 2004a, p. 15).

ICOF was a national lender, but administered separate funds in the West Midlands, parts of South Wales, Manchester, London and Wakefield (CDFA, 2004a). Nationally, the Prince's Trust and the Prime Initiative were offering loans to people under thirty and over fifty respectively. Age was seen as a factor impeding business people from accessing finance. On a national level there were four CDFIs offering loans to social enterprise; the Charity Bank, ICOF, LIF and the Triodos Bank. However, at the same time there was no national micro-finance, Black, Asian and Minority Ethnic (BAME) or woman focused CDFIs.

From examining the CDFA's forty-six members and associates from 2004 it is noticeable that there were gaps in services. The following section will examine the CDFA membership and compare the members from 2004 and 2009.

Comparing the CDFA membership: 2004 with 2009

This section will examine and then compare the two membership lists. I propose that by comparing the two groups, themes and trends will be identified. The CDFA's membership had grown to sixty-three active organisations answering their 2009 survey. This raises a series of questions; for example which organisations have remained in the association and have organisations changed?

Firstly, this section will be made up of a sample table to illustrate the array of lending organisations. It will be followed by an examination of their characteristics and the development of the sector. Finally, it will compare both memberships and discuss the sector.

Table 13: A Select Sample of Ten CDFA Members from 2004 and 2009

Name	**Location**	**Products and services**	**Established**	**Additional information**
Bees Knees	North Lincolnshire	Business loans up to £15,000	Not known	It works in partnership with Business Link Yorkshire
Black Business in Birmingham (3b)	Birmingham and the Black Country	Start up loans up to £7,500 and £20,000 for existing businesses	Not known	Not listed in CDFA 2009 Products for African Caribbean owners.
Bolton Business Ventures	Bolton, Bury, Oldham, Rochdale and Wigan	Business loans £1,000 to £15,000. Islamic finance and loans for women.	1983 Renamed Business Finance North West	A CDFA 2009 member
Cumbria Community Asset and Reinvestment Trust	Cumbria	A rural CDFI offering small business loans £1,000 to £50,000	Became a member in 2005	A CDFA 2009 member. An IPS
East Lancashire Moneyline (IPS) Ltd (ELMS)	East Lancashire and Wales	Personal finance	2002 as an IPS	A CDFA 2009 member. Renamed ELMS and expanded into Wales.
East London Small Business Centre	Districts of London - Tower Hamlets, Newham etc	Loans (up to £10,000) and venture capital and grant programmes.	1978	Still a CDFA member. Worked with clothing industry
Ethnic Business Development Corporation and the Ethnic	Districts of London - Lewisham, Southwark,	Loan fund, training and support	1997	Not listed in 2009 Renting space,

Mutual	Newham, Bromley, Lambeth etc			support Loan finance uncertain
HBV Enterprise	London Boroughs	£3,000 to £25,000	2000 as Hackney Business Ventures	A CDFA 2009 member.
Preston Money Line	Preston, but now Central, North and West Lancashire	Personal, small business (£300 - £5000) and home improvement loans	2005	A CDFA 2009 member. Renamed Lancashire Community Finance, an IPS
Salford Moneyline	Salford now Greater Manchester	Personal loans	2000	Not listed 2009. Renamed Greater Manchester Moneyline

Source: Taken from the individual websites and the CDFA. A full version of the table can be found in Appendix 1.

The select sample of CDFIs in table 13 was chosen because they illustrate similarities, differences and change. The first similarity between many of the CDFIs listed in table 13 has been the size of the loans available. Many of the CDFA's membership in 2004 and 2009 concentrated on a main business loan suitable for micro-businesses (up to nine employees) and small businesses (between ten and forty nine employees). For start up businesses it was up to £10,000 and existing businesses to around £20,000. The analysis of the products showed that over 50 percent of the CDFA membership in 2004 and 2009 offered small business loans. Even through this could be a generic product some loan funds were specific to particular places, BAMEs, genders or social groups. An example of CDFI with specific funds would be Bolton Business Ventures Ltd (BBV), which offered small business loans in the Bolton Metropolitan Borough. In addition, it had a '*Culture Finance'* and the '*Women in Business Loan Fund'* (CDFA, 2004a, p. 42).

The BBV had a number of loan funds ring fenced to certain areas such as the Derby, Daubhill and Deane wards of Bolton. The action of ring-fencing loans funds was obvious in London. In 2004 the East London Small Business Centre (ELSBC) offered small business loans not across the whole of the city, but in the boroughs of Tower Hamlets and Newham and the outer boroughs of Barking and Dagenham, Havering and Redbridge (CDFA, 2004a). Similarly, the Ethnic Business Development Corporation linked with to the CDFI Ethnic Mutual worked in Lewisham, Southwark, Newham, Bromley, Lambeth and some other London boroughs.

A generic product such as a business loan could be developed into a very specific product. The ELSBC, ONE London and Business Finance North West offered Muslim or Shariah compliant loans. The development of this product reflected the needs of their populations. In 2004 the ELSBC had expertise in helping small fashion and clothing businesses and Indian/Bangladeshi restaurants.

In comparing the products and services from 2004 to 2009 there has been little change. A few CDFIs such as Train 2000 Limited based on Merseyside have stopped lending and have ceased being members of the CDFA. The important differences between the two sets of CDFIs have been the expansion of a number of CDFIs and the accompanying change to a more appropriate name. The geographical expansion can be denoted by the change of name:

- Salford Moneyline to Greater Manchester Moneyline
- Portsmouth Area Regeneration Trust to South Coast Moneyline
- Derby Loans became the Midlands Community Finance (MCF Loans).
- Preston Moneyline grew into Lancashire Community Finance
- Suffolk Regeneration Trust was renamed Foundation East in 2006.
- Hackney Business Ventures became HBV Enterprise to work across London.

Similarly, East Lancashire Moneyline Ltd was renamed the less specific ELMS and gradually expanded into Wales. The Ulster Community Investment Trust or UCIT crossed the border into Ireland. The management boards of these growth CDFIs should reflect where they work and there are still links with local communities.

Between the years 2004 to 2009 the CDFA gained new members. Attempts were being made to address rural financial exclusion. In the North West of England, the Cumbria Community Asset and Reinvestment Trust was established. Impetus offered loans across rural Herefordshire, Worcestershire and Shropshire, the South West Investment Group lending in Cornwall and the Scilly Isles and the Wessex Investment Trust working in Devon, Dorset and Somerset (Regeneration South West, undated).

The CDFIs from 2004 and 2009 do not have a uniform legal structure. Both ART and ICOF used the Industrial and Provident Society (IPS) as their legal structures. The use of IPS of these early CDFIs has been influential, but not prescriptive. Karl Dayson and Bob Paterson of CFS based at Salford University established Salford Moneyline and PART using an Industrial and Provident Society structure (CFS, undated). This was a model for other ‘moneylines’ such as Blackpool, Derby and Preston. Salford University acted as an ‘honest broker’ between the high street banks, local authorities and regional development agencies (Tysome, 2004, p. 6). Community Finance Solutions had a ‘*community investment trust’* model (Tysome, 2004, p. 6), which used the IPS structure be duplicated in different areas.

Social enterprises have been attracted to the IPS and the limited company structures (Spear, 2002; Haugh and Kitson, 2007). One advantage of IPS structure was it allowed members to buy shares (Brown, 2006). Both ART and ICOF have sold shares to help raise loan funds and the structure has allowed supporters to make social investments in these CDFIs.

The 2009 membership only contained two Community Interest Companys; the London based Community Money CIC and Scotcash CIC (both established in

2007). This structure was created as an alternative to becoming a charity and to allow organisations to show their social benefits (Dunn and Riley, 2004). CDFIs have not converted to this structure to prove their value. Overall, the structures of CDFIs can be complex with organisations having a mix of legal statuses. Both Salford Moneyline and PART were registered with the Charity Commission and PART had an income of between £200,000 and £450,000 into this element of the organisation (Charity Commission, 2010). Regulators such as the Financial Services Authority (FSA) and the Charity Commission have made sure that CDFIs have carried out their purposes. The failure of one CDFI, the Ethnic Mutual reached the national broadsheets because of potential fraud (Dewar, 2008; Owen, 2008). The FSA suspended this CDFI and announced on its website that:

> *‘this action was because Ethnic Mutual Ltd has been unable to satisfy the FSA that it is operating for the benefit of the community and so fulfilling the condition of its registration.’* (FSA, 2008)

This CDFI IPS failed to satisfy the community benefit criteria and was closed down (FSA, 2008a). At a local level, Blackpool Moneyline has had a number of problems, but is still active (Blackpool Gazette, 2008).

However, comparing the memberships from 2004 and 2009 CDFIs leave the CDFA because their funding alters. Based in Liverpool, Train 2000 had a loan fund for female entrepreneurs and in 2009 this service was not shown on their website. In 2004 Change, part of the London and Quadrant Housing Trust had joined the CDFA and was piloting a number of lending schemes. In 2009 the organisation was no longer a member, but was working with the local credit union. The remit of organisations shifted over time as funding priorities altered.

In five years the CDFA’s membership has both rationalised and increased. Coverage is not universal, but less fragmented than 2004. The sector has developed and is still changing. The following will draw out ideas about the sectors development.

A Discussion of the Findings

I have chosen three areas of discussion; who has joined the sector, are there signs of CDFIs being local and the potential for duplication of services. The membership has increased, but what types of organisation have joined the CDFI sector? By analysing the membership lists and examining the activities of the individual CDFIs what became apparent was many of these organisations had additional functions.

Many CDFIs from the 2009 list were offering business support and advice. An example of this would be Croydon Enterprise which offered pre-start courses, training and advice, grants to test the market and loan finance. It was part of Croydon Economic Development. Similarly, Enterprise Loans East Midlands was part of East Midlands Development Agency. I would argue that some of the CDFA’s members were business development agencies with loan funds. The idea of a one stop shop offering a range of business services is nothing new and has potential benefits (Bryson *et al.*, 1997). However, having a loan fund as a secondary or tertiary service would diminish its importance. Potentially, these organisations could act like the soft loan funds of the 1990s (Collin *et al.*, 2001b). The loan funds would not be permanent, but part of an array of measures to aid businesses. A number of members were offering rented workspace, which would be a valuable source of revenue. CDFIs such as the Charity and Triodos Banks and LIF have focused on lending rather than business support.

Both types of CDFI, those concentrating purely on lending and the others offering business support, have value to entrepreneurs seeking funding. Diversification would create additional income but possibility cause mission drift. In the developing world micro-finance lenders have suffered from mission drift as they become more commercial (Christen, 2000; Schreiner, 2002; Copestake, 2007). In the UK, as CDFIs have diversified, their aims could be diluted or lost.

CDFIs have expanded into new areas such as Derby Loans changing into Midlands Community Finance. This growth would have created economies of scale and back office facilities would not be duplicated. Many CDFIs have offered generic business or personal loans, which could be exactly what their markets want. Many CDFIs offered larger loans for social enterprises, which were less generic. With the rises in property prices some of the maximum amounts available would be insufficient to purchase a building. Potentially, a regional CDFI would have to work with a national lender to offer a large social enterprise loan.

In Norwich WEETU still has its lending circles and has remained centred on female entrepreneurship. Many CDFIs have taken into account their local population and have offered Shariah compliant loans. The East London Small Business Centre had very specific knowledge and offered a short-term loan to clothing manufacturers, so they could bridge the gap between production and payment (CDFA, 2004a). In 2009 the website contained a section on the clothing industry.

The CDFI sector contains a mix of generic products and highly specialised loan funds. With the generic small business loans there will be more opportunity for duplications. In London there were CDFIs working in particular boroughs and also citywide lenders. The number of CDFIs could produce competition amongst lenders. As mentioned previously, four national CDFIs offered loans for social enterprise. The mapping process showed that the North West, London and the West Midlands all had a number of CDFIs working, so there were certain parts of the UK with a duplication of services with similar loan funds being offered. An example of working in partnership was found in Yorkshire and Humber Developments (YHD). The YHD website stated that the organisation was:

> *'a partnership of organisations in Yorkshire and The Humber that works to support businesses across the region which cannot obtain any, or enough, finance from banks.'* (YHD, 2009)

In 2009 the Partners were the Business Enterprise Fund, the Bees Knees Loan Fund, the Goole Development Trust, the Key Fund Yorkshire and West Yorkshire Enterprise Agency. There was still the possibility of duplication with the Business Enterprise Fund working in West and North Yorkshire and the West Yorkshire Enterprise Agency making loans in Kirklees, Calderdale and Wakefield. Unlike the others, the Key Fund was concentrated on social enterprise and charity loans. However, the back office services would be replicated in the five offices. The Yorkshire regional had its own regional strategy group made up of Business Link, the RDA, the high street banks and YHD partners. In 2009 they reported their sixth regional meeting and the YHD received £1.2 million from Yorkshire Forward for small business loans. These loans were accessed through Business Link giving a joined up service.

The mapping process unearthed two partnerships; the Yorkshire based YHD and the Fair Finance Consortium in the West Midlands. This could be a positive sign of CDFIs working together at a regional level.

Conclusion

The mapping process succeeded in highlighting the range of CDFIs, but also their generic small business loans. At the same time some offered niche products specific to their local communities. There were signs of CDFIs working in areas of deprivation and financial exclusion. However, these lenders worked across a range of urban and rural settings, so CDFIs were not exclusively based in a single type of location.

The growth in the CDFA membership can be viewed as giving strength and importance to the sector. However, the CDFI sector is dependent on external funding and lenders have been lost because of changes in grants. The number of enterprise agencies with loan funds is both beneficial in that they can be a ‘one stop shop’ and negative because lending may be a secondary or tertiary consideration.

Examining the CDFA membership in 2004 and 2009 has shown that the national CDFIs focused purely on lending have continued their membership. The smaller local or regional CDFIs have either expanded out of their original locations or disappeared. With expansion the generic small business loans have been offered in new districts and regions. Not all CDFI were established as IPS, but a significant number have been. However, the sector showed signs of flux as CDFIs were linked to companies limited by guarantee or charities. These lenders were attempting to find a structure suitable for their social aims. This chapter and others show a sector developing and growing to offer financially inclusive products.

Chapter Eight: Conceptualising CDFIs

While acknowledging that much of the development of CDFIs predates the arrival of New Labour into power in 1997, this chapter argues that there are still valuable and informative inter-connections to be made between New Labour thinking and the later phases of CDFI development. The key ideas shaping the Blair government's have been extensively covered in the literature on the Third Way (Blair, 1998; Powell, 1999; Driver and Martell, 2000, White, 2001; Goes, 2004; Hale *et al.*, 2004) and Communitarianism (Driver and Martell, 1997; Barlow and Duncan, 2000; Bevir, 2005; Hale, 2004; 2005; 2007).

While there has been no political attempt to directly link support for CDFIs to Third Way or Communitarian ideas, New Labour's support for the community sector, their attempt to join up social policies (Clark, 2002) and to tackle social exclusion have served to influence the growth of CDFIs. However, the relationship between Third Way and Communitarian ideas and the post 1997 development of CDFIs is complex and characterised by tensions. In other areas, New Labour policies have a less positive impact on the sector.

This chapter will be divided into four sections. The first places the ideas within an historical context. The second section explores the main features of Third Way and Communitarian ideas. The next section will focus on New Labour's approach to community (Raco, 2003; Goes, 2004; Fremeaux, 2005). Since Communitarian authors have suggested how communities should act and achieve cohesion (Etzioni, 1995; Tam, 1998), community based CDFIs should help support these goals. The fourth section will look at how the Third Way could inform our understanding of finance and business support for CDFIs.

The Development of Ideas

In 1997, the Labour Party had been out of power for seventeen years and had little or no experience of being in government. At this point, unemployment was the third most important electoral issue behind education and health. New Labour had promised to stick to the spending plans of the previous administration for the first two years (Labour Party, 1997) and was not going to tax and spend (Hills, 1998). In the late 1990s the Government had limited funds available and was looking at public private partnerships as a form of finance for public capital projects (Stoker, 1998; Harding, 1998; Falconer and McLaughlin, 2000).

The government, before investing its limited funds in social and economic problems carried out extensive research on 'what works' through Policy Action Teams (PAT). The first PAT researched issues around jobs and the second PAT focussed on skills. The third PAT focused on *Enterprise and Social Exclusion* (PAT 3, 1999). It found obstacles stopping enterprise in disadvantaged areas namely:

> • *'Not enough accessible, high quality business support – like advice and training on marketing and money;*
> • *"Market failures" in access to finance, which means that not enough capital is available for projects with high returns to society;*
> • *A weak culture of support for enterprise, across the whole range of local and national institutions; the benefits and tax system is perceived as complex and difficult to understand.'* (PAT 3, 1999, pp. 2 – 3)

The report made a series of recommendations and noted that the public and voluntary sector were too dependent on a grant culture and suggested that loans could replace grants where there were financial benefits. The continuation of grants was understood as a barrier to organisations becoming financially independent. The report also stated that large businesses needed to be encouraged to help to increase enterprise. Overall, there was recognition that for entrepreneurship to increase, supporting policies would have to be in place. On a larger scale, New Labour also introduced a series of welfare reform measures (Powell, 1999; 2000; Hirsch and Miller, 2004). Work including self employment was made potentially more attractive through Welfare to Work Family Tax Credits and the minimum wage (Driver and Martell, 2003). New Labour's 1997 Manifesto mentioned rewarding work and encouraging enterprise. Any interventions to aid CDFIs would fit neatly into the policy of encouraging enterprise.

The timeline in figure 5 illustrates many of the actions by the Government since 1997 to support CDFIs. The measures to help the sector included the setting up of the Phoenix Fund, which financed CDFIs through a combination of grants for capital, revenue and loan guarantees. Every grant or loan guarantee was specific to the individual organisation and could include an element of match funding. Many of the CDFIs also had to access additional funds from the banks or charitable foundations.

Some of the published figures of government investments (figure 5) and policies towards CDFIs must be taken with an element of caution since the Phoenix Fund was to last from 2000 to 2008 (Ramsden Freiss, 2005), but after 2006 responsibility for CDFIs was transferred to the RDAs.

Figure 5: Timeline of measures to aid CDFIs in UK.

2000	2001	2002	2003	2004	2005	2006	2007	2008	2009

The Phoenix Fund 2000 to 2008 valued at £189 million*

Bridges Community Ventures (Bridges) was introduced in 2002 with original targets of £20 million of public money and £20 million of private finance. In 2009 it had £150 million in two funds.**

The announcement of the Community Investment Tax Relief (CITR) scheme worth up to £1 billion.

£38 million raised by CITR by 2006***

Decentralisation with £11 million to be distributed by the Regional Development Agencies rather than from central government****

In 2006 CDFIs were allowed to join the Small Firms Loan Guarantee Scheme and it was made easier for banks to invest in CDFIs****

In 2009 the Office of the Third Sector promises up to £5 million to Bridges******

Source: * Ramsden Freiss, 2005, ** HM Treasury, 2001, *** CDFA, 2007, **** CDFA News, 2006, ***** BERR, 2007 and HM Treasury, 2008 and ******Bridges, 2009

In its first years of government, New Labour said little about CDFIs, but the announcement of the £1 billion tax relief gave Gordon Brown the chance to connect New Labour's policies with support for CDFIs. He announced in a press release:

> *'Business creation in our most disadvantaged communities lags far behind the rest of Britain. We need to build a stronger enterprise culture that opens up opportunities for all.*
> *To tackle the causes of unemployment and low economic activity, we need a radical new approach to encourage enterprise and stimulate business-led growth in our most challenged communities. We want to put in place the best possible incentive structure to open up enterprise and employment opportunities to all.*
> *This new tax credit aims to attract greater flows of private investment into new business creation in high unemployment areas. It would support the start up and growth of small for-profit enterprises in these communities, as well as social and community enterprises.'* (H M Treasury, 2001).

So while Gordon Brown did not proclaim CDFIs as part of a Third Way, their role can be located as a mechanism to increase enterprise through more opportunities for self employment and expansion to take on additional staff. The rest of this chapter will aim to show that CDFIs can be viewed as being interlinked with Third Way and Communitarian ideas. Gordon Brown has not been a strong advocate of a Third Way (Lee, 2006), but Giddens thought of Brown as a Third-Wayer (Giddens, 2007; 2007a).

The Third Way and Communitarian ideas

By the early 2000s, a series of potential Third Ways in politics was recognised and much discussed (Blair, 1998; Giddens, 1998; 2000; 2001; Novak, 1999; Blair and Schröder, 2000; Brennan, 2001; Callinicos, 2001, Driver and Martell, 2000; Leggett, 2002; 2004; O'Conner, 2002; Hale *et al.*, 2004). This dialogue was not just within the USA and the UK, but across Europe and the wider global context (Gould, 1998; Blair and Schröder, 2000; Giddens, 2001; Keman, 2003). Barrientos and Powell (2004) suggested that it was politically important, but also difficult to define. It would be impossible to fully explore Third Way ideas in a single section, so the following paragraphs will focus on a broad definition.

The Third Way was offering a change, an alternative from the 'Right' and the 'Left'. Giddens proposed it as an attempt to '*transcend both old style social democracy and neoliberalism'* (Giddens, 1998, p. 28). Brennan simplified this to going beyond the successful first way, capitalism and the failed second way, socialism. In Tony Blair's Third Way, he linked democratic socialism with liberalism in the form of the free market (Blair, 1998). The free market was tempered with social responsibility. Similarly, Giddens discussed the idea of a new mixed economy both using the market, but preserving public interest.

New Labour was defining itself as different from previous Labour governments. Later, Giddens discussed New Democrats, who offered opportunity in life-chances rather than a redistribution of wealth (Giddens, 2007). This change from wealth distribution to creation was a big element of New Labour's direction. Commentators have suggested that Labour's reformers have accused the 'Old Left' as being:

> *'too statist; too concerned with the distribution (and tax-and-spend policies) and not the creation of wealth; too willing to grant rights but not to demand responsibilities; and too liberal and individualist in terms of social behaviour and social relationships such as the family'* (Driver and Martell, 2002, p. 70).

It was recognised that New Labour's form of Third Way was intended to:

> *'promote wealth creation and social justice, the market and the community; that will embrace private enterprise but not automatically favour market solutions; that it can endorse a positive role for the state'* (Driver and Martell, 2002, p. 70).

New Labour found it acceptable to use the market and give people opportunities to create their own wealth. Blair, Giddens and Midgley saw opportunity as being linked to equality. Giddens called for equality through inclusion, civic liberalism and the social investment state (Giddens, 1998). Midgley found barriers stopping people from engaging in employment and playing roles in society (Midgley, 2001). Both Midgley and Giddens suggested their ideas for investment at community level and removing barriers to social and economic participation. Giddens linked generous welfare benefits with high unemployment, while calling for welfare reform (Giddens, 1998). Blair viewed the government as an *'enabling force, protecting effective communities'* (Blair, 1998, p. 4) and offered a range of strategies including New Deals, the Minimum Wage and Tax Credit (Blair, 1998). Giddens would have called these measures positive welfare that tackled dependency and the lack of self-fulfilment (Giddens, 2000).

In the Blair government's list of Third Way values, opportunity was inextricably linked to responsibility (Blair, 1999). Over time he argued that rights had been separated from duties and mutual responsibility. Previously, Bill Clinton had attempted to tackle aspects of this welfare problem with the Personal Responsibility and Work Opportunity Reconciliation Act 1996 (O'Conner, 2002). For Blair, rights and opportunity without responsibility had a moral aspect calling them *'the engines of selfishness and greed'* (Blair, 1999, p.4). Third Way ideas and Communitarian themes can be seen as closely linked and this idea of responsibility has been one of the guiding aspects of Communitarianism.

Amitai Etzioni based at George Washington University, has written extensively about his ideas of Communitarianism. In the preface to the British edition of his book, *The Community Spirit* , he stated:

> *'Communitarians call to restore civic virtues, for people to live up to their responsibilities and not merely focus on their entitlements, and to shore up the moral foundations of society'* (Etzioni, 1995, p. ix).

Again, it is difficult to sum up Communitarian ideas within a few paragraphs, so only a few succinct points will be made. Similarly, it would be easy just to concentrate on the ideas of one author, Amitai Etzioni, because of his cited connection with New Labour and Tony Blair in the UK broadsheets, such as the Guardian (Freely, 1998; Riddel, 2001) and the Independent (Coote, 1995; Cohen, 1995). Earlier, writers such as Alasdair MacIntyre, Michael Sandel, Charles Taylor and others had contributed to Communitarian ideas by criticising liberal policies (Buchanan, 1989; Neal and Paris, 1990; Hale, 2004). These authors criticised liberalism for being too focussed on the individual, devaluing community and ignoring obligations towards one's community

(Buchanan, 1989; Neal and Paris, 1990). Thus, Communitarianism gives value to community and expects individuals to uphold responsibilities within their communities (Etzioni, 1995; Tam, 1998).

Etzioni looked back for a '*Traditional Community*' (Etzioni, 1995, p. 116) and wished for it to balance both '*diversity and unity*' (Etzioni, 1995, p. 122). His communities were based within families, cities, the suburbs, industries and institutions and held importance. From a UK pespective, Henry Tam suggested that people lived in overlapping communities with different levels of bonds (Tam, 1998). The strength of the individual would be realised through the strength and health of the community (Etzioni, 1995; Bellah, 1998). Tam suggested that the Communitarianism agenda sought to repair problems, caused by individualism, by developing inclusive communities.

Tam went on to identify three Communitarian principles:

1. Co-operative inquiry;
2. Mutual responsibility;
3. And citizen participation (Tam, 1998).

These principles attempted to distil ideas from various Communitarian thinkers into a cohesive form. Firstly, co-operative inquiry or community investigation was a way of confirming truth. An informed community rather than an individual would be able to confirm truth within the community or common values. Through this selection process people could choose specific beliefs and values to anchor their strong community. Etzioni (1996, p. 1) claimed that '*Authentic communities*' were responsive to the '*true needs*' of all members of the community.

Secondly, once common values have been identified then the community would have mutual responsibility and act accordingly. This principle required '*all members of any community to take responsibility for enabling each other to pursue common values*' (Tam, 1998, p. 14). Etzioni did not deny that individual rights were important, but saw reciprocity between rights and responsibilities

(Etzioni, 1996). He used Trial by Jury as an example of this balance with the individual expecting Trial by Peers and also having the responsibility of sitting on a jury (Etzioni, 1995).

Thirdly, for Tam citizens had to participate at equal levels with an equality of power across the community. Both Etzioni (1996) and Bellah (1998) saw Communitarianism as democratic. Another Communitarian author, Selznick (1998) recognised the personal differences in talents, power and resources, but saw an equality of justice with people being equally as important.

There has never been a precise form of Communitarianism but more a series of common ideas. Driver and Martell identified six dimensions on which different forms of Communitarianism could diverge. These were:

1. Conformist versus pluralist,
2. More versus less conditional,
3. Conservative versus progressive,
4. Prescriptive versus voluntary,
5. Moral versus socio-economic and,
6. Individual versus corporate (Driver and Martell, 1997)

Driver and Martell also found that New Labour tended towards the former of each pair. The Labour Party has headed towards:

> ‘a conditional, morally prescriptive, conservative and individual Communitarianism at the expense of less conditional and redistributional, socio-economic, progressive and corporate Communitarianisms’ (Driver and Martell, 1997, p. 27).

In later sections these characteristics will be identified in New Labour’s policies, but a broad interpretation of Communitarianism could be characterised as:

- Recognising the value of communities and not being purely focussed on the individual,
- Finding common values,

- And combining rights with responsibilities.

Third Way and Communitarian ideas often overlap and support each other. Hale suggested that '*Communitarian politics is often presented as an antidote to the selfish individualism perceived to have been engendered under Thatcherism'* (Hale, 2004, p. 99) while both sets of ideas have focussed on the importance of change for communities.

New Labour and the Community

This section will concentrate on New Labour's ideas and policies towards communities. Ideas around community and devolution will be discussed connected to the development of CDFIs. Finally, this section will explore whether UK communities would be able to fulfil Third Way and Communitarian visions.

Tony Blair saw community as having a major role and being a big idea left in politics (Blair, 1996). It was seen by New Labour as an ideology that separated themselves from the Conservative Party (Goes, 2004). In their Manifesto of 1997, New Labour wished to have fairness and justice within strong communities. This form of community produced mutuality, where both interests and obligations rose above a narrow view of self-interest (Blair, 1996). Early in New Labour's first term, Tony Blair recognised that community had a pivotal role in bringing about a nation wide equality of opportunity (Levitas, 2000).

The importance of community was reinforced by Tony Blair's speech to the Women's Institute:

> *'At the heart of my beliefs is the idea of community. I don't just mean the local villages, towns and cities in which we live. I mean that our fulfilment as individuals lies in a decent society of others. My argument … is that the renewal of community is the answer to the challenges of a changing world'* (Blair, 2000).

The then, Prime Minister, saw community as offering change and solutions to problems. Blair's renewal of community could be an answer to Margaret Thatcher's speech that asserted that there was '*no such thing as society'* and there *'are individual men and women'* (Thatcher, 1987). In the same interview, Thatcher asked people to look after themselves and secondly their neighbourhoods. There was still a need for some form of reciprocity between people.

Within Tony Blair's idea of community, individuals were potentially more interlocked and reliant upon each other and in his mission statement he asserted that New Labour aimed:

> *'to promote and reconcile the four values which are essential to a just society which maximises the freedom and potential of all our people – equal worth, opportunity for all, responsibility and community'* (Blair, 1999, p. 1).

Blair wished to maximise freedom and potential, but still offer fairness and a sense of community. Goes (2004) suggested that Tony Blair used community in a number of ways. Community could be linked to a traditional socialist ideology and people having common values (Goes, 2004). From Blair's rhetoric his community was active, not static and producing solutions for a changing world.

If communities were to solve problems then the government needed more information to inform policies. New Labour set up a series of PATs to research and offer solutions to the problems affecting the UK. Some of the findings from the various reports led to policies. The *PAT 9 Report: Community Self Help* identified a number of meanings of community from geographical location, family and the use of public buildings such as churches or schools. It suggested that an '*individual may be a member of several communities, based on geography, politics, faith, social interaction, cultural interest, ethnicity*' (PAT 9, 1999, p. 2), which chimes with Communitarian ideas of being part of various communities.

The report looked at the ‘*philosophy of community self help’* and suggested it needed to be organically grown from the grassroots rather than externally top-down. However, communities would still have to work with external bodies to be successful. Potentially, a locally based CDFI could fit into the ‘*philosophy of community self-help’*. Even though, PAT 9 accepted differences within communities, policies could be more generalised. One way of addressing community problems was to empower communities and allow them to have an input into the solutions.

New Labour has tried to empower communities and devolve power through the parliament in Scotland and the Welsh Assembly on one level, and local strategic partnerships on another. A new localism had impacted upon New Labour’s idea and policies (Raco, 2003). The Government introduced Local Strategic Partnerships to bring about inclusion and a strategic focus for regeneration with mixed results (Bailey, 2003; Johnson and Osborne, 2003). Similarly, when New Labour was looking at welfare reform it introduced local initiatives to create employment (Theodore and Peck, 1999; Jones and Gray, 2001). In New Labour’s vision for regeneration there was a belief that an empowered and mobilised community was needed to assist policies (Raco, 2003). Participation by the community was necessary for the success of these regeneration initiatives (Dinham, 2005; Evans, 2008). Other policies such as the New Deal for Communities have included some degree of involvement by the local population (Foley and Martin, 2000; Lawless; 2004, Dinham; 2005; Robinson, Shaw and Davidson, 2005). For a number of years, New Labour looked at ways to change communities through the introduction of the Social Exclusion Unit and developing the Neighbourhood Renewal Strategy (Wallace, 2001) and created smaller initiatives such as Health Action Zones, Sure Start and Employment Zones (Lawless, 2004).

Even though there was a wish for grass roots development to regenerate areas, many policies were introduced from outside the area. New Labour expected communities to become involved in accepting employment, training, volunteering and contributing to local issues. Both Etzioni and Blair had prescriptive tendencies, expecting community members to take up opportunities and be responsible to their area (Etzioni, 1995; Blair, 2000). In the late 1990s and early 2000s, there were New Labour ideas connecting community and citizenship with obligations. Savage and Atkinson (2001) illustrate New Labour's idea of citizenship by using Blair's statement that citizenship:

> *'gives rights but demands obligations, shows respect but wants it back, grants opportunity but insists on responsibility. So the purpose of economic and social policy should be to extend opportunity, to remove the underlying causes of social alienation'* (Blair, 1996, p. x).

New Labour's ideas of community offer opportunity with the expectation of responsibility. In his speech to the Women's Institute Blair stated:

> *'Give people the opportunity to get on and make something of themselves, give each of us a stake in Britain and we have the means and the moral authority to demand the responsibility'* (Blair, 2000).

While in 2000, Amitai Etzioni suggested:

> *'cultivating communities where they exist and helping them form where they have been lost … should be a priority for future progress along the Third Way'* (Etzioni, 2000, p. 18).

In the same year, rebuilding communities was also a theme in the SITF's *Wealth Beyond Welfare*, which presented a CDFI 'wish list' to government. In this largely non political document there were some signs of Third Way and Communitarian thinking. Both the market and the public sector had failed in disadvantaged communities. Private investment avoided these communities and public sector grants stifled entrepreneurship. The Task Force called for social investment to achieve social objectives and financial returns. It wanted a reduction of public money and a reintroduction of the market through the supply of suitable finance. Since the financial investment would contain a social element it could be thought of as being equidistant between the market and philanthropy and therefore a potential Third Way. The Task Force stated that its aim was to:

‘achieve a move away from this culture of philanthropy, paternalism and dependence towards one of empowerment, entrepreneurship and initiative.’ (SITF, 2000, p. 4)

Communitarianism wished individuals to move away from dependence and aimed to empower communities. One CDFI called itself the *London Rebuilding Society* in an attempt to express its aim. Within the jigsaw of localisation and the empowerment of communities, CDFIs had their role recognised by the government. New Labour’s contribution to these lending organisations through the Phoenix Fund can be seen as an investment into particular communities. These communities could be geographical such as ART based in Birmingham. Alternatively, a combination of location and an additional characteristic, such as the Muslim Loan Fund based in London and WEETU working across Norfolk. The specific character of a CDFI could be an element to solve a local or regional problem. Some CDFIs could be considered as grass-roots organisations, because they have created by the communities themselves. For example, ICOF was created by the co-operative movement to help other co-operative businesses. ICOF and other CDFIs could be thought of as Third Way organisations working between the public and private sectors and offering finance to an excluded community. A loan from a CDFI could be interpreted an introduction into the market; a supportive version based on people’s ability to repay a loan. Overall CDFIs can be understood as part of a battery of tools to aid communities.

The development of a CDFI within a community and financial support from government would give local inhabitants the opportunity of loan finance. The supply of opportunity within communities was important to New Labour. Tony Blair suggested:

‘the constitution of the Labour Party commits us to seek the widest possible spread of wealth, power and opportunity. I want to highlight opportunity as a key value in the new politics. Its importance has too often been neglected or distorted’ (Blair, 1998, p.3).

Blair had seen opportunity freeing individuals from the State. However, he thought *'for most people, opportunities are inseparable from society, in which government action necessarily plays a large part'* (Blair, 1998, p. 3). This connects to Giddens, who called for the government to have an essential role *'investing in human resources and infrastructure needed to develop an entrepreneurial culture'* (Giddens, 1998, p. 99). The themes of supporting enterprise, removing barriers to employment and promoting economic participation were reiterated in James Midgley's ideas on social development through social investment (Midgley, 1999). An investment in a CDFI could be a social investment bringing benefits for the community.

Blair suggested that the Left had:

> *'in the past too readily downplayed its duty to promote a wide range of opportunities for individuals to advance themselves and their families' and it had at worst 'stifled opportunity in the name of abstract equality'* (Blair, 1998, p. 3).

What was needed was a progressive Left to tackle these inequalities removing obstacles to the '*true equality of opportunity*' (Blair, 1998, p. 3). Giddens thought that this model of '*equality of opportunity, or meritocracy*' was the *'neoliberal model'* (Giddens, 1998, p.101). Blair and Giddens seem to diverge on ideas around meritocracy (Driver and Martell, 2000). Giddens warns against it, but Blair seemed to value meritocracy through his support for entrepreneurship.

The government's policies aimed at the removal of barriers to employment and economic participation could be seen in the context of Third Way ideas (Midgley, 1999). In Third Way thought, opportunity in education and employment would bring about economic and social inclusion. Opportunities were necessary to get people into employment, whether this would be access to childcare provision, improving educational standards or supplying better information about vacant employment positions. Tony Blair suggested in a speech '*opportunity to all and responsibility for all equals a community for all*' (Blair, 2000). In the world of New Labour, the State created opportunities and it was the responsibility of the individual to seize these and conform to an acceptable form of behaviour. In his Third Way, James Midgley highlighted that welfare benefits could diminish growth and reduce economic participation through both employment and self-employment (Midgley, 1999). The role of CDFIs in the supply of opportunity is potentially small, but could be linked to the State facilitating economic activities. With CDFIs bringing about financial inclusion and potentially being locally based, either geographically or within a given niche sector (co-operatives, social enterprises or charities), they can be seen as a small element of New Labour's entrepreneurial agenda.

New Labour's support for entrepreneurship shows a change from wealth distribution to wealth creation (Driver and Martell, 1999). This was a change in policy from previous governments propping up industries with grants or giving incentives to get multi-nationals to relocate in areas of high unemployment. Gordon Brown in discussing *Enterprise and Fairness* stated that:

> *'Thirty years ago governments responded to the productivity challenge with top down plans, and tax incentives and grants primarily for physical investment. Today it is more complex – involving the modernisation of capital, labour and product markets, and creating an economy with an enterprise culture open to all'* (Brown, 1999, p. 50).

This statement would suggest that the old idea of allocating money to problems such as enterprise and employment was to be rethought. In New Labour's first term in office, the BBC (1999) reported on a change from traditional Labour Party ideas on wealth. The Cabinet Minister, Stephen Byers stated that *'wealth creation is now more important than wealth redistribution.'* He went on to state that '*if we don't create wealth there is no opportunity to provide real hope for the future to many people who are left out at the moment'* (BBC, 1999). A case was put forward that without enterprise there would not be money to improve people's opportunities. Entrepreneurship was viewed both as an opportunity to be taken up and a source of finance for further opportunities in health, education or enterprise. During the 1990s New Labour rejected its old policies from the left (Shaw, 2003).

The policy of wealth creation was important to New Labour's doctrine as a policy that separated them from 'Old' Labour and a policy that had produced conflict amongst its ranks (BBC, 1999; Driver and Martell, 2002). This was an important policy that broke with the traditional perspective that Labour was a party of wealth redistribution to wealth creation. CDFI finance could be understood as a mechanism for wealth creation, allowing those previously excluded from loan finance access to start or expand enterprise and create wealth for themselves. The SITF thought that endogenous enterprise within disadvantaged communities would eventually reverse the cycle of deprivation, which has also been seen as an element of Third Way thinking (Midgley, 1999).

Employment or self-employment would have the ability to change communities and create wealth. Employment, like community, was one of the big issues for New Labour in the early years. The Social Exclusion Unit's first PAT report investigated employment. The PAT 1 looked at a wide range of employment policy issues and made more than sixty recommendations. It found that financial issues stopped people from taking up employment. In disadvantaged areas, there was a need for employment support and effective partnerships with businesses.

Some of the recommendations were focussed upon the cycle of worklessness within deprived communities. The Chancellor Gordon Brown at the Urban Summit in Birmingham announced there would be '*an onslaught against the unacceptable culture of worklessness that grew up in some of our communities in the 1980s and early 1990s'* (BBC, 2002a). New Labour has used a battery of measures of incentives, such as the Minimum Wage, Tax Credits and New Deal policies to combat worklessness. New Labour had incentives and also more persuasive policies such as Employment Zones. James Midgley in discussing his ideas of a Third Way mentioned the need to make low paid jobs worthwhile (Midgley, 1999). In North America it was suggested that there has been sufficient employment opportunities available for *'the poor'*, but it was *'an institutionalized culture of indolence that perpetuates an underclass of nonworking people'* (Midgley, 1999, p. 19). Potentially, Brown may have been speaking from a similar perspective on worklessness.

In the Ministerial foreword of *Jobs and Enterprises in Deprived Areas*, Jeff Rooker and Des Browne saw employment as *'the foundation of human well-being and willingness of people to work is the nation's most important asset'* (ODPM, 2003, p. 5). Work could *'provide stability, fulfilment, opportunities and self-respect'* and that was *'why paid work has been a central element of the government's strategy to tackle social exclusion'* (ODPM, 2003, p. 5). These are rather blunt statements from the Government, but illustrate that through its Social Exclusion Unit (once part of the Office of the Deputy Prime Minister) the government perceived employment to be vital in society. In New Labour's rhetoric, work was seen as having stabilising effect upon communities with low unemployment areas having perceived stable, fulfilled and respectful communities.

Tony Blair in his speech to the Women's Institute in 2000 pointed out that his government produced 1.5 million extra jobs and had saved £8 billion on benefits. The policies work of introducing the Minimum Wage and the Working Family Tax Credits had helped get people into work. The Tax Credits and Minimum Wage could be seen as Third Way policies connected to thoughts on social development (Midgley, 1999). However, the Government has had an element of compulsion about their policies towards employment. In 1998, Tony Blair wrote:

> *'For too long, the demand for rights from the state was separated from the duties of citizenship and the imperative for mutual responsibility on the part of individuals and institutions. Unemployment benefits were often paid without strong reciprocal obligations'* (Blair, 1998, p. 4).

The rights and responsibilities agenda has been strongly connected to Communitarian and Third Way ideas (Etzioni, 1995; Giddens 1998). Under New Labour:

> *'Responsibility means we no longer hand out social security benefits without conditions. Claimants have a duty to look actively for work and take jobs they are offered'* (Blair, 2000).

Blair’s policies persuading people into employment contains Communitarian and Third Way ideas. The supply of good business advice and suitable business loans could influence the unemployed into self-employment. Giddens suggested that in Europe there was too much reliance upon the public sector creating employment and it ought to be recognised that entrepreneurship was a direct source of employment (Giddens, 1998). In this way, self-employment through CDFI finance would be another way to achieve this goal.

Paul Boateng, speaking at the 2001 CDFI conference, stated that community finance was important to the government and that it had a central role in delivering some priorities. In his speech he asserted that CDFI could aid in:

> *‘creating a new culture of enterprise in Britain, and one that is open to all; building real prospects, and real hope, in some of our most disadvantaged communities; ending social exclusion and opening opportunities that have been closed to many people for too long’* (Boateng, 2001).

With New Labour’s funding of CDFIs, new opportunities were created within disadvantaged communities which could aid entrepreneurs establish businesses. Figures from the Community Development Finance Association show that during the early 2000s the number of CDFIs increased. Potentially, these organisations would have taken into account the problems of their communities and offered support into self-employment. CDFIs could play a small role in a complex series of policies influenced by Communitarian and Third Way ideas. CDFIs would offer opportunity for all through business loans within local communities. However, as the previous chapter suggested, there was insufficient demand for CDFI loans. It would seem important to explore the potential problems associated with applying New Labour’s concepts and ideas of community, employment and opportunity.

Third Way and Communitarian ideas: Tensions

This section will explore three problematic areas; defining community, the tension between individualism and community, and the potential over-supply of funding to communities.

When writers discuss community, it is often in an idealised way. They have aspirations of how individuals and communities will act, expecting them to react positively and accept policies offering change. From the outset, there has been the expectation that communities will take up opportunities either voluntarily or through persuasion. But it can be argued that this may not be the case throughout all communities. *PAT 9: Community Self Help* identified that there were motivational, organisational, institutional, political/cultural and economic barriers stopping people getting involved in community activities (PAT 9, 1999). Similarly, others have argued that just because people have certain characteristics in common this does not make a community. Some of these common interests could be a *‘cultural heritage’, ‘social relationships’ ‘economic interests’ and ‘common experiences of power or oppression’* (Talyor, 2003, p. 23). In discussing race, Etzioni recognised cultural diversity and suggested that every American could learn English and still keep hold of their ethnic subculture (Etzioni, 1995). His perspective was easy to suggest, but difficult to carry out. What would happen if the common culture within an area was receiving benefits? Ideas of community have permeated New Labour’s thoughts about opportunity, wealth creation and employment. These ideas do not fully connect-up with every community and this cannot be expected.

It is possible that people will be part of many communities and various allegiances will apply at different times as there will often be fluidity within communities and members (Taylor, 2003; Goes, 2004). However, just because individuals have connections, such as kinship or a similar economic class, they may not feel responsible towards their community. Since New Labour’s Communitarian ideas have a prescriptive character (Johnson, 2001; Goes, 2004) it may ignore these gaps in community cohesion. Indeed, the Government itself found there were barriers to individuals getting involved in self-help projects (PAT 9, 1999). This has been an area of debate since prescriptive Communitarians suggest that the spirit of community must be promoted through *’moral persuasion’* and peer pressure, rather than governmental announcements (Goes, 2004, p. 110). New Labour’s rhetoric has suggested that individuals have a responsibility to take up opportunities and rebuild their own districts. Just as the banks were withdrawing from communities in both urban and rural areas there was an increased interest in credit unions and CDFIs (Atkinson, 1999; Brown, 2000). These institutions may have been seen as community, grass roots solutions to market failures. The community could mop up the ill-effects of the market and the costs would be transferred to individuals, rather than the State (Levitas, 2000). Potentially, not all communities have the skills, knowledge and enthusiasm to establish CDFIs or other organisations to improve their location.

The second area of potential problems would be the tension between individualism and community. Communitarianism has offered *'a political vocabulary which eshews market individualism, but not capitalism; which embraces collective action, but not class or the state'* (Taylor, 2003, p. 40), which would be part of Third Way thinking. Driver and Martell in discussing New Labour's Third Way suggested that supporting communities could offer a:

> *'Communitarian rather than an individualist view of society in which individuals are embedded in social relations which give structure and meaning to people's lives; and that it is the role of governments to promote 'the community' as a way of enriching individual lives'* (Driver and Martell, 2002, p. 70).

Government research suggested that opportunity was a way of turning an area around (PAT 9, 1999). Similarly, the Social Investment Taskforce thought entrepreneurship within communities would halt the spiral of ever increasing deprivation. It has been suggested that Communitarian politics could be presented '*as an antidote to the individualism perceived to have been engendered under Thatcherism'* (Hale, 2002, p. 24). However, others have suggested individualism was a symptom rather than a cause of social-ills (Hale, 2002; Leggett, 2004). This could be problematic since New Labour wanted people to be entrepreneurial, which would involve some form of individualism. Giddens seems to fudge what he calls '*new individualism*,' a balancing act between individual and collective responsibility (Giddens, 1998, p. 16). Etzioni expected individuals to be part of business, but also have civic responsibility

(Etzioni, 1995). This could be difficult enough to create a successful business in a poor community without adding an additional community responsibility.

Finally, there may have been a mismatch between funding streams. The government have directed monies to CDFIs attempting to establish sustainable loan funds and on the other hand giving the most deprived areas grants to establish time limited projects. For example the Community Chests allowed communities to run their own local projects in the eighty-eight most deprived local authority districts (SEU, 2001). Potentially, there have been a series of grant funds available to specific deprived areas such as Community Chests or the Neighbourhood Renewal Fund. However, the Bridges Community Venture Fund was aimed only at the most deprived areas, but wished to create permanent businesses through returnable investment. The various governmental funds and the Bridges Community Venture Fund could offer a range of grants and equity investments to a disadvantaged area, but do the grants stifle entrepreneurship? Lawless (2004) suggested that the government's New Deal for Communities was about delivering projects and importantly spending the budgets. Wallace highlighted the success of some grant based initiatives in disadvantaged areas (Wallace, 2001). However, CDFIs reported difficulties making sufficient loans (Nissan, 2008).

Another example of policies not being successfully joined up has been New Labour's interest in social enterprise, an area where CDFIs can help finance. Giddens (2000) suggested that the Third Sector (charities, the not for profit sector and social enterprises) if developed effectively could offer choice in delivering public services and promote a localised civic culture. Two years later, Tony Blair in discussing social enterprises was struck by the fact that social enterprises were:

> *'delivering high quality, lower cost products and services and were creating real opportunities for the people working in them and the communities that they serve'* (DTI, 2002, p. 5).

This transfer of public services to the voluntary sector has been attractive to New Labour since the early 2000s (Shifrin, 2003), but the government has had difficultly working out what to do with this 'third-sector'. In 2003, the Treasury established the Future Builders Fund through a consortium of organisations to give minor grants and significant loans to charities and social enterprise organisations wishing to compete for public contracts. In 2007 to add to the confusion, the Department of Health established the Social Enterprise Investment Fund to allow third-sector organisations to build up social businesses within health care through grants. The government have given grants to social enterprises and also offered loans through CDFIs. Potentially, this could stifle entrepreneurship and keep social enterprises businesses following grants funding streams. This availability of grants would diminish the demand for loans from CDFIs. Research has shown that businesses choose internal funding first and equity finance last (Myers and Majluf, 1984). This is because it is easier and equity is not given away (Myers and Majluf, 1984). However, a grant would be more attractive than a loan to a business or charity.

Finally, in 2008 a social enterprise could approach four national funds for loans, which could mean competition between funds. Similarly, in the early 2000s entrepreneurs in some of the poorest districts of London had four loan funds for micro-finance and SMEs. Does this mean increased levels of opportunity to gain finance or CDFIs competing for the most financially viable customers? Potentially the latter, but Rod Jones, loan manager of a Northern CDFI saw his fund as '*a cocktail of finance'* with borrowers accessing a number of CDFIs and spreading the risk across all of them. So there could be value in having a series of CDFIs all offering similar products. Overall, support for CDFIs can be seen as increasing the market for loans to a limited audience.

Conclusion

In conclusion, CDFIs connect successfully with Third Way and Communitarian ideas, but communities do not work as idealistically as in Third Way or Communitarian examples. New Labour's broad and generalised policies have been applied to individual communities and have ignored localised barriers. In addition, New Labour established grant funds, while promoting CDFI loan funds. This has caused competition and confusion between philanthropic and lending organisations. For example, a developing social enterprise may choose to become a charity and receive a grant, rather than produce a business plan and seek a loan.

CDFIs have reflected Third Way and Communitarian influences in two separate ways. The first is as a form of self-help and the second is as a mechanism to increase opportunity. Etzioni's Communitarian position stated that *'people have a moral responsibility to help themselves as best they can'* (Etzioni, 1995, p. 144). New Labour has supported this idea in both rhetoric and policies. The establishment of a grass-roots based CDFI can be cited as an example of a community working to help itself and a mechanism to help others. In the 1990s the formation of CDFIs was a recognition that the market for loan finance had failed within certain communities. CDFIs could be a return of the market but in a more supportive and possibly intelligent form. Giddens' Third Way suggested a balance between the public and private sectors (Giddens, 1998). Similarly, Midgley suggested using social investment to encourage small business in disadvantaged communities in his form of the Third Way. CDFIs will use both public and private investments in the form of grants and loans to supply loan finance to those businesses perceived as too risky by the banks. The supply of opportunity was a big feature in New Labour's rhetoric and these lending organisations offer communities opportunity to finance, which could lead to wealth creation. Overall, they have been mechanisms for economic inclusion.

New Labour, and especially Tony Blair, have espoused Third Way and Communitarian ideas and introduced policies in support of these theories. They have had aspirations for communities, such as wishing them to take up opportunities in education, employment, the creation of wealth and entrepreneurship. CDFIs can play a role within these aspirations by helping individuals into self employment or business expansion. However, New Labour, Third Way and Communitarian writers have expected communities to act in certain ways and not all communities are the same, having a range of issues. The expansion of the New Deal to the people aged over twenty fine years old highlighted the *'complex and multi-dimensional nature of the barriers to work for the long term unemployed'* (Lindsay, 2002, p. 417). Even though this New Deal was strongly persuasive, the barriers have stopped some from the take up of employment (Lindsay, 2002). On a more minor scale, people have had the opportunity of using CDFIs, but have not fully used their services. Possibly, the loans have not been attractive or barriers have appeared.

New Labour's policies have not always been joined up - to the detriment of CDFIs. Through the Phoenix Fund the government has given money to CDFIs to lend. At the same time, they established Future Builders offering a mix of grants and loans to social enterprises. The government created a potential competitor for CDFIs looking for social enterprise borrowers. Similarly, the government has espoused the creation of an entrepreneurial culture, and alternatively offered significant grant funding especially in disadvantaged locations. It has been reported that CDFIs have had difficulty finding sufficient borrowers. Potentially, entrepreneurship may have been stifled by a patchwork quilt of competing funding streams. The availability of funds, both grants and loans has reduced the take-up of CDFI loans.

The following chapter will evaluate individual CDFIs and the UK sector as a whole. It will look into the successes and failures of these lending organisations. These outcomes will have been affected both by the expectations of the CDFIs and the policies of the government.

Chapter Nine: Assessing the Value of CDFIs

This final chapter aims to provide an overarching analysis of CDFIs and, in doing so, brings together a range of material from the earlier chapters. It also aims to cover more recent developments in relation to CDFIs. By 2008 these lending organisations were being threatened by a range of issues: funding was diminishing as government found new priorities, and CDFIs had to restate their case for support (Brown and Nissan, 2007; Brown, 2008; Nissan, 2008). However, with the 'credit crunch' CDFIs have found some new support and a renewed interest from central government.

The chapter comprises four (inter-linked) narratives which cover: an evaluation of the contribution of CDFIs; an assessment of the problems of micro-finance in the UK; a review of the impact of the uneven and variable nature of government support; and the impact of the recession on CDFIs, and the future sustainability of the approach.

The key message of the chapter will be that the majority of UK CDFIs are financially unsustainable if they only look to offer loans within a limited market. Their true value lies (as suggested by Third Way and Communitarian ideas) in being responsive to the needs of local communities and helping to reduce financial exclusion. They have an economic value in creating and sustaining employment, and investing in additional social outputs.

Assessing the Contribution of UK CDFIs

The Community Development Finance Association (CDFA) has attempted to quantify the value of the CDFI sector through its sector surveys. Since the CDFA's survey methodology has been to focus on their membership, some loan funds that could be thought of as CDFIs will have been overlooked. Similarly, not all of the membership will have replied to the survey. The 2008 and 2009 surveys had a response rate of over 80 percent, so some of their membership may have declined to complete the survey and others may have closed.

However, this research has helped to give the separate CDFIs coherence and highlight a number of key issues.

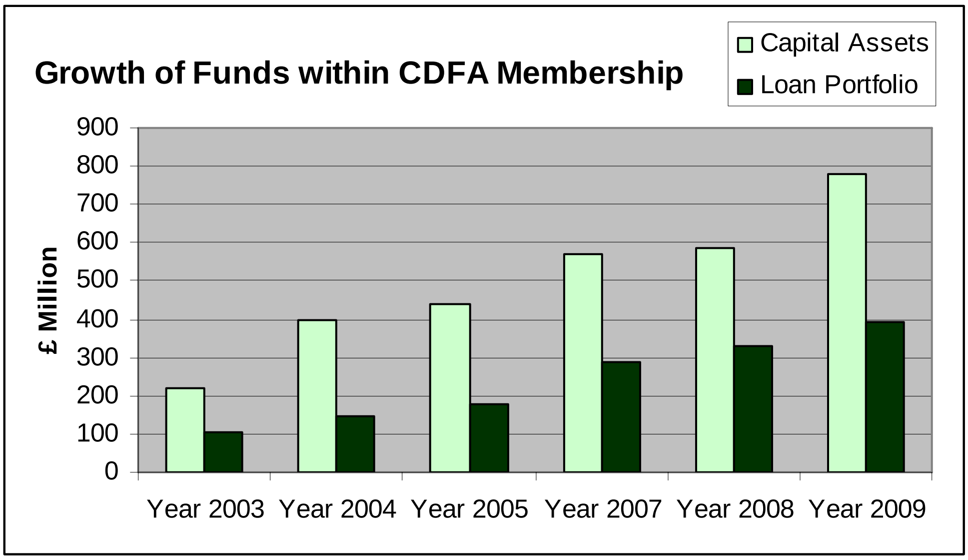
In the first survey conducted in 2003 around 75 percent of respondents worked within one market, often micro-finance or social enterprise. They were very locally-based, but there were signs that with maturity expansion would occur. The banks were the major suppliers of capital followed by the government's Phoenix Fund. While the report does not state who supplied the majority of revenue funding the Phoenix Fund will have played a significant role, with the Phoenix Challenge Fund distributing over £11 million in revenue funding (SBS, 2005). Until recently the CDFA's annual reports found that the majority of CDFI funds were from the government (CDFA, 2004, 2005, 2006, 2007).

In 2006, the Regional Development Agencies had been given the responsibility for CDFIs and the funding pattern changed. Since national funding had changed to regional funding, so those CDFIs with national coverage faced an additional funding problem. In 2007 the RDAs supplied 43 percent of revenue funding and by 2009 this had reduced to 30 percent (CDFA, 2007a, 2009a). This was a genuine reduction from £2.3 million to £1.7 million (CDFA, 2009a). The other major sources of funds were the local economic development and business support schemes and corporate grants and donations (CDFA, 2009a).

Over time, the individual CDFIs have developed their own sources of income and have created new products. In 2005 there were signs of diversification with 50 percent of CDFIs having more than one market (CDFA, 2005). At this time, the established CDFIs were consolidating their positions and expanding into new geographical areas (CDFA, 2005). Over the decade, some CDFIs were expanding into different markets and new districts as the funding streams were becoming more localised. The CDFIs were in search of economies of scale, but were coming across only regional and sub-regional funding opportunities.

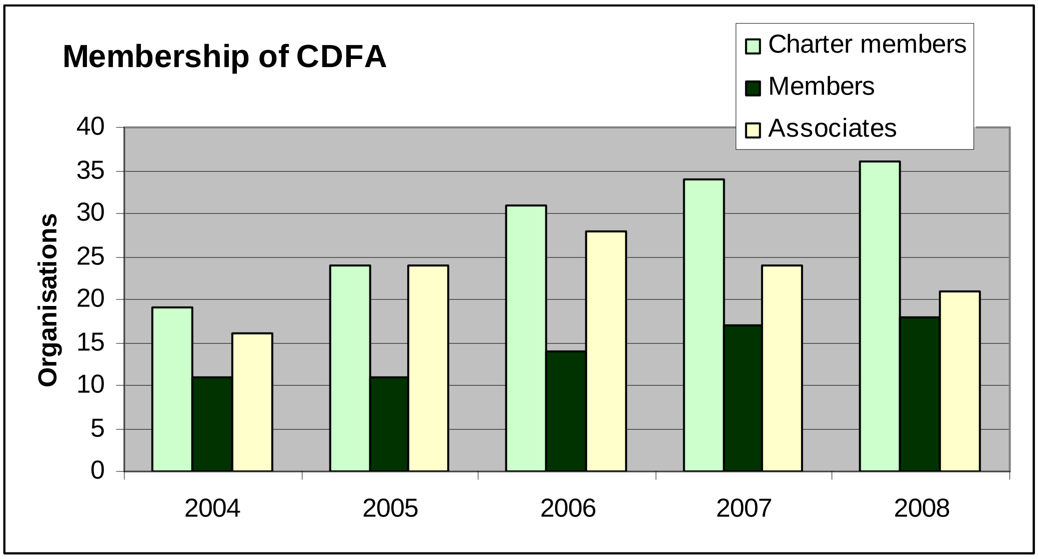
Each year, the CDFA membership has increased their capital assets and loan portfolio. By 2009, the gap between capital and loans had grown to around £387 million. Between 2008 and 2009 the membership decreased slightly, but their capital assets increased by over £100 million. In 2009, just under £800 million was held in capital assets (Figure 6), but approximately £100 million of this was committed for lending (CDFA, 2009). However, *Inside Out 2009* stated that earned and invested income made up over 50 percent of CDFI income (CDFA, 2009a). By having large amounts of money in the bank the CDFIs have become more financially sustainable.

Figure 6: The Growth of Funds within the CDFA Membership



Source: *Inside Out* 2003 – *2009*

Figure 7: Membership the CDFA



Source: *CDFA annual reports 2004 – 08*

Figure 7 shows the number of charter members and members in the CDFA has also grown each year. However, the number of associates peaked in 2006. Broadly, the charter members were just CDFIs, whereas the members were a combination of CDFIs and business support agencies. The associates were even more mixed with CDFIs, loan funds, support agencies and even some housing trusts (figure 7). The previous mapping chapter and appendix 1 display evidence that many of the membership had additional roles. Some organisations were involved in business support, training or property management and have a loan fund. Some CDFIs especially the national lenders were more focused on solely lending.

In 2006, associate membership reached its highest level, which was also the point when revenue funding for CDFIs through the Phoenix Fund closed. Some organisations may have moved into another membership category and others may have ceased their membership. In 2009 the CDFA's *Inside Out* did not give a breakdown of members, but mentioned sending out 68 surveys. Their overall membership had diminished by a small number during the year (CDFA, 2009a).

Table 14: CDFI Impacts as of 2009 * Since 2003

	2007	**2008**	**2009**	**Cumulative total**
Number of individuals financed	3,726	6,869	8,794	25,832*
Number of businesses financed	1,599	1,379	2,143	9,148*
Number of jobs sustained	1,964	2,321	4,762	75,706
Number of jobs created	2,601	1,567	5055	20,884
Total value of loans made £m	£104.8	£76.0	£113.1	£474.0*
Total value of funds levered £m	£46.5	£35.6	£126.5	£492.4

Source: *Outside Out, 2008 and 2009: The State of Community Development Finance*, CDFA

The table 14 illustrates the impacts of the CDFI sector up to 2009. The cumulative results are interesting in that around 96,000 jobs have either been created or sustained by the actions of the CDFIs. These employment figures may go back to the start of some organisations, with the Aston Reinvestment Trust beginning in 1997. Similarly, the cumulative total of loans includes both business and personal finance. In terms of the UK economy these figures are miniscule, but their importance comes from the fact that each entrepreneur or borrower was denied bank finance. Almost £500 million cumulatively has been borrowed by the financially excluded.

Arguably, table 14 only supplies part of the story, i.e. the economic aspect. Ignoring the personal finance, a rough calculation shows that for each job created or sustained, £4,900 was borrowed. For each £1 borrowed another £1.04 was levered into the business. One figure that has not appeared anywhere would be how much revenue funding was needed to create or sustain a job. In interviews, loan managers mentioned visiting potential borrowers at least once. The visits and additional support work would be dependent on the quality of the potential borrower. Since the borrower had been rejected by the banking sector some additional work would be necessary, which would add to costs.

Apart from employment, there would also have been additional social benefits produced. The lenders could be in disadvantaged areas and the input of finance could have a great social and economic significance. During an interview with Street North East we discussed the gender and ethnicity of their borrowers. The organisation was inclusive and their borrowers came from a range of ethnic backgrounds. The original Street UK was opening up an area of hidden entrepreneurship and helping the grey economy become legal (Williams, 2006). The first Street UK manager in Newcastle when asked about the grey or black economy stated:

> *Yes, that is who we're aiming at. You get an awful lot of people signing on and perhaps working part-time and would very much like to go legitimate, but it is a big step* (Mackey, 2002).

The manager was gaining knowledge of benefits and the New Deal for the Self Employed to help potential borrowers become legitimate. In 2004 at a presentation John Hall of Street UK stated that becoming legitimate was a prerequisite of gaining loan finance. An element of Street UK's and North East's work was getting people off benefits and legitimising their businesses. Aspire, another micro-finance organisation, found 75 percent of their loans were in the most deprived areas of Belfast and London Derry (CDFA, 2004). Both the Triodos and Charity banks have used case studies in their annual reports to emphasize their social benefits.

One of the problems with the CDFA's figures is that they rely heavily on two organisations, the Triodos and Charity Banks. In their most recent reports Triodos Bank (UK and Ireland) had lent £23 million and the Charity Bank almost £12 million (Triodos, 2009; Charity Bank, 2009). Many of the loans made in 2008/09 came from these organisations. This left over 60 CDFIs with the remaining loan portfolio. Potentially, the growth within these two main CDFIs could be camouflaging the difficulties of others.

In both the UK and the USA the evidence strongly suggested increased interest and usage of CDFIs caused by the recession (CDFA, 2009; CDFI Fund 2009). In the UK, the loan portfolio increased even though the number of CDFI decreased (CDFA, 2009). Demand for loans increased in the UK and USA, because businesses were being rejected by their banks (CDFA, 2009a; Vik, 2009). During 2009, it was suggested that CDFIs did not have the capacity to meet the demand for loans due to being risk adverse (CDFA, 2009a). Since the CDFIs had large amounts of money in the banks there could be a complex range of issues. For instance, the quality of the businesses looking for loans could be problematic. As with previous years the CDFA supported their membership with a call for increased levels of revenue and capital funds.

The individual RDAs may have addressed the call for increased grant funding from the CDFIs on a regional basis. Central government have been acutely aware of the 'credit crunch' and problems with business finance and have allowed CDFIs to join a loan guarantee scheme and contributed another £5 million to capital funding (Cabinet Office, 2009). This funding and the loan guarantee scheme could indicate that CDFIs were back on the national agenda. The government's renewed interest in business financial exclusion has brought new opportunities for CDFIs.

Overall, from annual growth in loans and capital assets the CDFI sector tend to be performing adequately and gaining stability each year. The UK branch of the Triodos Bank with large amounts out on loan will have been influential in creating a positive picture. The Triodos Bank would be earning interest from borrowers and investments to help them cover costs. The smaller CDFIs would be more dependent on revenue grants and other sources of income. All these lending organisations have had to watch their costs and default rate to preserve their businesses. Alternatively, they could diversify and supply a portfolio of products and services to bring in additional income.

The following section will critically discuss two CDFIs that have had high expectations but problems with their costs. Both these micro-finance lenders anticipated higher demand than what was really there. Their funders found the lack of loans problematic because of the amounts they had invested in revenue and capital grants. The problems of the two lenders highlight the difficulties in transferring micro-finance from the developing to the developed world.

Assessing UK micro-finance

Over the last decade, a number of CDFIs have ceased or changed dramatically. The following section will analyse two micro-finance organisations that experienced problems.

Micro-finance has been an important product on offer by CDFIs (CDFA, 2003; 2008; 2009). This form of finance has been successful in the developing world (Jain, 1996; Schreiner, 20002; 2003). In rural and urban Canada micro-finance has had mixed results (Frankiewicz, 2001). In the disadvantaged areas of Toronto the Calmeadow Metro Fund tried various ways to create an economy of scale, but their costs and defaults were too high (Frankiewicz, 2001). However, in Eastern Europe micro-finance experienced some success (Armendáriz de Aghion and Morduch, 2000; 2007; Hartarska, 2005). Originally the driving force of Street UK, Rosalind Copisarow worked for the Polish-American Enterprise Fund. With a finance background the Fund allowed her to rethink:

> *'from first principles what banking really ought to be about, but it also allowed me to test in practice the validity of some growing convictions that had gradually taken root in my mind over the course of my career in commercial lending.'* (Copisarow, 2001, p. 53)

The Fundusz Mikro (funded by the Polish-American Enterprise Fund) over four years lent $25 million in over 25,000 loans and produced a 98 percent repayment rate. Copisarow was hesitant to conclude that this form of micro-finance could work across the whole of Europe, but suggested that there was a need to re-revaluate the premise that it would not work in the developed North. She set out a range of borrowing issues affecting micro-enterprises (businesses employing less than ten people), such as the need for small loans of around £3,000 in the UK, the speed of the process and finding the correct interest rate. However, Copisarow (2001) also recognised a mismatch between the issues of the borrower and the legislation affecting the lender. Some of the measures, she suggested, were the ability to take deposits, lend borrowed funds, lend out 100 percent of the loan capital (even on unsecured loans) and forming a mutual society.

Rosalind Copisarow was unable to repeat her previous success in Poland. As mentioned in an earlier chapter, Street UK's main funding source, the EFF decided to review the organisation and eventually stopped their funding. NEF had long been a supporter of CDFIs, publishing a series of documents about the potential of these lending organisations (Mayo *et al.*, 1998), and was contracted to evaluate Street UK's successes and failures.

Before NEF published their evaluation, Street UK put out their own document (Copisarow, 2004). In the foreword Maria Nowak from the French organisation ADIE stated:

> *'what micro-finance is about – empowering people with hand-ups rather than hand-outs, and providing a sustainable solution to global poverty and financial exclusion'* (Nowak, 2004, p. 4).

She suggested that at a European level policy and regulation made it more difficult for micro-entrepreneurs and micro-finance organisations. Copisarow found the potential borrowers lacked essential financial literacy skills and additional work was necessary (Copisarow, 2004). In one of the pilot stages there were high delinquency rates and the culture of group loans had not worked either. It would seem that in the UK environment micro-finance was not about '*empowering people with hand-ups*'. There was not the same relationship between the lender and the borrowers as in the developing world such as Bangladesh.

Street UK had a series of difficulties such as:

- Getting insufficient funding;
- There was little support for its merger with Unltd (mentioned in the earlier case study);
- And it was also rejected by the Phoenix Fund for a national CDFI grant (Copisarow, 2004).

The combination of potential borrowers with limited financial literacy, a lack of additional funding and legislation for micro-entrepreneurs all worked against Street UK. Copisarow in the report accepted that micro-finance was unsustainable in the UK with a single loan product.

In 2005 the funding body EFF published the NEF evaluation of Street UK and then produced a report into Aspire, a Belfast based micro-finance lender (Forster *et al.*, 2006). This time EFF got the CDFA to carry the research into Aspire and in both cases the authors have been supportive of CDFIs. Both reports provide a number of insights and lessons.

The NEF report found that there was limited demand for micro-finance, but more positively there was need for business support and Street UK's services were valued highly by its customers. Similarly, Aspire had effective risk management and developed a transferable information technology system that could be sold to other CDFIs. At a social impact level it had carried out successful outreach work.

Street UK's original aim was to create a national lender with 20,000 clients and a loan portfolio of £40 million over a seven year period. After three years it had achieved only 259 loans and had a loan portfolio of £320,000. However, it had made £600,000 in loans, so money had been repaid and potentially recycled. NEF stated that *'this was less than the initial targets for this phase, which were over-ambitious'* (NEF, 2005, p.3). Potentially, Aspire was more successful distributing £1.5 million to 400 borrowers, but again it had over estimated demand significantly (Forster *et al.*, 2006). In an earlier evaluation of Aspire by Colin Stutt Consulting it was noted that:

> '*Ultimately, the evaluation shows that Aspire is an effective, innovative and world class micro-finance institution. It delivers pivotal resources, both financial and technical, which have helped to liberate the economies of some of the most disadvantaged areas, sectors and clients in Northern Ireland'* (Colin Stutt Consulting, 2004, pp. 48 – 49).

However the evidence also showed that:

> *'the small size of the fund, the technical intensity of the work and associated transaction costs, staff turnover and the limits to developing a deal flow capable of producing sustainable yield are important structural problems to the development of the fund'* (Colin Stutt Consulting, 2004, p. 42).

Similarly, NEF were critical of the micro-finance model explaining there was insufficient demand and therefore low volumes of fees and interest. As with previous reports about CDFIs, both evaluations looked towards the USA. It found that micro-finance had not been sustainable in North America and CDFIs had diversified to increase the size of their loan funds. In Street UK's case, micro-enterprises needed more business support, which would cost time and money. NEF suggested that a contract with Business Link would be beneficial.

From interviews for the thesis with Street UK and later Street NE there was verification that paid business support would be necessary. The Street UK workers had to check the potential borrower's income, calculate how much they could repay and make sure the business was stable. These negotiations would involve developing capacity in business planning, which incurred costs.

In the North East, the initial Street UK worker tried to introduce peer group lending, which meant educating individuals to form groups. The worker wished to get a collection of micro-businesses to borrow and be responsible for each others loans. The group of micro-business owners would legally guarantee each others loans and peer pressure would be used to avoid defaults. This was abandoned, because it was an alien concept to many potential borrowers and took a long time to set up. Earlier in Canada, Calmeadow had tried introducing peer group lending and found it problematic. It also attempted to shorten its loan procedures and gained more clients, plus higher levels of defaults (Frankiewicz, 2001). There had to be a balance between successfully working with the clients and the costs.

Examining Aspire, the CDFA recommended that CDFIs have realistic targets and funders needed to agree on expectations and be patient as performance increased. The NEF report suggested that the experience of Street UK was part of a process of experimentation and innovation for the CDFI sector. The CDFA viewed Aspire as a pioneer and it was a '*new era of product and organisational innovation and developing new business models*' (Forster *et al.*, 2006, p. 4). Aspire has continued to trade and Street UK was spilt into two organisations. One based in Birmingham, Street UK, focussing on personal finance and debt advice and Street NE continued with micro-finance in the North East. In an interview with Street NE in 2007 the staff stated they had made some progress in moving towards covering more of their costs, but knew they could never reach a critical mass to become completely financially sustainable.

It should be noted that in Newcastle, Project North East had a long established loan fund for young entrepreneurs and had received Phoenix Fund monies for another micro-business fund (the Challenge Fund) and for business support (the Development Fund). Similarly, in Birmingham ART was lending similar amounts (under £10,000). So there could have an element of competition in the cities of Newcastle and Birmingham. However, at the same time as Street UK and Aspire were having problems, the United Nations announced 2005 as the *International Year of Micro-Credit* and was announcing some success (UN, 2005). Similar to the UK, the UN was discussing *'how or if they should subsidize the provision of financial services to poor people'* and finding there was '*no simple answer'* (UN, 2005, p.6). Even in the developing world financial sustainability through micro-finance loans was not guaranteed.

The lack of success of these two organisations, the discontinuation of the Phoenix Fund and the devolution of responsibility to RDAs, greatly affected the CDFI sector. The optimism of the early 2000s was replaced with the realisation that funding was becoming scarce. For example, in 2003 the Phoenix Fund distributed £42 million to 63 CDFIs and in 2006 the RDAs received £11 million for the transition (figures taken from Brown, 2008).

Variations in Support and Funding

As highlighted in an earlier chapter, the government established potential competition for CDFI loans. In late 2003, a consortium made up of Charity Bank, Unity Trust Bank, National Council for Voluntary Organisations and the NRF won the tender to run the Future Builders Fund. This fund offered an initial grant and then a loan to Third Sector organisations wishing to take up public service contracts. These were seen as social investments to be repaid. As of 2009, the government had a new organisation, the Social Investment Business running the Future Builders and three other funds worth £394.5 million. This funding was in a combination of loans and smaller grants to Third Sector organisations including social enterprises to help them compete for public and health sector contracts. This was broken down into:

- £215 million Future Builders Fund;
- £100 million Social Enterprise Investment Fund;
- £70 million Community Builders Fund;

- £9.5 million Modernisation Fund.

Source: The Social Investment Business website

Similarly, CDFIs were receiving social investments through the Community Investment Tax Relief (CITR). By 2008, £52 million had been attracted to CDFIs through this method (CDFA, 2008). This was capital funding, so CDFIs were seeking their revenue funding from the RDAs, local government and charitable foundations (CDFA, 2008; 2009).

When the government announced the end of the Phoenix and the transfer of responsibility to the RDAs, the CDFA found this highly problematic. Within the regeneration and social enterprise press, the change to the Phoenix Fund was significantly reported when it was announced (West and Palmer, 2004; Palmer, 2004; Regeneration, 2004). The Phoenix Fund was seen as '*the lifeblood for a large chunk of the sector*' (Palmer, 2004, p. 12). Bernie Morgan, chief executive of the CDFA:

> '*warned that being relatively young, the sector would need several more years of government funding before it was self-sustaining*' (Regeneration and Renewal, 2004, p. 1).

She stated:

> *Some RDAs are good, but others are less tied into the agenda. CDFIs are also vulnerable to the changing policies of RDAs. Even those that support them now might not in several years'* (Regeneration and Renewal, 2004, p. 1).

At the same time, both the Newcastle based NRF and the EFF were looking to make social investments through loans rather than grants where appropriate (NRF, 2005; EEF, 2006; 2007). The NRF was influenced to establish their *Building Better Lenders* loan scheme after a CDFA study visit to the USA (NRF, 2006). With these changes CDFI had to rethink their aims.

After the various UK micro-finance reports, a subsequent research report into local enterprise agencies with loan funds found a more positive overall picture of micro-finance (Irwin, 2006). This research partially funded by the EFF used information from local enterprise agencies some of which were members of the CDFA. It was found that there were barriers to young people getting business loans and for these borrowers micro-finance organisations were more important than the banks. However, micro-finance helped to lever in additional finance from commercial sources. Loans created social and economic benefits, but the cost of the most expensive loan was £1.23 to lend £1. It was costing a lending organisation over £1 to lend £1, which would be financially unsustainable in the long term. Irwin (2006) measured the median value and found it cost CDFIs thirty-two pence to lend £1. This central value indicates that lenders would have to charge over 30 percent interest to cover their costs. Nevertheless the report saw micro-finance as a valuable element of business support, rather than visa-versa. Without the combination of support and finance some businesses would not be able to start (Irwin, 2006).

In the same year, a Treasury Committee hearing collated CDFI information and gathered representatives from the sector. Derby Loans explained that his organisation was covering 60 percent of their overhead costs (House of Commons, 2006). Derby Loans benefits were both financial and social with money being circulated around the community. The committee asked about door step lending, basic bank accounts, personal debt and home improvement loans, which were not areas fully applicable to CDFIs. It is uncertain how successful the presentation of evidence was for the sector.

Between 2004 to 2007 there were debates about the future of funding for CDFIs and at times there have been signs of additional funding being given to the sector. Established in November 2005 the Commission on Unclaimed Assets (CUA) was chaired by Sir Ronald Cohen, who had previously been heavily involved in the SITF. As stated on the website the CUA aimed:

> *to propose recommendations for the use of monies in financial institutions in the UK that have been untouched by their owners for a considerable period of time'* (CUA, 2005).

The consultation went out to Third Sector organisations including CDFIs, charities and social enterprises. The CDFA and some CDFIs contributed to the consultation. The results of the consultation took over a year to appear and were published in 2007. It suggested the idea of a social investment bank to aid the Third Sector. The report stated:

> *'To be effective and able to operate credibly in capital markets, the Social Investment Bank will need founding capital of at least £250 million, with an annual income stream of £20 million for a minimum of four years'* (CUA, 2007, p.1).

The Social Investment Bank would undertake four initial activities:

1. *'Capitalise present financial intermediaries and fill gaps in the marketplace where lack of capital is restricting social impact;*
2. *Develop the provision of advice, support and higher -risk investment so as to accelerate the growth of demand for repayable finance;*
3. *Develop programmes of sustained investment in specific markets such as community regeneration and financial inclusion;*
4. *Support existing and new intermediaries in their efforts to raise private capital. These activities should attract significant additional finance into the sector'* (CUA, 2007, p.1).

Potentially, things looked quite positive for CDFIs with this report. The CUA chairman Ronald Cohen stated the report offered:

> *'A unique opportunity exists to create a new Social Investment Bank to act as a bridge between the social and financial communities'* (BBC, 2007).

The optimism of the chairman was misplaced and the H M Treasury announced that the Financial Services Authority would retain unclaimed assets and attempt to contact the owners and in a press release it was announced:

> *'The rest of the money will be reinvested in the community, with the focus in England on funding youth services, particularly places for young people to go, financial capability, financial inclusion and, resources permitting, social investment. The Bill allows Ministers in the Devolved Administrations to determine the distribution priorities in their areas'* (HM Treasury, 2007).

So in November 2007 these funds were going to a range of organisations with social objectives including financial inclusion. However, things were not as clear cut as the proposal seemed to indicate. In terms of political actions the Social Investment Bank idea seemed to disappear during 2008. NEF still promoted the idea in support of CDFIs (Brown and Nissan, 2007). The dynamism of government policy and the CDFI sector working together faded during this mid period.

In later research, NEF highlighted that it was a critical time for CDFIs with policy makers questioning whether they had they fulfilled the initial expectations (Brown and Nissan, 2007). The research used interviews and a survey to assess the opinions of the CDFIs, banks, donors and policy makers, which produced a series of positive results, but also allowed some critical issues to emerge. In the survey, participants used a Likert scale to give their levels of agreement and importance to a series of statements. Over 80 percent of respondents thought that CDFIs had a positive impact on revitalising a disadvantaged area and 90 percent believed with the right amount of funding they could be *'big enough to have a significant impact on enterprise in disadvantaged communities'* (Brown and Nissan, 2007, p.3).

On the negative side, it was found that demand was lower than expected, but other issues such as the investment readiness of the potential borrowers and the provision of business support were influential factors. There was an amount of development work to convert an enterprise into *'a viable loan'* that had not been accounted for (Brown and Nissan, 2007, p.20). Many CDFIs offered free business support to address the multiple deficiencies of *'poor financial literacy, limited business skills and a lack of investment readiness'* (Brown and Nissan, 2007, p.21). Similarly, public funding was inadequate and some CDFIs thought that the Phoenix Fund had ended too early. Other CDFIs (who had developed a diverse range of funding) were not damaged by the closure of the Phoenix Fund. CDFIs suggested that there was *'instability of public policy'* and funding had ceased before organisations matured (Brown and Nissan, 2007, p.22).

Importantly, it was found there were issues around funding with less than 5 percent believing that the Community Investment Tax Relief (CITR) provided appropriate funding. This meant one of the government's main policies to bring investment into CDFIs was failing to achieve its goals. The initial expectations for CDFIs had resulted in an element of disillusionment amongst the donors, policy-makers and investors (Brown and Nissan, 2007). Over half of respondents thought that the devolution of responsibility to the RDAs had a negative impact (Brown and Nissan, 2007). The devolution of funding may have impeded expansionist CDFIs from spreading across a series of RDAs. In the recommendations, the CDFIs wanted both a national fund and long term funding. The research recommended unclaimed assets to support a '*Social Investment Bank'* to help finance CDFIs (Brown and Nissan, 2007, p. 70).

These lenders have complained about their funding and questioned one of their main aims. Previously, NEF, individual CDFIs and the CDFA had asserted their aim was to be sustainable. However, this report stated *'their social purpose means that many cannot be, and never will be, completely sustainable'* (Brown and Nissan, 2007, p. 3). Financial sustainability bought the benefit of independence, but amongst respondents there was *'no consensus on whether sustainability is achievable and desirable'* (Brown and Nissan, 2007, p. 27). Similarly, recent research from the USA found that a small sample of CDFIs did not know if financial sustainability was '*possible or even desirable'* (Vik, 2009, p. 5). Since these lenders were working with entrepreneurs excluded from bank finance there would be a higher default rate, less financial and more social benefits. The issue of sustainability has been problematic for the CDFA and the annual conference, *Systems for Sustainability* (2006) even had a debate called '*CDFIs should never be sustainable.*' In the CDFA's annual report *Inside Out* (2008) it had dropped the word *'sustainable'* from the definition of a CDFI. However, in 2010 the CDFA's website still stated that *'CDFIs are sustainable, independent organisations which provide financial services'* (CDFA, 2010). In 2010 the CFS at Salford University recognised that CDFIs dealing in micro-finance were not sustainable (Dayson *et al.*, 2010).

CDFIs feared that policy makers were becoming disinterested in them (Brown and Nissan, 2007). In 2008, NEF published another two reports raising similar issues, but keeping CDFIs on the political agenda. In one report the author, Jessica Brown returned to thinking about the issues raised by the SITF in 2000. She found that the *'architecture for a social investment market'* was incomplete (Brown, 2008, p.3) and suggested that public funding had been too short term and inconsistent. Brown's research was based on 24 interviews and found that some of the interviewees thought that social investment should be differentiated from bank finance. Radically, she suggested that:

> *'social investors should focus on high risk, unsecured lending and equity investment in social enterprises to avoid overlapping with traditional bank finance'* (Brown, 2008, p. 18).

The report suggested that organisations aiming to be sustainable lenders had moved too close to the mainstream. This perspective could be problematic since some charitable foundations were looking to supply loans rather than grants to CDFIs.

In the larger NEF report, *UK CDFIs – From surviving to thriving*, there was a call for a political 'champion' and concern expressed that CDFIs were going to withdraw from the micro-finance market (Thiel and Nissan, 2008). This report recognised that only certain CDFIs would be sustainable and funding from private sector investment *'potentially threatened the social outreach'* (Thiel and Nissan, 2008, p. 2). Unlike other reports, the recommendations were to the CDFA, government, the RDAs and local authorities, banks and CDFIs themselves. It was recommended that both the government and CDFIs look for social impacts as well as financial returns.

The reports from 2008 were published before the advent of recession and built on NEF's interest in both CDFIs and social impacts (Raynard and Murphy, 2000 and NEF, 2004). All of the reports show a general dissatisfaction with the funding streams. Brown's comment that CDFIs were becoming too mainstream, both highlights potential mission drift and the need to be sustainable.

Assessing the future of CDFIs

The government's interest and support for CDFIs has been sporadic and uneven. In 2001 Paul Boateng, the Financial Secretary to the Treasury, spoke at the CDFA conference and Gordon Brown announced the consultation into CITR. In 2002 the then Chancellor of the Exchequer, invested in the Charity Bank. At the City Growth Strategies Forum, Gordon Brown revealed in his speech that:

> *'increased funding for the Phoenix Fund - providing support to thousands of small businesses with special help for women and ethnic minorities who face additional barriers to enterprise'* (HM Treasury, 2003).

Later in the same speech - after mentioning Bridges Community Ventures - he stated:

> *'And just as we are working with local authorities and regional development agencies to develop these enterprise areas – so too we need to make use of the creativity and flexibility that the private sector can bring.'* (HM Treasury, 2003).

His speech promoted enterprise for all and that he wished to use both the public and private sectors. However, the speech also indicated a greater role for local and regional public agencies in supporting enterprise growth.

In 2006, the responsibility for CDFIs was transferred to the RDAs and these lenders were no longer of interest to the national government. By 2009, things may have changed again. In the USA, President Obama had requested a 127 percent increase for the year 2010 (Vik, 2009). Similarly, in the UK there was recognition of CDFI by the government. In a press release the Secretary of State for Business, Lord Mandelson announced:

> *'Community Development Finance Institutions play an extremely important role supporting small businesses and social enterprises in disadvantaged areas'* (Cabinet Office, 2009).

He promised their further involvement in the loan guarantee scheme and £5 million additional loan funding.

During 2008 the proposal of a Social Investment Bank seemed to fade from government policy, but with the recession things would change. In July 2009 the Office of the Third Sector introduced a second consultation, this time for a Social Investment Wholesale Bank (OTS, 2009). This report built on the work of the SITF from nine years previously and the Commission on Unclaimed Assets. The consultation:

> *'noted the importance placed on developing diverse sources of funding for the Third Sector, such as debt finance, quasi-equity and equity, and that grants remain crucial for many organisations, particularly small, grassroots bodies'* (OTS, 2009a, p.7).

It did not ignore grant funding but was offering a range of funding types. The consultation questioned the structure of the proposed Social Investment Wholesale Bank (SIWB) and would work with other organisations. In December 2009 the responses to the consulation were summarised (OTS, 2009b). Liam Byrne, the Chief Secretary to the Treasury suggested they would be engaging with potential providers by the time of the 2010 Budget. Even after the consultation the structure was unceratin and the government had a vision of the SIWB as:

> *'a mission-driven, independent financial institution that operatives at a wholesale level to stimulate and support the development and sustainable social investment market in the UK, working through existing and new financial intermediaries'* (OTS, 2009b, p. 6).

Investment was going to CDFIs and credit unions. However, the consultation suggested that '*new financial intermediaries'* could be attracted to be brought in to administer funds. This would be problematic for existing CDFIs looking for funds. In the end this fund or SIWB could end up being similar to the Phoenix Fund with:

- New entrants into the CDFI market;
- CDFIs wanting revenue funding not capital funds;

- CDFIs finding insufficient demand for loans.

In early 2010 the funding for the SIWB was vague. In 2007 the Commission for Unclaimed Assets proposed that the bank would be worth £250 million. The bank would be given £20 million per annum for four years for running costs (CUA, 2007). However, current literature has not been that exact, but CDFIs seems to be back on the agenda for many of the political parties.

During a Parliamentary regional committee in 2009 looking at Advantage West Midlands, its Chief Executive, Mick Laverty stated that:

> *'We have put an additional amount of money into community development finance institutions—from memory, somewhere around £2.3 million. It has enabled them to increase the number and amount of loans that they are making. Regular interaction with them means that we understand what they are doing. We understand where they are making the loans, and that there is coverage right across the region. At this moment in time, all of them still have money to lend.'* (House of Commons, 2009, question 239).

Previously, there was not universal coverage, but the RDA had rectified that. Again, illustrating a revival in interest in CDFIs, the MPs Mark Field (Conservative), Annette Brooke (Liberal Democrat) and Lindsay Hoyle (Labour) discussed the social and economic impacts of micro-finance early in 2010 (House of Commons, 2010).

Currently, there seems to be sufficient signs from national government and the RDAs that CDFIs will be supported in the future. However, this could be an opportunity to address the issue that the majority of these lenders will not be financially sustainable. The Triodos Bank has been an exception by being national and international and having large scale funds (compared with city wide and regional lenders). New Labour has had an agenda of localism (Ellison and Ellison, 2006; Rao, 2000; Deas and Ward, 2000), which allowed them to transfer responsibility for CDFIs to the RDAs and local authorities. This policy may have restricted the size of an organisation to a region or city and hindered any chances of creating economies of scale. NEF found that the funding became local before the CDFI sector matured (Nissan, 2008; Brown, 2008).

The CDFIs through reports and their association have always found issues with funding, for example the CITR was not suitable for small scale lenders and it was capital rather then revenue funding. Potentially, this dissatisfaction with funding will continue, but CDFIs and their supporters need to explore and promote their benefits.

The Value of CDFIs: Local and Regional Lessons

This section will look at the changing regional picture in the North East, and undertake a comparative analysis of themes occurring across other regions. Data collected for this thesis included a series of semi-structured interviews and telephone interviews with representatives from many of the lending organisations in the North East of England. The Street North East and the Community Loan Fund North East (CLFNE) staff were interviewed during the initial research period and again in 2007. The snowball sampling methodology was successfully used to gain interviewees.

North East CDFIs

In the North East region, five organisations received grant funding from the Phoenix Challenge Fund. Five Lamps is based in Thornaby on Teesside and both the North East Social Enterprise Partnership (NESEP) and Project North East (PNE) worked across the region. The Northern Oak Credit Union was situated in North Tyneside and the South East Northumberland Enterprise Trust worked around the Ashington area. Table 15 shows that the region received £0.7 million in revenue and £1.4 million in capital funding.

Table 15: The Regional Figures for the Phoenix Challenge Fund

North East Region	Revenue	Capital	Total
Five Lamps	£165,000	£200,000	£365,000
North East Social Enterprise Partnership	£297,500	£500,000	£797,500
Northern Oak Credit Union	£20,000	£250,000	£270,000
Project North East	£140,000	£300,000	£440,000
South East Northumberland Enterprise Trust	£90,000	£200,000	£290,000

Totals	£712,500	£1,450,000	**£2,162,500**

Source: The Small Business Service

The Five Lamps organisation existed as business and community development organisation before it received the addition of the loan fund. It received a large amount of revenue compared to capital funding reflecting its development role. In 2009 it was still making loans and a member of the CDFA. In 2007 it attracted another £137,800 from the NRF to support its financial exclusion work (NFR, 2007). The Northern Oak Credit Union (NOCU) was interviewed, but was not lending at that time. Since it only received £20,000 in revenue funding it could not employ anyone or produce publicity materials. Eventually, it was able to access funds from the NRF to pay for a worker. However, its core area of work has always been personal finance through the credit union with paid and voluntary staff.

Both SENET and PNE were business support organisations. PNE had experience of soft loan funds and ran a loan fund for young people funded by Shell. When I interviewed Richard Clark of PNE the organisation linked their loans with the business training courses, which they were contracted to run. The company had a mixed portfolio of income including rented work space and contracts to supply business support. Their Phoenix Fund money was targeted on getting the unemployed, single parents and ethnic minorities to make a fresh start (PNE, 2005). Since it was a business development agency, it bid for support funding and received twice as much capital as revenue funding. The PNE website offered:

> *'extensive practical support for people who haven't considered self-employment before'* and *'step-by-step support with preparation for a new business start up including market research, business planning, loan applications, locating premises etc'* (PNE, 2005).

When I asked PNE about sustainability the organisation expected their loan funds to be recycled for around ten years. They did not expect their young borrowers to have any security, so eventually the losses would be too great to continue. PNE has remained a member of the CDFA, but lending is only part of their work. SENET was mainly a business support agency working in the Wansbeck district. It joined the CDFA, but has now ceased to exist. With changes in funding such as the introduction of Local Economic Growth Initiative (LEGI) business support moved to the Go Wansbeck project. Thus, the area still has a loan fund, but not a CDFI.

NESEP is a networking organisation for social enterprise. It used the funding to support CapitaliSE mentioned earlier in connection with the Community Loan Fund North East (CLFNE). The combination of CapitaliSE and CLFNE working together has allowed more loan applications to be successful. CapitaliSE gave additional support and planning to businesses applying to CLFNE. Importantly, it filtered out the social enterprises that were unable to support a loan.

Of these organisations, PNE, Five Lamps, SENET and another organisation Financial Inclusion Newcastle (FIN) joined the CFDA. FIN was a business support and personal finance organisation directly linked to the credit unions in the city. Both SENET and FIN ceased their membership in the CDFA after their funding streams altered. In 2009 the Spirit of Enterprise Loan Fund was a member of the CDFA and was supplying loans to disabled people in the region.

By re-examining the figures in table 15 the grants from the Phoenix Fund would be unlikely to bring about long term financial sustainability. As a guide, both PNE and NOCU had an interest rate of 10 percent, so the majority of these funds if fully utilised the interest from the loans would be unable to pay for a loan manager. Additional grant funding would be essential to sustain an employee and running costs. The regional funding was only part of the picture however, and the government funded a series of national and multi-region lenders (table 16). Some of these additional funds would have an influence in the region.

Potentially, PRIME supplying loans to over 50s and Business in Prisons (in table 16) could have made some loans in the region. From the case studies, the national Local Investment Fund would match fund with its North East branch to give joint loans. The money given to Street UK may have funded part of their North East branch before the split into the two organisations.

Table 16: The National and Multi-Regional Figures for the Phoenix Challenge Fund

National and Multi-Regional Funding	**Amount**
BigInvest	£250,000
Business in Prisons	£455,000
Local Investment Fund	£500,000
PRIME	£1,373,858
Street UK	£630,000
	£3,208,858

Source: The Small Business Service

The NRF has also contributed to the potential figures for the region. It gave Street NE and the Community Loan Fund North East loan funds of £250,000 and £300,000 respectively (NRF, 2006). One North East, the RDA, has also contributed to CDFIs in the region and for a number of years had a micro-finance loan scheme. In 2008/09, Entrust (another business support agency) absorbed Street NE and FIN (mentioned above as a member of the CDFA) into its organisation. In 2009, Entrust ran the Street NE brand, but also had a separate contract to run a £1.8 million loan fund. The RDA's fund called the Regional Enterprise Loan Fund offered finance from £3,000 up to £25,000 (Entrust, 2009). PNE, NOCU and Five Lamps did not lend up to this level, so this product was slightly different.

Table 17: Phoenix Fund Regional Grants

	Revenue	**Capital**	**Total**
North East	£712,500	£1,450,000	£2,162,500
North West	£1,092,889	£5,842,000	£6,934,889
Yorkshire and Humber	£2,172,558	£4,103,633	£6,276,191
East Midlands	£244,300	£1,663,000	£1,907,300
West Midlands	£892,413	£3,250,000	£4,342,413
Eastern	£311,819	£685,000	£996,819

South East	£625,155	£1,821,500	£2,446,655
London	£2,802,862	£6,374,486	£9,577,348
South West	£609,188	£2,450,307	£3,059,495

Source: Small Business Service

In comparing the regional picture of funding, the North East received twice as much capital grants as revenue funding (Table 17). This was similar to the Yorkshire and Humber, the Eastern regions and the London area. The East Midlands received seven times more capital as revenue funding. NEF has repeatedly called for more revenue funding (Brown and Nissan, 2007; Brown, 2008; Nissan, 2008). The NOCU struggled to get loans out because of insufficient revenue funding and this same scenario may have occurred in East Midlands. The London area and the North West and Yorkshire and Humber regions received the three largest totals. The East London Small Business Centre was able to draw on the largest capital grant of £2.75 million. Very few lenders were able to access capital grants of £1 million and over.

Table 17 shows that money has been invested into the North East region to support CDFIs and these lenders have had the opportunity to lend up to approximately £2 million and recycle these funds again. From CDFA's figures the region has a loan portfolio of £678,000 in 251 loans (CDFA, 2009a). This was the lowest figure followed by South East with £1.9 million in 1,521 loans. The largest loan portfolio was found in the North West with £20.9 million with 1,490 borrowers (CDFA, 2009a).

These figures must be taken with some caution however, as they were taken from a membership survey and the North East only had three members in 2008/09. As a rough guide, these figures would suggest that CDFIs in the region were not performing as well as other regions. In 2008 PNE lent nearly £200,000 in micro-finance loans to 41 businesses (PNE, 2009). Over a twenty five year period it had distributed £1.7 million in micro-finance loans, which levered in an additional £5.4 million and PNE helped 1,600 start-up businesses (PNE, 2009a). Street NE announced it had distributed 280 loans worth

£900,000 over an eight year period (Entrust, 2009). The CLFNE with preparatory help from CapitaliSE had nearly £1 million out on loan in 2007/08. The CLFNE was converting 95 percent of enquiries into loans, because of the support from CapitaliSE. Neither of these organisations were members of the CDFA. With this in mind the North East picture is not as problematic as the CDFA's figures would indicate.

Typology of North East CDFIs

The North East CDFI sector does not have one single model of CDFI, but a complex range of organisations with differing characteristics and offering different products. Organisations such as PNE, NOCU, SENET and Five Lamps added a loan fund to an existing business. Some of them have had funding problems (such as NOCU) and struggled because it received insufficient revenue funding to attract borrowers and make loans. The CLFNE spent a number of years trying to create a loan fund, but went on to have a successful partnership with CapitaliSE, an organisation with significant amounts of revenue funding. The organisation SENET disappeared after their funding streams changed. The importance of business support was highlighted when Street NE was absorbed into the business support agency, Entrust. This micro-finance organisation always needed to give business help and by joining Entrust there could be a synergy between the services available.

Apart from Street North East which expanded into giving larger loans, none of these Northern CDFIs introduced any new products. The majority of these regional examples aimed at supplying micro-finance. NOCU offered loans up to £3,000 and both Five Lamps and PNE had a limit of £5,000. Five Lamps, NOCU and SENET worked within their chosen small geographical areas. Across the region, products were being duplicated. In discussions with the various loan managers, they knew their own areas well and had local knowledge. So even though there was a duplication of products, there was added value through knowledge of local markets. At times, regional lenders competed with national organisations. PNE's Shell Livewire Fund for young people vied for borrowers with the Prince's Trust. CapitaliSE and the CLFNE did not compete against each other for social enterprise borrowers, but worked in partnership. However, the Charity and Triodos Banks and ICOF were working in the same market nationally. The CLFNE had successfully worked with other lenders to spread the risk of a large loan.

Overall, the North East of England case studies - and additional examples - illustrate a rationalisation of lenders and the necessity for business support. There was a need for diversification of funding and lending that could be viewed as a secondary or even tertiary aspect of the organisation. At PNE, the business support worker was interested in building up their property portfolio, because it produced a continual income once the units were rented. Whereas, the revenue stream for the loan fund had time limitations. For some of these organisations sustainability has been helped by not concentrating on loans, but other business. None of these North East examples seem to have tried to expand beyond the region. The CLFNE is the only really regional CDFI. PNE and Street NE have had regional funding, but they are based in the county of Tyne and Wear containing a large percentage of the North East population. So there has been little incentive to advertise their services on Teesside or the more rural areas. Any expansion plans may have been hindered by changes from national to regional funding and the opportunity to attract investment through tax relief.

Learning lessons from the North East

Could these findings be transferred to other regions and CDFIs? On one level it can be argued that, because certain CDFIs exhibit similarities to these Northern examples, meaningful comparisons can be made. The WEETU based in Norwich has been a long term member of the CDFA, but its main role has been supporting women into self employment. It has offered an *'integrated approach to business start up and growth through advice, training, ongoing peer support networks and access to finance'* (CDFA, 2004a, p. 21). Like PNE, in WEETU the loan fund was part of the support services they had on offer. To illustrate their development role they succeeded in gaining £177,819 in revenue and £118,000 in capital funding from the Phoenix Fund (SBS, 2006). Another example of a CDFA member having a strong link with business support would be First Enterprise Business Agency (FEBA) and it offered loans '*to existing and start-up businesses within Greater Nottingham'* (CDFA, 2004a, p. 25). FEBA was willing to work with start-ups and supply up to 90 percent of the finance necessary for the business. Later the FEBA website stated it specialised *'in providing business support and advice to people from disadvantage communities'* (FEBA, 2009). Over time it had expanded from Nottingham across the East Midlands to offer support and loans (FEBA, 2009). Similarly, ART expanded across Birmingham and Portsmouth Area Regeneration Trust changed into South Coast Money Line. Another CDFA member and recipient of Phoenix Fund grants was the Bristol Enterprise Development Fund (BEDF). Equally BEDF's website explained it *'was restricted to inner city Bristol but over the last decade it's changed and expanded to include the whole of Bristol and the surrounding areas'* (BEDF, 2009).

Contraction has also been a characteristic of the sector, with Street UK closing its Glasgow and London offices and splitting into two separate organisations. Another CDFA member Ethnic Mutual (CDFA, 2004) was closed by the FSA because of irregularities (BBC, 2008; FSA, 2008; Owen, 2008). Both Fund2Grow and Suffolk Regeneration Trust appeared as CDFA members in 2004, but Fund2Grow ceased its membership in the following year and the Suffolk Regeneration Trust left by 2007. Some change must have occurred within these lenders either as a result of them being absorbed into larger organisations or through alterations in their funding.

Overall, some organisations in other regions have added loan funds to their existing support services. Other CDFIs expanded from their inner-city districts outwards across their cities or even regions. However, apart the national lenders it has been difficult to find examples of CDFIs working across a number of regions. So many organisations are still embedded within their own areas. The following section will explore the theories behind why the government has kept CDFIs locally based.

Local versus national: CDFIs and policies

This section will briefly examine the results from the case studies to critically compare the local lenders with national CDFIs. It will then discuss how Third Way and Communitarian ideas that have been influential on policy making directed towards CDFIs.

Three national (and three regional CDFI case studies) were selected for study. They were chosen because of their sizes, their ages and their locations. As of early 2010 all of these lenders were still working. Only ICOF and the Triodos Bank were financially sustainable. ICOF's reports show that a failure of a loan diminishes their guarantee fund. The Charity Bank has made losses, but continued to trade. ART, CLFNE and Street NE continued through their receipt of grants. The case studies indicate that the national CDFIs may be able to be sustainable. While regional or local funds will always need revenue grants.

The government tried using the CITR to attract private funding into CDFIs. Some of the national CDFIs (such as the Charity Bank) were successful in attracting large scale investment. However, the regional and sub-regional (city wide) CDFIs show a much less viable picture (Table 18). For example, the London Rebuilding Society only attracted £16,000 in investments and the size of this investment would clearly have been financially problematic. This form of investment has failed to attract large scale loan funds to the regional and local CDFIs.

Table 18: Investment through Community Investment Tax Relief

CDFI	National, Regional or Sub -regional	CITR
Charity Bank	National	£25 million
Triodos Bank	National	£3.8 million
Social Investment Scotland	National (Scotland)	£2 million
Co-operative and Community Finance (ICOF)	National	£1 million
Big Invest	National	£1 million

Business Finance North West	Regional	£600,000
Black Country Reinvestment Society	Regional	£63,000
Aston Reinvestment Trust	Sub-regional	£58,000
Aspire	Sub-regional	£50,000
London Rebuilding Society	Sub-regional	£16,000

Source: Hackett, P. (2006), Incentives for Growth published by The Smith Institute.

Grants have been necessary for the majority of CDFIs. Their borrowers have been rejected by the banks, because they do not have a credit history, insufficient security or the loan may appear risky. The social purpose of CDFIs has been to fill this gap. The banks think they cannot to make a profit out of these borrowers. With experience, specialist knowledge and economies of scale, a CDFI like the Triodos Bank can make money for its shareholders. However, in the UK the Triodos Bank is an exception. The other CDFIs struggle to cover their costs. Importantly, the extra work and cost involved in a CDFI loan should be recognised by funding bodies.

Many of the case studies were innovative and attempted to be responsive to potential markets. ART looked at supplying loans for improving energy efficiency and home repairs. At one point, the Triodos Bank had over 20 saving accounts on offer. CDFIs have tried to find products to make themselves more sustainable. Diversification has been another way bringing in additional income streams. ICOF managed loan funds for local authorities while running their own funds. However, CDFIs still need grants to carry out their work with financially excluded businesses. Overall, they have the social aim of bringing about financial inclusion.

CDFIs: A Third Way

The Third Way values of inter-dependence, responsibility, incentives and devolution (Latham, 2001) seem to be applicable to both CDFIs and Third Sector organisations. These organisations had community representation on their boards, were responsible and embedded within their communities and were localised. One Third Way thinker suggested a move from passive welfare to an '*active well-being – community-based employment, lifelong learning and social devolution'* (Latham, 2001, p. 27). Both Tam and Etzioni supported active communities where participation in volunteering was essential.

At the annual conference of the National Council for Voluntary Organisations in 1999 Tony Blair recognised the importance of the Third Sector and stated:

> *'Each day, in communities across the country, people act out their vision of Britain - rejecting selfishness and embracing community…In the second half of the century we learnt that government cannot achieve its aims without the energy and commitment of others - voluntary organisations, business, and, crucially, the wider public. That is why the Third Sector is such an important part of the Third Way*' (Blair, 1999).

The move away from individualism has been recognised as part of Communitarian and Third Way ideas (Tam, 1998; Taylor, 2003; Hale, 2007; Driver and Martell, 2002). Blair wanted all sectors to work in partnership and had to introduce policies to support this aim. On a local level New Deal for Communities and other sources of grants could supply funds for community projects. A DTI report on social enterprise highlighted their potential for delivering public services (2002).

In the previous and this chapter I have argued that CDFIs can be understood as '*Third Way organisations'*. Giddens' idea of the social investment state was based on a mixed economy that:

> *'looks instead for a synergy between public and private sectors, utilizing the dynamism of markets but with public interest in mind'* (Giddens, 1998, p. 100).

While he was not discussing a specific policy, this emphasis has a resonance with the introduction of the Community Investment Tax Relief some years later. New Labour introduced tax relief and made investments in CDFIs more attractive and this dynamism for social investments at around £34 million (Table

18). This could be viewed positively as bringing new money to the sector and allowing individuals and business to invest in their chosen CDFI. However, as this form of investment ignored the need for revenue funding, it could be argued that Third Way and Communitarian ideas have hindered the development of CDFIs.

New Labour has attempted to get members of communities involved in their neighbourhoods (Pratchett, 2004; Aspden and Birch, 2005; Ellison and Ellison, 2006) and suggested that without community engagement regeneration projects would fail (Imrie and Raco, 2003). With the dispersal of power to the regions, ideas of citizenship and responsibility have also grown (Lister, 2004). In this context, CDFIs, with local board members, can offer community participation and representation. In offering business support and loans CDFIs can help build communities and reduce financial exclusion.

However, some of New Labour's policies have come into conflict with other proposals to help develop CDFIs. Some policies have acted as barriers stopping CDFIs from expansion.

While local revenue and capital funding can be an important factor in the establishing of a CDFI, if an organisation such as a CDFI wants to work citywide or regionally, the regeneration budget could be too localised. In 1999, ART was being funded by Birmingham City Council and smaller district based organisations such as Newtown South Aston Challenge, Task Force Newton / Ladywood and Sparkbrook, Sparkhill and Tyseley Regeneration Team (ART, 1999). This patchwork of funding may have made ART more responsible to the needs of each district, but limited its ability to serve the whole city or the region. The Newcastle branch of Street UK received funding from the Newcastle Employment Bond (Affleck and Mellor, 2005), which for a time restricted its work to just the city.

Devolving power to smaller entities has not been without its problems. Pratchett (2004) identified a tension between local autonomy and democracy and McCulloch (2004) found power remained with the partner agencies rather than the community. An example of New Labour's devolution of responsibility would be New Deal for Communities, which has brought money to a sub-city level. NDCs have offered a level of democracy in regeneration of an area with mixed results (Foley and Martin, 2000; Lawless, 2004: McCulloch, 2004). Similarly, the Single Regeneration Budget was area based and boosting economic activity (Rhodes *et al.*, 2003). However, localism can produce parochialism and nimbyism to local agendas (Coaffee, 2005). The interviews with loan managers and business development workers indicated that they preferred to have a universal product that could be used across a city or region. With localised funding streams they could not give full coverage and had to check the borrower's or client's postcode. By restricting funding to CDFIs it also diminished their potential market.

Another problem with localism, in the context of CDFIs, is that it restricts the size of the organisation, because the lack of money restricts growth. The introduction of the CITR allowed investments to be made into registered CDFIs. Larger and more established CDFIs such as the Triodos and Charity Banks, ART and ICOF were quick to take advantage of this source of funds. However, the smaller CDFIs did not have the resources to register and attract individual and corporate investors (table 18). The CDFA and NEF research has found that this form of investment has been unsuitable for many organisations. The investing banks, corporations and individuals have received the benefits of a tax-credit and the knowledge that they have helped a CDFI. Having them participate in regeneration has been worthwhile. However, this money would have to be returned, and the CDFIs may have kept this money safe. A grant would allow for riskier loans with more potential social benefits. The loan fund would last as long as the defaults were kept to a reasonable level.

In keeping CDFIs local and accountable, how could a small-scale CDFI with limited staff be able to establish itself as an investment opportunity? The CDFI would have difficulty, but by keeping CDFIs small-scale and linked in with a community it could have many social and economic benefits. Sadly, the government's funding has been insufficient to keep all CDFIs within communities. Overall, the idea of localism has benefits, but not for all organisations trying to be sustainable.

There are also problems in looking at the government's emphasis on competition. When the government introduced Future Builders and the Social Enterprise Investment Fund (SEIF) it established competition for the CDFIs. Problems occur when the government supported the CDFIs and sources of grant funding. The aims of CDFI and the Future Builders fund are similar in that they both help potential businesses. However, one comes with a grant/loan combination and the other is purely a loan. The SEIF has been just grants. Overall, New Labour's policies in terms of finance do not join up. Both PAT 3 and 9 (1999) recognised the importance of a move from a grant culture into loans. The government has partially addressed this through their support for CDFIs and hindered this change through SEIF grants.

Conclusions

This chapter has assessed the value of CDFIs and illustrated their potential importance within communities. By keeping funding local, rather than national, CDFIs have had the opportunity to integrate and produce the right products for their chosen communities. They can be considered within government's focus on offering a Third Way to '*promote wealth creation and social justice, the market and the community'* (Driver and Martell, 2002, p. 70). This description could relate to CDFIs lending to social enterprises, co-operatives and micro-businesses in disadvantaged areas. CDFIs can be seen as part of the financial market, but not driven by the need to generate excessive profits for shareholders. Currently, the UK public find banker's bonuses and excessive profits distasteful (BBC, 2010; Guardian, 2010) However, CDFIs struggle to breakeven, because they lend to those businesses rejected by the banking sector. Since CDFIs are inclusive they have to work hard with their borrowers.

Funding bodies have to recognise the attributes of CDFIs. These organisations offer an alternative to the state and the market. Giddens in writing about his idea for a social investment state suggested there was a path between the two routes. State funding through Business Link has given business advice and start up grants. Similarly, New Deal for Communities and other local initiatives have given grants for enterprise and the creation of social benefits. Alternatively, the banks have given business loans to their eligible customers. CDFIs work between the two areas of grant culture and risk adverse lending. With the addition of business support, rejected entrepreneurs can become successful borrowers. Some of the loan mangers spoken to during the research period would very occasionally risk a loan on a potential business idea.

CDFIs are committed to their community. The Street NE workers were interested in the success of the business over the length of the loan and beyond. Both Street NE and the CLFNE had invested in people with viable business ideas. Some of Street NE's clients were making a break from the grey economy and directly moving from state welfare into trading. The value of harnessing the hidden entrepreneurship in the grey economy has started to be recognised (Williams, 2006). Micro-finance supplied by CDFIs acted as a financial buffer aiding the self-employed get out of poverty (Lenton and Mosley, 2005). Some of CLFNE and CapitaliSE's borrowers were social organisations moving from grant dependency again into trade. Social investment to create of enterprises, improve education and healthcare have all been seen as ways of improving a community (Midgley, 2001). The government has invested in education and seen standards rise. It could also invest in business support and CDFIs combined and to see more businesses are begun and achieve growth.

One argument is that there could be too many CDFIs and other non-banking lenders in the UK. From analysing the North East region, the RDA had three funds contracted to Entrust. Also Street NE was a part of the same organisation. Local authorities and charitable foundations had funded other CDFIs or created their own funds. Being accountable to a local area can have benefits, but there needs to be a balance made between community participation and the duplication of services. A number of adjacent local authorities and even RDAs could form partnerships and fund only one CDFI to avoid the duplication of products and services across a region. Some economies of scale could be created and lending could become more cost effective. Funding will always be an issue, but what form of investment would help the sector?

The government's investment in CDFIs through tax relief has raised capital, but the CDFIs have needed revenue funding. A percentage of this social investment has remained in the bank earning interest for the CDFI. The right form of investment in CDFIs will help create social benefits. The CDFIs and CDFA have not fully explained their social benefits to support their claim for funding. Organisations with social aims may not have time or the resources to show their social impacts (Pearce, 2003; Gibbon and Affleck, 2008). In the new decade organisations were looking more at the social impacts of CDFIs, rather than their financial sustainability (Dayson *et al.*, 2010).

The term CDFI came from the USA and new ideas from abroad have helped to develop CDFIs in the UK. However, American CDFIs always had the advantage of home mortgages, which has supported their sustainability (Vik, 2009). In the UK, sustainability has been overly hyped and it is unrealistic to expect sufficient demand to support the number of CDFIs. The USA has had a positive influence in the re-branding of local enterprise funds or soft loan funds into CDFIs. It has potentially helped to galvanise disparate groups of organisations into a recognised sector with an association.

At present, the evidence would suggest there are two types of CDFIs, the sustainable ones such as ICOF and the Triodos Bank and the grant maintained smaller lenders for example, Street NE. Both types have value and worth to the communities or the markets they serve. Until the banking sector serves everyone there will always be a need for CDFIs. Since this is unlikely, CDFIs have a future and will develop further. In this new decade, there is even the possibility of more innovative examples being created and existing CDFIs being sustained.

Conclusion

This final chapter will, firstly, analyse the changes that have occurred since the 'new wave' of CDFIs appeared. The second section will then scrutinise how Central Government policies have served to both grow (and also diminish) the sector. Lastly, it argues that the way forward is to think of CDFIs as a part of Bruyn's original definition of social investment.

Development

Since the '*new wave*' were establishing themselves in the late 1990s, CDFIs and their association have talked a great deal about sustainability and many CDFIs have successfully reached their fifth (DerbyLoans, Street NE), tenth (ART, PNE, LIF) and even their thirtieth birthdays (ICOF). So, while they can achieve longevity, only a few - such as the Triodos Bank - have been able to achieve financial sustainability and have not relied on grant funding.

Organisations like ART have managed to find sufficient funds to support their loans. They and other CDFIs have stuck to their original aims of bringing about financial inclusion. The Community Loan Fund North East started lending to social enterprises and it has remained their single aspiration. Other organisations had a diverse range of roles. The North East based PNE begun the millennium as a business support agency with a soft loan fund. However during the decade it received a Phoenix Fund grant, joined the CDFA and offered loans *'between £500 and £5,000 on lenient repayment terms '* (CDFA, 2004a, p. 35). PNE gave training, owned and ran work space, supplied business support and offered loans. It can be argued that PNE's longevity is not through its loan fund but via its property portfolio and multiple sources of income. In 2009 an analysis of the CDFA's membership highlights that some of their members were business development agencies offering a secondary service of loan finance. Similarly many members offered work space and training in addition to loan finance.

In the developing world, it has been recognised that micro-finance lenders have suffered from '*mission drift'* as they become more commercial (Christen, 2000; Schreiner, 2002 Copestake, 2007). In the UK, some CDFIs have kept to their core aims of financial inclusion and others have diversified with new services. When the '*new wave'* such as ART, PART, the Charity Bank and Salford Moneyline appeared, there seemed to be more clarity with organisations having a single social purpose.

Not many CDFIs have remained static and many have expanded outside their original areas. ART grew out of Aston and other disadvantaged areas of Birmingham to now cover the whole city. Similarly, Salford Moneyline developed into Greater Manchester Moneyline to gain economies of scale. Both expansion and change can be a good thing as long it takes into account the needs of the local community. In NEF's study of Street UK (2005) and the CDFA's evaluation of Aspire (Forster *et al.*, 2006) their customers highly appreciated the services on offer. Both organisations were successfully addressing local needs. However, these studies recognised that the expected demand was over-estimated. Indeed, in the case of Street UK, its main funder withdrew because there was a lack of demand.

One aspect of CDFIs has become established – the need for micro-finance and small business loans. Many of the CDFA's membership now offer a simple business loan of between £1,000 to £10,000. The sector has grown and developed and the membership of the CDFA has generally increased annually.

Policy

The UK CDFI sector has always looked favourably towards the USA and wished to gain the same level of support (SITF, 2000). Gradually the UK has gained some of these supportive policies. In terms of policy, PAT 3 (1999) found that businesses, like individuals, experienced financial exclusion. This finding led to the establishing of the Phoenix Fund and by 2003 '*over £42 million had been awarded to 63 CDFIs'* (CDFA, 2008, p.3). This acted like the USA's CDFI Fund and even though George W. Bush withdrew funds from CDFIs

(Fogarty, 2001; Immergluck, 2004; Barr, 2005; Bergman and Osuri, 2005; Credit Union Journal, 2008) the Fund has become permanent. In the UK, the Phoenix Fund was discontinued in 2006 (Nissan, 2008). The Government took a short term approach and transferred responsibility to the RDAs. This created problems for the sector (Brown, 2008).

The Government allowed CDFIs to raise money through the CITR scheme. This brought the Charity Bank millions of pounds and the London Rebuilding Society under £20,000. This funding was for lending and not revenue so the sector was being starved of funding. After eight years of the government supporting CDFIs, NEF published *A model for funding and supporting CDFIs: Lessons from the United States* (Nissan, 2008) which highlighted the gaps between support in the UK and USA. Things had changed but there were still problems remaining.

In late 2009 and early 2010 there was interest in the Social Investment Wholesale Bank as a means of supporting CDFIs. However, this could be a short-term measure to get through the recession. Overall, the system of CDFI funding in the USA is not perfect, but on balance it can be seen as better than the UK's system.

A Definition of Social Investment

This section will concisely examine the value of CDFIs. In the 1990s some of these CDFIs were part of the UK Social Investment Forum. ICOF and Shared Interest would promote their share issues as social investments. However, around 2004 the phrase social investment seems to have faded from the discussions about CDFIs. However, Giddens (1998) and Midgley (2001) wished to see a social investment state where individuals and groups had opportunity. At the Brighton Labour Party conference Tony Blair did not envisage a society where everyone was successful and stated:

> *'Not a society where all succeed equally - that is utopia; but an opportunity society where all have an equal chance to succeed; that could and should be 21st century Britain under a Labour Government'* (Blair, 2004).

He wished for equality of opportunity, which is something that CDFIs offer. Neither Giddens (1998), Midgley (2001) or Blair (1999) mentioned CDFIs as an instrument of opportunity. However, CDFIs offer a Third Way of addressing financial exclusion. They fill the gap between failure of the market and the public sector grants to encourage entrepreneurship. They could be interpreted as a support introduction to the market for loan finance unlike the sub-prime market. As PART announced on an early leaflet '*We Lend for Needs, Not Wants*' (PART, 2001, p. 1).

Tony Blair's vision for New Labour has been guided by Communitarian ideas, and CDFIs supplying local services would successfully be dovetailed into the theories of community. CDFIs can have strong links with communities and can be accountable at the local level. However, the localism agenda and the transfer of funding to the RDAs did stop some CDFIs from expanding. It kept lenders city wide or regional.

Not all CDFIs will be financially sustainable, so government and charitable foundations have to think of revenue funding. As Bruyn's definition of social investment makes clear:

> '*Social investment is the allocation of capital to advance the social and economic well-being of people'* (Bruyn, 1987, p. 13).

Funding has to be continual and the performance of CDFIs should be annually monitored and measured. The social and economic benefits show the real importance of CDFIs. The market cannot make money from micro-finance and small business loans, so why should CDFIs?

Research for this thesis involved scrutinising balance sheets and profit and loss accounts – which often confirmed that many CDFIs were not financially sustainable. But CDFIs produce social and economic benefits within communities, allows for financial inclusion and equal opportunities, and offer a

Third Way between the market and the state. They should be strongly supported by public policy interventions.

Postscript

This postscript was added after the Conservative/Liberal coalition government was established to show that Third Way ideas and CDFIs are still relevant. With the change of government Third Way debates disappeared from political rhetoric to be replaced with the concept of the ‘Big Society.’

In Prime Minister Cameron’s ‘Big Society’ people would volunteer and communities would take control of more public services (BBC, 2010a). This has a resonance with the ideas of Etzioni (1995). The Prime Minister wished to empower local communities (Conservative, 2010). Again the localism agenda and empowerment of communities are elements of Third Ways ideas. Tony Blair saw social enterprise as an alternative to the public sector (DTI, 2002). Alternatively, David Cameron’s government views social enterprise and mutuals as an alternative to the private sector (HM Treasury, 2010). The terminology has changed, but the policies have similar outcomes.

New Labour had consulted about the unclaimed assets in bank accounts and was eventually going to distribute it to young people’s programmes. With the change in government a Big Society Bank will be created from these unclaimed bank assets. The Conservative website stated that it ‘*will leverage private sector investment to provide hundreds of millions of pounds of new finance for neighbourhood groups, charities, social enterprises and other non-governmental bodies’* (Conservative, 2010). CDFIs could act as financial intermediaries between the Big Society Bank and the borrower. However, this thesis has shown that CDFIs have difficulty lending to charities and social enterprises and there is not enough demand for loan finance.

The new government has the opportunity to support the CDFA’s membership through revenue grants rather than capital funding. To help the growth of enterprise, CDFIs will need funds for business support and development. If additional revenue funding is not found then this government will perpetuate existing funding problems of CDFIs.

Appendix One: The Membership of CDFA in 2004 and 2009 and additional information.						
Name	Location	Product and services	Set up	Additional Information	CDFA Members 2004	2009
ABI Associates – Faith in Business	London	Business support, finance and property to rent	Not known	Joined 2007/8	No	Yes
Aspire	Northern Ireland	Micro-finance	1999	Still lending in parts of Northern Ireland	Yes	Yes
Aston Reinvestment Trust	Birmingham	Small business and social enterprise loans	1997	Registered as CDFI to use the Community Investment Tax Relief	Yes	Yes
Bees Knees	North Lincolnshire	Business loans up to £15,000		It works in partnership with Business Link Yorkshire to provide free business advice to help the client access finance. Joined 2006/7	No	Yes
BigInvest	National social enterprise	Social enterprise loans	Not known	Still lending	Yes	Yes

Black Business in Birmingham (3b)	Birmingham and the Black Country	African Caribbean small business loans and support	Not known	Social enterprise With business space for rent	Yes	Yes
Black Country Reinvestment Society ltd	Staffordshire and the Black Country	Small business and social enterprise loans	Not known	Still lending and member of CDFA	Yes	Yes
Bolton Business Ventures	Bolton, Bury, Oldham, Rochdale and Wigan	Business loans £1,000 to £15,000, Targeted areas, cultural businesses and women	1983	Islamic finance, property, business support and advice and loans for women. Renamed Business Finance North West	Yes	Yes
Bridges Community Ventures	National	Equity finance	2002	Now Bridges Ventures with a second fund	Yes	Yes
Bristol Enterprise Development Loan (BEDF)	Bristol and West Country	Start-up and expansion loans for small business and social enterprise	1992	BEDF is part of South West Business Finance, a partnership of agencies across the region. Joined 2007/8	No	Yes

Business Enterprise Fund	North and West Yorkshire.	Equity, business loans, guarantees, book keeping and advice	Not known	Joined 2008/9	No	Yes
Business Finance North West	North West	Small loans of between £3,000 and £50,000 Shariah compliant loans available	1983	Loans for new or small business, trading arms of charities, social enterprise and not-for-profit organisation. Joined 2005/6	No	Yes
Business Finance Solutions	North West	Small business loans £3,000 to £50,000	Not known	Greater Manchester boroughs of Manchester, Stockport, Salford, Tameside, Trafford, and across Cheshire. Joined 2008/9	No	Yes
Capitalise Business Support	Sussex, Kent or Surrey	Small business and social enterprise	Not known	Part of the local enterprise agency	Yes	Yes
Change – London and Quadrant Housing Trust	Lewisham and Greenwich loans	A pilot in Waltham Forest would focus on loans and advice for social enterprise and small businesses More personal advice	2004	Connections with credit union, but not the CDFA. Left in 2008/9	Yes	No
Charity Bank	National	Social enterprise and charity loans	2002	Registered as CDFI to use the Community Investment Tax	Yes	Yes

				Relief		
Community Money CIC	London	Affordable loans and grants for community groups	2007	A Community Interest Company Joined in 2007/8	No	Yes
Coventry and Warwickshire Reinvestment Trust	Coventry and Warwickshire	Small business and social enterprise loans	Not known	Joined 2006/7	No	Yes
Croydon Enterprise	Croydon	Loans and business support	Not known	Part of Croydon Economic Development	No	Yes
Cumbria community Asset and Reinvestment Trust	Cumbria	A rural CDFI offering small business loans £1,000 to £50,000	Not known	An Industrial and Provident Society and joined 2004/5	No	Yes
Derby Loans	Derby and within 20 miles of city	Business, community and personal loans	2003	Industrial and Provident Society Now MCF Loans (Midlands Community Finance)	Yes	Yes
Developing Strathclyde Ltd (DSL)	Mainly Glasgow and Edinburgh	Small business loan / social enterprise	1993	DSL moved beyond just Strathclyde.	Yes	Yes

Donbac	Doncaster and South Yorkshire	Business loans £15,000 to £50,000 and micro loans £1,000 to £15,000	1980s	Joined 2008/9	No	Yes
East Lancashire Moneyline (IPS) Ltd (ELMS)	East Lancashire and Wales	Personal finance	2002	An Industrial and Provident Society. Name change ELMS and expanded into Wales.	Yes	Yes
East London Small Business Centre	Tower Hamlets, Newham, Barking and Dagenham, Havering and Redbridge	Loans and venture capital, grant programmes for fashion industry (short term loan for clothing manufacturing).	1978	Still loans and Muslim Fund, but support and training. Generic business advice. Muslim Fund. Worked with Indian restaurants	Yes	Yes
Enterprise Fund Ltd	Manchester	Small business	Unkno wn	Ended membership 2006/7	Yes	No
Enterprise Loan Fund Limited	Unknown	Unknown	Not known	Unknown Left in 2008/9	Yes	No

Enterprise Loans East Midlands	Nottingham	Loans £3,000 to £20,000	2008	A partnership between the East Midlands Development Agency and First Enterprise Business Agency (FEBA).	No	Yes
Ethnic Business Development Corporation and Ethnic Mutual	Lewisham, Greenwich, Southwark, Newham, Bromley, Bexley and Lambeth.	Loan fund, training and support	1997	Rented office space and support. The Ethnic Mutual ceased after fraud allegations. Left 2007/8	Yes	No
Fact 2006	Coventry and Warwickshire	Micro-finance loans	2006	Joined 2008/9	No	Yes
Finance South Yorkshire	South Yorkshire	Loans £15,000 to £150,000	Not known	Joined 2008/9	No	Yes
First Enterprise Business Agency	Greater Nottingham	Loan finance, BME businesses	1989 council run	Now called First Enterprise or FEBA and expanded across East Midlands Loans, grants, training	Yes	Yes

Five Lamps	Thornaby on Teesside	Loans and community support agency	Not known	Received Phoenix Fund money and joined 2004/5	No	Yes
Future Builders	Loans and grant	The supply of loans and grants to the voluntary and community sector	2004	Joined 2004/5	No	Yes
Gloucestershire Development Loan Fund	Gloucestershire	Start up loans from £500 to £9,500 Loans for existing businesses up to £50,000	2003	Joined 2004/5	No	Yes
Goole Development Trust	Goole and surrounding area	Loans up to £10,000		Received Phoenix Fund money to set up their fund. Now offering training, advice and property to rent. Joined 2006/7	No	Yes
HBV Enterprise	London Boroughs	£3,000 to £25,000	2000	Originally Hackney Business Ventures. Currently working in Barnet, Brent, Camden, City of London, Enfield, Haringey, Hackney, Harrow, Islington, Waltham Forest. Joined 2004/5	No	Yes
ICOF	National	Co-operative and social enterprise	1973	Co-operative and Community Finance.	Yes	Yes

IMPACT Communities in Partnership for Action	Sheffield	Small business and personal finance	Not known	Membership ceased in 2004/5	Yes	No
Impetus	Herefordshire, Worcestershire and Shropshire	Lending in a rural area. Loans £1,000 to £50,000	Not known	Joined 2004/5	No	Yes
Innovative Finance (Hastings Trust)	Hastings and surrounding area	A back to work loan £1,000	Not known	Part of the Hastings Trust, a development trust organisation. Joined 2008/9	No	Yes
Isle of Wight lottery	Isle of Wight	Interest free loans of £2,000 to £50,000	2001	The first lottery in England to be developed specifically to create employment opportunities. Joined 2006/7	No	Yes
Key Fund (South Yorkshire)	Yorkshire	Social enterprise – loan and grants	1999	Yorkshire and Humber	Yes	Yes
Leicester-	Leicestershire	Business loans up to £5,000 and	Not	Joined 2005/6	No	Yes

shire Moneyline		also home owner and personal loans.	known			
Local Investment Fund (LIF)	National with regional funds	Social enterprise loans	1995	The Social Enterprise Loan Fund (TSELF) and still a CDFA member	Yes	Yes
London Rebuilding Society	London	Social enterprise / ethical business and mutual aid	2001	An Industrial and Provident Society	Yes	Yes
Merseyside Special Investment Fund Ltd	Liverpool	Small business loans	1996	Small business and now venture and mezzanine finance. Liverpool and now the North West	Yes	Yes
Moneyline Yorkshire	Sheffield	Personal loans £50 to £5,000	2004	Working with the local credit union. Joined 2006/7	No	Yes
Norfolk and Waveney Enterprise services (NWES)	East Anglia Set up after closures in Great Yarmouth and	Advice, training, property and loans	1982	Advice, training, property and loans	Yes	Yes

	Lowestoft					
North London Enterprise Credit Union	Based in Enfield	Business based credit union	1992	Part of the North London Enterprise Club Joined 2006/7	No	Yes
North Staffordshire Risk Capital Fund plc	North Staffordshire	Small business loans £10,000 – £50, 000	Not known	2009 announced £1 million to lend	Yes	Yes
One London	Owned by the London Boroughs	Loans, equity, venture capital and grants		Now called GLE One London Specific funds Bexley, Croydon, Lambeth and South Westminster Training and Shariah compliant loans.	Yes	Yes
Portsmouth Area Regeneration Trust (PART)	Portsmouth	Personal and small business	2000	South Coast Moneyline An IPS and two companies limited by guarantee	Yes	Yes
Preston Money Line	Preston, but now Central, North and	Personal, small business (£300 - £5000) and home improvement loans	2005	Now Lancashire Community Finance, an IPS	Yes	Yes

	West Lancashire					
Prince's Trust	Loan to young people	Loans and start up grants. Advice and training	1976		Yes	Yes
Prime Initiative	National	Over 50s loans and lobbying		The Prince's Initiative for Mature Enterprise offers loans, lobbying, Business clubs.	Yes	Yes
Project North East	North East	Shell Young person's fund and general loan fund	1980, but loans came later	Loans and property support dependent on funding	Yes	Yes
Prya Partnerships	Unknown	Unknown	Not known	Unknown	Yes	No
Robert Owen Community Banking Fund	Mid Wales	Business loans £1,000 to £10,000 And home improvement loans	Not known	A sister organisation of the Robert Own Credit Union. Joined 2008/9	No	Yes
Rootstock	Finance for co-ops	Offers ethical investments in co-operatives	1998	Joined 2006/9	No	Yes

Salford Moneyline	Salford now Greater Manchester	Personal loans	2000	Greater Manchester Moneyline	Yes	Yes
Sandwell Advice and Moneylink (SAM)	Sandwell Borough	Personal, home improvement loans and micro enterprise	2004	Membership ended 2007/8	Yes	No
Scotcash CIC	Glasgow	Personal loans from £50	2007	Opportunity to save through Glasgow Credit Union. Joined 2006/7	No	Yes
Shoreline Housing Part.	East Lancs	A Housing Trust	Not known	Working with ELMS and joined 2006/7	No	Yes
Sirius	Hull and surrounding area	Loans from £500 to £25,000	1999	Joined 2008/9	No	Yes
Social Investment Scotland	Scotland	Social enterprise loans			Yes	Yes
South West Investment	Cornwall and Scilly Isles	SMEs Growth, rural business		Less funds available	Yes	Yes

Group						
Spirit of Enterprise Loan Fund	North East of England	Loans available to physically, sensory and mentally disabled people. Loans between £1,000 to £5,000	Not known	Administered by the Pine Tree Trust offering a range of training and business support. Joined 2005/6	No	Yes
Street UK	London, Birmingham, Newcastle and Glasgow	Micro-finance	2000	Split into Street UK (Birmingham) and Street North East (Newcastle), both still members	Yes	Yes
Suffolk Regeneration Trust	Suffolk	Enterprise Loan Fund £3000 to £5000 Micro Loan Fund £1000 to £3000	2003	2006 became Foundation East working in Norfolk, Suffolk, Essex, Cambridgeshire, Bedfordshire and Hertfordshire now business, social enterprise and personal loans	Yes	Yes
The Environment Trust	Unknown	Unknown	Not known	Unknown – left 2004/5	Yes	No
Train 2000 Limited	Merseyside Women	'Power loan fund' and advice	1996	Now offering advice and not lending. Lefy CDFA is 2005/6	Yes	No

Triodos Bank	National	Social enterprise and environmental loans.	Arrived in UK 1995	A range social and ethical investments	Yes	Yes
UK Steel Enterprise	Areas affected by changes in the steel industry	Owned by the Tata Steel Group with loan funds for areas affected by changes in the steel industry. A mixture of business loans, equity and guarantees available.	1980 approx.	Managed workspace available. Previously, owned by Corus.	No	Yes
Ulster Community Investment Trust	Ulster	Social enterprise loans	2001	Expanded into Ireland from Northern Ireland	Yes	Yes
WEETU	Norwich	Loans for business women	1998	Group loans	Yes	Yes
Wessex Reinvestment Trust	Devon, Dorset and Somerset	Enterprise and home improvement loans	2004	Loans through the Fredericks Foundation	Yes	Yes
West Yorkshire Enterprise Agency	West Yorkshire	Advice and loans	2002	Advice and loans	Yes	Yes

Appendix Two

Questions for lending organisations (CDFIs)

1. Describe your organisation

2. What is your role?

3. How did it come about?
(How was the organisation developed?)

4. Where does the organisation get its funds from?

6. What is the organisation's market?

7. Where do your borrowers come from (referrals etc.)?

7. What are your products?

8. What are your interest rates?

9. Any additional fees?

10. How successful have been so far?

11. Do you have any results or figures available?

12. Are there any problems or barriers with making loans?

13. Is the organisation sustainable?

14. Are there any future plans?

15. Does the term social investment mean anything to the organisation?

Appendix Three

Contacts and interviewees

1. Angier Griffin – Philip Angier (Director), Social Enterprise Consultancy.
2. AnybodyCan – James Dixon (Director), Social Enterprise Support Agency.
3. Aston Reinvestment Trust – Steve Walker (Manager) CDFI.
4. Barclay's Bank – Andy Brown (Business Loan Manager), Bank.
5. Barclay's Bank – Harry D. Ferry (Business Loan Manager), Bank.
6. Barclay's Bank – David T. Gray (Business Manager), Bank.
7. Bridges Community Ventures - Tom Matthews (Associate), CDFI.
8. Business Link County Durham - John Probert (Manager), Business Support Agency.
9. CapitaliSE – John Probert (Loan Manager), CDFI / Business Support.
10. CDFA - Sarah McGeehan (CDFA and NEF).
11. Charity Bank – Danyal Sattar (Assistant Manager), CDFI.
12. Charity Bank – Malcolm Hayday (Chief Executive), CDFI.
13. ComeCon, Bob Webb (Development Manager), Social Enterprise Development Agency.
14. Community Enterprise Direct – Jim Gaunt (Manager), Business Support Agency.
15. Community Enterprise Direct – Michael Dennison, Business Support Agency.
16. Community Finance Solutions – Bob Paterson (Director), CDFI development.
17. Community Loan Fund North East – Rod Jones (Loan Manager), CDFI
18. Economic Partnerships – Dr Guy Turnbull (Partner/Director), Social Enterprise Development Agency.
19. Economic Partnerships - Keith Richardson (Partner/Director), Social Enterprise Development Agency.
20. Financial Inclusion Newcastle, Enterprise Support Team - Gerard Lundie (Senior Enterprise Support Officer), business support.
21. ICOF – Andrew Hibbert (Loan Manager), CDFI.

22. Northern Oak Credit Union – David Hampton (Business Development Manager), CDFI.
23. Northern Oak Credit Union – David Hodgeson (Director), CDFI.
24. Prince's Trust – Anjali Daniels (Outreach worker for business development), charity working with young people.
25. Project North East – Richard Clark (Loan Manager), Business Support Agency and CDFI.
26. Shared Interest – Stephanie Sturrock (Chief Executive), Fair Trade Loan Organisation.
27. Shared Interest – Geoff Moore (Board Member), Fair Trade Loan Organisation.
28. Street UK – Martin Hockley (Loan Manager), CDFI.
29. Street UK – Sarah Mackey (Loan Manager, Newcastle), CDFI.
30. Street UK and Street NE – Gary Watts (Loan Manager), CDFI.
31. Street UK and Street NE – John Hall (Manager), CDFI.
32. Sunderland Homecare Associates – Margaret Elliot (Manager), Co-operative enterprise.
33. Social Enterprise Sunderland – John Blackburn (Business Advisor), Co-operative Development Agency.
34. TEDCO – Doug Scott (Director and Chief Executive), Economic Development Agency.
35. Triodos Bank – Avicia Baldock, CDFI.
36. Triodos Bank – Rosl Veltmeijer (Sustainability Research), CDFI.
37. Unity Trust Bank – Karen Gorman (Development Manager North East and Cumbria), Bank.
38. Unity Trust Bank – Robin Blagburn (Principal Consultant), Bank.
39. Weetu – Caroline Forbes (Full Credit Manager), CDFI.

Appendix Four

northumbria UNIVERSITY School of the Arts and Social Sciences

RESEARCH PROJECT ETHICS REGISTER FORM

Project Title	Community Development Finance: A Form of Social Investment
Researcher's name	Arthur Affleck
Supervisor's name	Keith Shaw

Date of commencement 30/6/02

Ethical considerations in the research project	
1. Have you/will you inform[ed] the participants about the research?	Yes
2. Have you/will you obtain[ed] their consent using the standard consent form?	Yes
3. Do any participants constitute a 'vulnerable group' (e.g. under 18 years of age?)	No
4. Will the research involve commercially/personally/ politically sensitive information?	Yes
5. If yes [to 3 or 4, above] have you taken steps to deal with this issue?	Yes
6. Are there likely to be any risks for you or for the participants in your procedures?	No
7. If yes (to 6 above) has a control measure been proposed in the IPA?	Y/N

Statement by researcher

I have taken the ethics procedures into consideration and only used figures in the public domain.

I have read the University / School Guidelines on Ethical Procedures in Research and confirm that the answers I have given above are correct. Where further issues arise under items 3, 4 or 6 [above] I have described in writing how I intend to approach these issues in the research.

Researcher's signature... Date...

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