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Introductory Pack on Funding and Finance

Guide to Loans and Other Forms of Finance

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Guide to Loans and Other Forms of Finance

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About this guide

This guide provides an introduction for voluntary and community organisations that are considering using non-grant forms of finance. It covers the types of finance that are available from both high street banks and community development finance institutions (CDFIs), including some voluntary and community sector specific lenders such as Futurebuilders.

It aims to help organisations understand, use and successfully access non-grant finance. It explains the main differences between grants, loans and equity and describes a variety of scenarios in which non-grant finance can be used. It also focuses on the key issues organisations should consider when getting ready for finance. There are a number of tools to use for planning and review when considering loan finance and a directory of providers.

This is the sixth guide in the series that make up the Finance Hub *Introductory Pack on Funding and Finance*. Details of other guides are given below.

About the Introductory Pack on Funding and Finance

The *Introductory Pack on Funding and Finance* was commissioned by the Finance Hub, one of the centres of expertise created as part of ChangeUp[1]. The guides provide voluntary and community organisations and social enterprises with practical information, support and guidance on funding and finance options, and the skills needed to access these options.

The guides have been designed with new and small to medium-sized organisations in mind. They aim to be accessible, clearly written and to explain any specialist terms used. They provide case studies highlighting real life experiences that offer good practice tips and the lessons learned by organisations that have 'been there and done that', including the first steps of some smaller organisations. The guides also contain tools and signposts to resources to assist organisations in their search for long-term financial sustainability.

The guides that make up the *Introductory Pack* are:

1. Sustainable Funding
2. Financial Management
3. Fundraising
4. Trading
5. Procurement and Contracting
6. Loans and Other Forms of Finance

Copies of the guides are available from NCVO and the Finance Hub. They can be downloaded from the Finance Hub website at www.financehub.org.uk or NCVO's website at ncvo-vol.org.uk/sfp. Further details and information about the work of the Finance Hub and the support it provides is included in the Resources section at the end of this guide.

[1] ChangeUp is a programme of capacity building for the infrastructure of the voluntary and community sector.

About the author

Community Development Finance Association (cdfa)

The cdfa is the trade association for UK community development finance institutions (CDFIs). CDFIs are a new financial tool for social, economic and physical renewal in under-invested communities. They lend and invest in areas and markets that cannot access mainstream finance from banks. They are sustainable, independent organisations that provide financial services with two aims: to generate social and financial returns.

For more information see:
www.cdfa.org.uk

Introductory Pack authors, contributors and advisory group

The *Introductory Pack* has been developed by experts in voluntary and community sector funding and finance with input on design and presentation from practitioners including an advisory group of front-line funding advisors.

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Guide to symbols and abbreviations

Each section uses the symbols shown below. These are designed to help readers navigate through the text and to highlight key points and signposts.

Good practice tip/key points to remember

Tool (e.g. template or checklist)

Signposts to further support and information

CVS = council for voluntary service
VCO = voluntary and community organisation
VCS = voluntary and community sector

Introduction – Why think about loans?

Loan finance is a relatively new tool for the voluntary and community sector (VCS). Although many larger voluntary and community organisations (VCOs) have used high street bank loans for years to purchase buildings, develop new work, or to smooth cash-flow, the arrival of more VCS aware and dedicated finance providers has made loan finance more accessible to smaller, and less well resourced, organisations.

Loans are not an income source, but a financial tool or enabler. They can help VCOs in many ways. Loans may be an option where a large sum of money is needed, to bridge gaps between receipt of grant payments, or to enable projects to move forward during the time taken to raise capital from more traditional fundraising methods. They can be particularly useful in situations where waiting while money is raised will mean an organisation misses a valuable opportunity. Examples include investment to purchase or renovate premises, money to develop or expand a trading idea, or money to enable payments for materials or work completed prior to payment of an expected grant.

Loans provide an injection of cash that makes things happen now. In some instances they may provide greater flexibility in how the money is used (unlike grant funding which may be tied to specific project outcomes). Furthermore, loans encourage business planning and thinking beyond the short-term (a frame of mind often encouraged by time-limited grant funding). Loans may require a degree of financial discipline, but this can also be more widely beneficial for organisations.

In addition to high street banks, loan providers have also emerged specifically to meet the needs of the VCS, including social enterprise. Such lenders are interested in social investment; that is, they aim to achieve not only a financial return (the sole concern of a high street bank) but also wider social benefits. With this in mind, many have developed an understanding of VCOs' needs such that they will often lend to an organisation where a high street bank may not. This includes an awareness that some VCO constitutions or legal formats may outline whether a VCO can or cannot apply for loans. This can lead VCOs to discount loan finance, however, neither of these issues is a barrier to obtaining finance. They will need to be resolved as part of the preparation process, yet many providers can offer advice and support on this.

Loans may not be appropriate for every organisation but they can be helpful to many organisations in many ways. They are useful to consider no matter what an organisation's current situation or size. The aim of this guide is to help organisations to understand these potential uses.

1 Understanding loans and other finance

> A loan is a sum of money which is lent on condition that it is repaid in the future, usually with interest.[2]

Types of finance

There are two main types of finance: debt and equity.

Debt finance

> Debt finance is investment with the expectation of repayment, usually in the form of interest.

When people talk about 'loans' they are usually referring to what is generically known as 'debt finance'. Debt finance usually comes in the form of standard loans and overdrafts. These typically require a borrower to repay the amount borrowed together with some form of interest.

Until recently, high street banks were the main providers of such finance to the VCS. The past few years, however, have seen the launch of a number of specialist lenders that focus on providing loans to the sector. These include amongst others, Charity Bank and Futurebuilders. The government has also developed Community Development Finance Institutions (CDFIs) to support economic and enterprise development in disadvantaged communities. Many of these also lend to VCOs.

Details of all providers mentioned throughout this guide are included in the Resources section.

Equity

> Equity is investment in exchange for a stake in an organisation, usually in the form of shares.

Equity investment usually exists in the form of shares issued to an investor in exchange for finance. In most cases, share capital cannot be withdrawn by the investor but can be transferred or sold to another investor. In return for this risk investors receive a share of the profits, or an agreed share of profits or payment once a certain limit of earning has been achieved.

Equity finance is less commonly used by VCOs. This is predominantly because the legal structure of VCOs typically means equity stakes in the form of shares are not available and/or inhibits the distribution of profit. However, some types of social enterprise can issue shares, and an increasing number are doing so. This can range from small-scale co-operatives raising thousands of pounds from their members, to larger ethical and social enterprises, which raise millions of pounds through public share launches. For instance, the fair trade drinks producer Cafédirect raised over £5m through an ethical public share offering. Organisations structured as co-operatives also often raise finance by selling shares to customers or other stakeholders.

[2] Social Enterprise Coalition (2004) *Unlocking the Potential: A guide to finance for social enterprises*. London.

Other forms of finance

> ‘Quasi-equity’ is sometimes used to describe mixed investments of loan, grant and equity or where a provider grants an extended period of time before requesting repayment.

For some organisations the transition straight to loans can be too great. As a response, there have been some recent initiatives to try and address this with financial products that bridge the gap between grants and loans. These are typically designed to give organisations the resources to develop and grow.

One example is what is known as ‘patient capital’. This is also known as ‘quasi-equity’, particularly if provided as a mixed investment of loan or grant and equity. Patient capital works like a loan, but the provider allows the borrower an extended period of time before requesting repayment. The Adventure Capital Fund is an example of a provider that works in this way. Another route is ‘venture philanthropy’ where a lender will give money (and sometimes this will take the form of a grant) but will also engage in a very hands-on way with an organisation with the aim of helping it to improve efficiency and effectiveness.

Differences between grants, debt and equity

For organisations with secure grant funding it can be all too easy to dismiss loans and investment as a last resort. For some organisations and in some situations, however, loans and investments can be a faster, more effective and more appropriate option than grant fundraising.

Some of the instances when loans and investments are more applicable include:

Where money is needed quickly

Assuming an organisation has developed a business plan and has its financial information in order, loans can be much quicker to obtain than grant funding. This is particularly true for loan providers – once the provider has all the information they need, turn around can be very short.

Where flexibility is required

When applying for a loan its purpose has to be stated and using the loan for other purposes can be considered a breach of agreed loan conditions. Unlike grants, however, loans do not have to be used to meet specific costs. Ongoing monitoring will be required but no more than should be happening already to ensure proper focused management of the project or organisation.

Where the project is essential

Grant rounds are competitions for a share of a limited pot of money, so the pay-off for time and effort spent on complex and lengthy applications is highly uncertain. With loans and investments, each case is assessed on its merits and an application that meets the criteria of the finance provider is likely to be successful.

Where compromise is not an option

VCOs are generally expert at squeezing project ideas into different moulds to fit different funders' criteria, but doing so can risk leading an organisation to stray from its initial aims and objectives. Many grant making bodies also prefer to fund new projects rather than established services, even though development of the latter is for many organisations the more urgent need. Loans are different. The over-riding concern of a lender is that applications include a sound plan for repayment, not whether an idea is different or matches a particular theme. Loans can be used equally for core projects. As purchasers of a 'product', borrowing organisations enjoy greater control than as dependent recipients of grants.

Repayment

The main difference is of course that loans and investments have to be repaid, or offer a return to the investor (in the case of equity). Failure to repay loans can have consequences. However, many VCS lenders and investors are specialised in serving the sector. They understand the sector and are good at assessing the risks of lending and investing. They only make loans and investments after careful assessment and to organisations that they believe will be able to use and manage them effectively. In addition, some VCS specific initiatives may offer more favourable terms than a high street bank, or consultancy support to help organisations develop.

In practice, many VCOs use loans and investments alongside grants as part of a mixed funding package. In the case of initiatives aimed at VCOs new to using loans, such as Futurebuilders, this combination of loan and grant is done on behalf of applicants as part of the assessment process.

Some of the advantages and disadvantages of these different types of funding are summarised in the table on page 4.[3]

[3] Taken from Social Enterprise Coalition (2004) *Unlocking the Potential: A guide to finance for social enterprises*. London.

Tool – Comparison table of grants, loans and equity

	Advantages	Disadvantages
Grants	• Nothing to repay. • Very useful at start-up stages of development. • Can be used to fund non-income generating activities.	• Often short-term. • Inflexible. • Increasingly difficult to access due to high competition. • Hidden costs associated with grant funding, such as time spent fundraising and reporting. • Need to account for how the money is spent.
Debt/loans	• Flexible. • Can bridge funding gaps. • Can be short, medium or long-term. • Often quicker to obtain than grants. • Fewer reporting requirements than for grants.	• Amount of loan has to be repaid with interest. • Security may be needed. • Assets can be lost if loan is not repaid.
Quasi-equity investment (also called patient capital)	• Larger sums may be available. • Often provided alongside grants and debt. • Medium to long-term.	• Can take longer to obtain than debt. • May require giving up some element of ownership, almost certainly require some level of incorporation of finance provider in the governance or management. • Currently more limited availability, often for specific purposes.
Equity investment	• Larger sums might be available. • Flexible. • Permanent. • Medium to long-term.	• Must give up ownership/control of part of the organisation. • Legal and ownership limitations for social enterprises and VCOs. • May be difficult to find investors whose interests are aligned with those of the VCO.

Summary – Understanding loans and other finance

- A loan is a sum of money which is lent on condition that it is repaid in the future, usually with interest.
- There are two main types of finance: debt and equity.
- Some new initiatives are trying to bridge the gap between grants and loans. Patient capital is an example.
- Loans can be useful where a large amount of money is needed quickly and flexibly.
- Many VCOs use loans and investments alongside grants as part of a mixed funding package.

2 How loans and other finance can help

Loans are not suitable for every organisation at all times. But, where conditions are right, they can have a tremendous positive impact. Uses to which VCOs have put loan finance include:

- Managing cash-flows and grant income cycles.
- Managing lead times between producing goods and services, selling these goods and services and receiving cash for sales.
- Kick-starting new ventures or projects.
- Organisational growth and development.
- Purchasing equipment.
- Renovating or fitting out a building.
- Purchasing property.

Managing cash-flows and grant income cycles

VCOs sometimes experience temporary gaps in cash-flow – the pattern of incoming and outgoing money over time – that can threaten their operation. A loan can help where a cycle of peaks and troughs in cash-flow is predictable over a period or where funding from another source, most commonly a grant, has been promised but not yet come through. Smaller organisations, for example, often struggle to maintain cash-flow when they are unable to claim funds for a project until each stage is completed. A loan can be useful in bridging such gaps, ensuring projects continue unhindered while an organisation awaits a grant or reclaims expenses from a funder.

Case study – Loans to manage cash-flow between receipt of funds
Heol-Galed Memorial Hall and Institute

Heol-Galed Memorial Hall is based in Camarthenshire, Wales. It has rebuilt the village hall using County Council grant funding. However, during the building phase the Hall had to settle builders' invoices before reclaiming the money from the Council. Mid-way through the project it found it increasingly difficult to meet payments, threatening completion. The Hall took out a £15,000 loan with Charity Bank to ensure work continued unhindered.

Managing lead times

Many new projects – particularly those focused on developing new products and services to sell – have a 'lead time'. A project lead time describes the period between when investment in raw materials, equipment and new expertise or capacity is made and the point at which the resulting income from these new or developing services begins to flow. Some organisations fund these outlays through external finance.

Case study – Loans to manage lead times
Allergy UK (operational name of The British Allergy Foundation), Kent

Allergy UK offers support, practical help and advice to allergy sufferers and their carers as well as training for healthcare professionals. It has used a series of loans from Charity Bank totalling £105,000. These have enabled the organisation to meet costs for the development and set up an independent 'Seal of Approval' endorsement programme to provide guidance for consumers wishing to purchase products that will reduce their exposure to allergens, such as vacuum cleaners or bedding. In addition to providing a valuable service for allergy sufferers, it also provides an important source of income for the charity.

Kick starting new ventures or projects

Loan and equity investments can be effectively used to fund new projects and allow new ventures to get off the ground. This might include covering salary payments and meeting other fees (often referred to as 'working capital') in advance of any resulting income. Loans can be useful in such situations provided the new activities have been adequately researched and will generate income for repayment or return.

Case study – Loans to kick start new ventures
Bickerstaffe Children's Services Ltd, Lancashire

Bickerstaffe Children's Services Ltd was set up in 2002 to deliver out-of-school care for primary school children in Bickerstaffe village and the surrounding rural area of West Lancashire. It is a very small organisation run by six volunteers with an annual turnover of just under £20,000.

Bickerstaffe Children's Services Ltd aims to create a sustainable Children's Centre alongside a primary school and approached Futurebuilders to help finance this. The subsequent investment of £200,000 is made up of a development grant (to enable planning and development), a working capital grant (for set-up costs in advance of opening), a bridging loan facility (to cover timing differences in the payment of other funding) and a larger loan (for purchase and set-up of a modular building and further working capital). This will be repaid and sustained from a Nursury Education grant and ongoing purchase of services.

Organisational growth and development

Expanding a VCO's work often involves development in more qualitative areas such as training staff, improving marketing or increasing customer care skills. It can also require investment in ongoing work to facilitate growth in the numbers of beneficiaries it reaches. Loans can be used to provide working capital to enable this less tangible form of development to take place which can in turn reap dividends for organisations.

Case study – Loans to finance growth
Peacemaker, Oldham

Peacemaker works to overcome fear, prejudice and segregation across Oldham. It was formed in 1997 by local people to challenge racism and promote positive cross-community engagement. It has undertaken a variety of work with local authorities, schools and voluntary and statutory bodies, particulary in the area of training. In 2005 Peacemaker decided to develop and expand its training provision and approached Futurebuilders for investment to finance this growth.

Futurebuilders provided a £720,000 loan and £200,000 grant to enable Peacemaker to recruit additional staff, improve materials through production of toolkits and extensively market its work. This will help the organisation to sell further training packages to schools and local education authories in the North West and Yorkshire and Humberside. The investment is staggered so that each time a target number of training packages are sold a further proportion of the loan is released to pay for the production of more prior to the receipt of the resulting income. Staggering the loan minimises the risk for both Futurebuilders and Peacemaker by ensuring the organisation only pays repayments on the funds as it needs them to develop.

Purchasing equipment

External finance can also be used to invest in new equipment or other assets. Many VCOs use a variety of forms of equipment – whether it is to deliver core services or support income-generating activities. Although many organisations choose to apply for grants or fundraise for this, some use loans to enable them to purchase new equipment promptly to improve services, fulfil legal obligations and/or begin new activities. A loan can be particularly useful where a substantial equipment purchase is involved, such as IT hardware, vehicles, or catering equipment.

Case study – Loans for purchasing equipment
Blockley Sports and Social Club, Gloucestershire

Blockley Sports and Social Club is a thriving club providing sports facilities and coaching for both young and old in the village of Blockley near Morten-in-the-Marsh, Gloucestershire. A £30,000 Charity Bank loan has helped the club to expand its facilities to include an all weather surface which can be used for a variety of sports.

Purchasing and renovating property

Loans (in the form of mortgages) can help to buy assets such as property that would otherwise be unobtainable. Moving to better premises or refurbishing is often a catalyst for organisational growth, allowing new projects to be developed and existing ones to expand. This growth can generate the additional income needed to repay the investment. Buying an asset with the help of a loan, rather than leasing it, can be more effective and financially beneficial in the long-term. Owning a property opens up the possibility of using it to generate additional income (e.g. from renting space) and as security to raise further finance in the future.

Case Study – Loans to purchase property
Lister Steps, Liverpool

Lister Steps provides pre-school and out of hours facilities for over 180 children per day ranging from babies through to junior school attendees. Their work addresses the barriers to those on benefits regaining or starting paid employment, enabling parents and carers to undertake training, education and hold down a job. They also provide staff to external agencies. It operates as a company limited by guarantee with charitable status.

Lister Steps needed a building from which it could operate, and funded this through a total funding package of £485,000. Of this total amount, £285,000 was debt based. £125,000 was provided by the Adventure Capital Fund (ACF) and the remainder by another community development finance provider. The only commercial bank finance available was a small unsecured overdraft – the start up nature of the business and lack of available security precluded more bank investment.

ACF initially provided a £125,000 loan with a five-year capital holiday, during which time the organisation could repay capital and interest to the other finance provider. ACF are currently restructuring the deal to enable repayment of the other provider and further investment from ACF. This should relieve cash-flow pressures. ACF has also provided support and access to specialist advice throughout the relationship.

The investment enabled a cocktail of investment to be put together totalling £485,000 with 40% through grants and donations and the remainder from finance providers. This has helped the organisation to acquire purpose built accommodation that will house several strands of childcare and other associated activity.

Summary – How loans and other finance can help

- Loans and other finance can be useful and appropriate in a number of situations and can provide benefits such as flexibility, speed and greater control over how the money is used.
- Uses to which VCS organisations have put loans and other finance include:
  - Managing cash-flows and grant income cycles.
  - Managing lead times between producing goods and services, selling these goods and services and receiving cash for sales.
  - Kick-starting new ventures or projects.
  - Purchasing equipment.
  - Renovating or fitting out a building.
  - Purchasing property.

3 Preparing for and obtaining finance

Preparing to apply for a loan or other external finance involves organisational self-awareness of readiness, business planning, and having a developed financial strategy. When applying for finance, such planning becomes invaluable. In particular, there are a number of things that finance providers will look for when they are assessing an application or working out whether an inquirer is eligible for finance.

This section focuses on these areas and identifies three key stages:

- **Pre-application** – organisational readiness for finance.
- **Preparation** – considering external, non-grant finance, ensuring eligibility and readiness to apply.
- **Securing finance** – applying for finance.

Pre-application

> Organisations likely to benefit from, and successfully manage, loans are those that practice effective planning and financial management – both in terms of understanding how a loan can help, and managing it effectively.

Loans are suitable for organisations which will subsequently have access to funds from which they can repay the loan. This may be generated from contractual work or trading, but could also be from major fundraising activity or, in the case of a bridging loan, simply when the next grant payment arrives.

VCOs should already be planning effectively, ensuring management systems are in place and thinking strategically. If VCOs are not doing this, then developing organisational planning and management processes should be the first step before considering external finance. Such plans and processes are useful not only in applying for finance, but also underpin effective grant applications and fundraising approaches. The importance of establishing such processes early on in the life of a VCO cannot be over-emphasised.

Further information on planning and financial management can be found in the *Introductory Pack Guide to Sustainable Funding* and the *Guide to Financial Management*.

Is there a financial strategy?

> A financial strategy is a plan that sets out how an organisation will finance its development, identifies what funds are required, and from where they will be sourced.

The first stage in moving towards applying for finance is identifying the need for it, and whether or not a VCO is ready to manage such funds. A key tool for recognising the need and readiness for a loan is a financial strategy.

A financial strategy is one of several strategies that contribute towards the achievement of a VCO's mission and aims. Others might include the business plan or a marketing strategy. A financial strategy is a plan that sets out how an organisation will finance its development. It identifies what funds are required and where they will be sourced.

In smaller organisations the financial and fundraising strategies are often one and the same, because fundraising is often seen as the staple income stream. Having two separate documents does, however, encourage an organisation to consider all the possible funding and financing options available to it. For example, a 'fundraising strategy' tends to focus attention on traditional fundraising from grants, donations and sponsorship, whereas a financial strategy should provide more of an overview of a VCO's funding needs and may include income (obtained or desired) from contracts, trading or loans. The financial strategy document is likely to be the initial indicator of a potential need for loan finance.

Further information on developing a financial strategy, together with a Tool outlining suggested contents is included in the *Introductory Pack Guide to Financial Management*.

Preparation

Finance can be a valuable enabler for VCOs. Nevertheless, borrowing from a bank does require a VCO to have developed effective plans, cash-flow projections, and to have weighed up the potential for undertaking income and surplus-generating projects on borrowed money against the risk of insolvency should the expected cash flows not result.

Determining if a loan is right

Before approaching a bank to seek funds, the first question to establish is: what is the money needed for and is a loan the most appropriate means of financing? Is it to:

- Undertake charitable purposes?
- Fund new developments?
- Fund working capital?
- Fund capital expenditure?
- Do something now rather than later?
- Preserve investments?
- Maintain a reserves policy?
- Bridge the receipt of grant funding?

If a VCO's need falls into one of the above categories, then a loan may be suitable. The purpose also determines the type of borrowing that might be needed and the timescale likely to be involved:

Short term – Up to one year: to cover seasonal and grant timing lags
- Overdraft.
- Bridging loan.

Medium term – One to five years: to cover medium scale development
- Leasing.
- Business development loan.
- Fundraising bridging loan.

Long term – Over five years: to finance acquisitions of capital assets
- Mortgages - normally 70% of value, but some specialists can provide 100%.
- Sales and leaseback of property.
- Social venture capital.

Is the organisational structure and constitution right?

VCOs and social enterprises can take a variety of forms and legal structures. Some have group structures comprised of several legal forms with different strategic, operational or financial purposes. The legal status of an organisation may affect how it can use different types of finance. A VCO's constitution may also outline whether it can or cannot apply for loans. Neither of these issues are a barrier to obtaining finance, but they may need to be resolved as part of the preparation process.

Company limited by guarantee

Many VCOs are structured as companies limited by guarantee (CIGs). This is the most widely used structure for a registered charity. CIGs can take out loans, but are unable to raise equity through issuing shares. There are, however, a new range of quasi or patient capital providers emerging for VCOs which are developing new ways of providing different types of finance which function like equity. These include the Adventure Capital Fund, Futurebuilders and Venturesome.

Industrial and provident societies

Some VCOs are Industrial and Provident Societies (IPS). There are two types of IPS: community benefit societies and co-operatives. An IPS has borrowing powers and can also raise equity by issuing shares.

Community Interest Company (CIC)

A new company form, the Community Interest Company (CIC) is also available, CICs are able to borrow and CICs limited by shares will be able to raise equity (with a capped return).

Other structures

Some new and smaller VCOs in particular may not have any formal legal structure or it may be that trustees are directly responsible for any liabilities incurred by the organisation. Such VCOs would need to alter their status as part of a loan application process. As a general rule, such structures are inadvisable even where organisations are not seeking finance, particularly if liability rests with trustees and is unlimited.

Regardless of legal structure, the constitution of a VCO may limit its ability to borrow or raise equity. When considering finance a VCO should review its current legal status and decide whether it has an impact on the type of finance needed. VCOs just starting income-generating activities may have some flexibility in determining legal structure, or it may be more appropriate to change the existing structure or to set up subsidiaries or affiliates. Many finance providers will advise or even assist organisations to rewrite their constitution, or to adopt a suitable legal structure as part of the due diligence assessment process within applying for a loan.

An in-depth review of legal structures for VCOs is provided by *Keeping it Legal: Legal forms for social enterprises*. See Resources section for details.

Is there a business plan?

Part of the planning process for developing a project or VCO more widely is writing a business plan. This will be requested by any finance provider. A business plan should outline the nature of, and need for, the item to be funded by the loan, covering:

- Executive Summary.
- Background.
- Management/Governance.
- Product or services for which funds are sought.
- Operating environment (may include competition, partners, market etc).
- Method of operation.
- Media and marketing strategy.
- Implementation/timetable.
- Finance requirement and other related funding obtained or sought.
- Risk analysis.
- Future prospects (including income potential of product or service).

Tools outlining how to prepare a business plan and conduct a risk analysis are included in the *Introductory Pack Guide to Sustainable Funding*.

Preparing a proposal

Once a VCO has a business plan outlining future development, knows what money it needs, has determined that a loan may be suitable, and has investigated whether its structure is suitable, it needs to prepare a proposal. This will form the basis of any application for funds to a bank or other specialist finance provider. The proposal will need to include potential budgets and cash-flow for the venture.

For further information on developing budgets and cash-flow see the *Introductory Pack Guide to Financial Management*.

Tool – Preparing a proposal for finance

Before approaching a provider for finance an organisation should work up a proposal. This should set out the aims of the loan including:

- What is to be achieved.
- At what cost.
- With what return.
- In what timescale.
- Demonstrating what the tangible and intangible benefits are.

In addition the proposal should also answer the following points:

- Investment – is the amount identified sufficient?
- How will repayment be made?

The proposal should be supported by forecasts (either for the particular project concerned, the VCO generally, or both depending on the nature of the finance sought) of:

- Income and expenditure.
- Cash-flow.
- Balance sheet (including effect on reserves).

These should be for a minimum of two years ahead.

Once the proposal information is prepared, a formal application can be made to a bank or other provider. This may require translating the information into a provider's own application form.

Any finance provider will test the process and targets a VCO describes in their business plan. They will use the business plan and proposal documents, together with financial records, financial projections and a more general assessment of the strength of an organisation to work out whether the amount requested in loans or equity is realistic and whether it can be repaid or provide a return on the investment. The key areas considered will be:

- Stage of development of the organisation.
- Market in which it operates.
- Management and capacity of the organisation to carry out its strategy.
- Organisation's self-sufficiency and/or the sustainability of grant funding.

Securing finance

> Security for a loan is usually provided through mutual agreement between a lender and a borrower. It may be one or more valuable assets belonging to the borrower, usually premises or equipment. Not all lenders require security.

Availability of security

All providers of finance – whether it is loans or equity – want to ensure that the VCOs they support will be able to afford to repay their loan or provide a return on the investment. One of the ways in which providers do this is by taking security. This gives an assurance that if things go wrong there will be other ways of getting the money back.

Not all providers will require security. In the case of many newer finance initiatives designed for VCOs, such as Futurebuilders, lack of capital assets to use as security is one of the issues these initiatives are designed to overcome.

VCOs that do have security available (e.g. premises or equipment) may find it easier to access finance, particularly from high street banks, and/or find cheaper sources of finance.

One or more valuable assets belonging to the borrower, usually premises or equipment, will, by mutual agreement, become the lender's security. These assets become 'charged', meaning that, although they remain the property of the borrower, should the conditions of a loan be broken, the lender can legally lay claim to them. Once the loan is fully repaid, the charge no longer applies and the asset can return to the borrower's full ownership.

There are two kinds of charge:

- **A fixed charge** – also known as a standard security, is a legal document granting security over fixed assets such as land or buildings. It can also apply to land and buildings under leasehold, a right of occupation granted by an owner for a set number of years.

- **A floating charge** – covers a particular category of assets, for example warehouse stock or debts owed to the borrower, the amount and value of which fluctuate. If security is called up the lender can claim everything in that category at that time. Floating charges are a bit like nets designed to catch a particular type of fish with the lender allowed only one trawl the moment a loan agreement is breached.

There are other types of security. **A guarantee** is where a third party undertakes to take over repayments should the borrower be no longer able to do so. This is less frequently used amongst VCS lenders as many organisations are unable or unwilling to provide individual guarantees (for instance from individual board members) and organisational guarantees are infrequently available. Some specialist providers, such as Charity Bank, provide a guarantor service.

Getting financial and organisational information in order

Getting financial and legal records in order for presentation to a finance provider will help VCOs to think through the implications of their proposals and whether external finance is right for them.

It will also ensure legal and financial information supports the business plan and proposal. This in turn will help speed up the application process.

While requests from a finance provider for information can seem onerous and a bit overwhelming, the information requested is often less than that required when applying for grants.

Tool – Checklist of information required by finance providers

The list below covers the most common pieces of information, but does not necessarily represent every finance provider's requirements:

- Memorandum and articles of association (may also be requested during an on-site visit).
- Two or three years of audited and management accounts.
- Five years of financial projections, ideally with three scenarios:
  – *A realistic projection* (called the base case).
  – *A worst case* (where key variables such as revenue are adjusted down by a reasonable figure such as 10% to determine the impact on finances and viability).
  – *A best case* (again where key variables are adjusted up by a reasonable figure such as 10% to determine impact on finances and viability).

  For example, if revenues in year one are anticipated to be £100,000 with net income at £5,000, a VCO needs to consider what would happen if revenues are only £90,000 or if they rose to £110,000. What would happen to net income and cash available to pay financial costs?

- Organisational structure.
- CVs of key employees and board members.
- Project description/proposal.
- Business plan and/or strategy.

Demonstrating financial and social returns

The majority of finance providers included in the directory in this guide are like the VCS in that they are organisations trading with a social mission. Their aim is to provide financial services to organisations that are unwilling or unable to access finance from the mainstream banking sector.

The primary aim is to ensure that they can help organisations prosper and grow by providing the right types of finance (often in partnership with grant givers as well as banks) at the right price, designed in the right way. They will focus on organisational and financial skills and abilities within their assessment of any proposal, but also on the broader social, community and/or environmental impacts of the organisations they support.

They are likely to ask VCOs to articulate their mission and aims and look for evidence that these flow through the organisation. They are also likely to value and understand that high social impact can take longer and be more expensive to deliver.

As well as clearly articulating a VCO's financial proposal it is also important to these finance providers to demonstrate how the money they provide will help achieve social benefits.

Building a relationship

Organisations should also expect to build a relationship with any potential lender, in the same way that they might with a funder. The due diligence process of any loan application assessment (comparible to the assessment stage of grant applications) may include the need to demonstrate the capacity to manage a loan. This may extend to inviting a finance provider representative to a Board or Committee meeting and facilitating an on-site visit. Developing a sound working relationship can also be useful if a loan needs to be renegotiated or increased later on.

Summary – Getting ready for external finance

- A financial strategy is a plan that sets out how an organisation will finance its development, identifies what funds are required, and from where they will be sourced. Indications of potential need for a loan should be first identified here.
- VCOs should ensure their legal status and constitution permits them to borrow; if not this may need amending.
- A business plan and proposal will be needed for loan applications.
- Finance providers will test the process and targets described in the business plan and proposal to determine whether the amount requested is realistic, can be repaid, and will provide a return.
- Lenders may request security for a loan, usually in the form of one or more valuable assets such as premises or equipment.
- Some Lenders Focus on broader social, community and/or environmental impacts of the organisations they support in addition to any financial return.
- VCOs should expect to build a relationship with any potential lender.

4 Finance providers

There are many more providers of external finance than high street banks. This section introduces the range of lenders available, including some VCS dedicated schemes. The Resources section includes further details of those mentioned.

High Street Banks

Borrowing from a high street bank has become much easier for VCOs in recent years as the banks have began to understand how VCOs work and in some cases have established specialist units. In most cases a bank will look both for a commercial return on any investment and will ask for security against any loan. This latter requirement is why many VCOs find obtaining bank loans difficult. As a consequence, many new initiatives such as Charity Bank, Futurebuilders and some of the others outlined below aim to work around this requirement.

Community Development Finance Institutions (CDFIs)

Community development finance is the provision of debt and equity finance (loans and shares) to communities or markets that mainstream banks are unable to assist. It is a new and growing area crossing the traditional finance industry with the community development movement.

Community development finance institutions (CDFIs) thus provide capital and business support to individuals and organisations, including VCOs that are often refused these services by mainstream providers. They lend and invest in areas and markets that cannot access mainstream finance from banks. They are sustainable, independent organisations that provide financial services with two aims: to generate social and financial returns. Some CDFIs focus predominantly on the economic development of particular disadvantaged communities or social enterprise whilst others (such as Charity Bank) are national providers lending solely to charities.

For VCOs unable to provide security against investments they are the most likely sources of loan finance. In the case of the VCS, they can be a valuable source of financial support for developing income generating activities. This might be through the purchase of a property which will be subsequently rented out, or in order to provide start-up capital for schemes which will generate income.

The Community Development Finance Association is the trade association for CDFIs. Its directory of members covers all CDFIs, including the providers of tailored finance detailed below. The directory is included in the Resources section.

Tailored loan/grant finance initiatives

Tailored finance initiatives combine different types of funding (typically loans and grants) to meet the different needs of VCOs during development. In practice many VCOs use loans alongside other forms of funding, these initiatives simply do the combining on the VCO’s behalf. As with CDFIs such as Charity Bank, they are particularly suitable for organisations new to loans that would benefit from working closely with providers to tailor finance to meet their individual needs.

Below is an overview of two of the better-known VCS tailored finance providers. Both are relatively new and, depending on long-term success, could be something the sector sees more of in the future.

Futurebuilders

Futurebuilders provides individually tailored finance packages combining loan, grant and capacity-building elements (e.g. consultancy) for VCOs working in public service delivery. They use different funding types to meet different organisational needs. For example, the loan element of an investment might be offered to finance building work or to provide working capital for a service that will ultimately generate income. A grant may be offered to pay for a new manager for an expanding venture, or to pay for staff training in contract negotiation. The loan element does however make up the largest portion of any investment.

Futurebuilders' website (details in directory below) provides a description of the type of finance available. It includes useful outlines of schemes which have received investments, lists potential service purchasers, and includes general guidance on writing business plans, producing cash-flow forecasts, and approaching potential service purchasers.

Adventure Capital Fund

The Adventure Capital Fund works similarly to Futurebuilders in providing a tailored finance package. It focuses on supporting social enterprise (trading) activity rather than public service delivery. It also provides mentoring and support services to help organisations with the change and development issues often associated with starting trading activities and managing loans. Details of its assessment criteria are provided below. Website details are given in the directory in the Resources section.

Case study – Starting to use loans through tailored finance packages
Doncaster Refurnish, Doncaster

Doncaster Refurnish collects and distributes recycled furniture and other household items within Doncaster. Customers are mainly people on low incomes. Refurnish are a company limited by guarantee and have grown from a base of 5 in 2003 to 19 full-time staff and 5 intermediate labour market employees in 2006.

Several commercial businesses started to donate high-quality end of line and surplus stock to Refurnish for them to sell. Refurnish wanted to investigate the potential for this project by conducting an in-house feasibility study with professional support and producing a business plan for development. However, Refurnish was unable to fund the costs of the development plans out of its own resources and the pre-development nature of the project meant it was inappropriate to use a bank loan.

Refurnish contacted Key Fund South Yorkshire (KFSY) for a grant of £2,520 to bring in a consultant to support them in finalising their feasibility study and business plan. Having received funding to develop their proposal, Refurnish went back to KFSY for support to develop a tender pack. The aim of the pack was to give prospective partners and clients, whether from local authorities or national and local businesses, the information required to assess the suitability of Refurnish to be included on tender lists and compete for contracted business. This would enable Refurnish to secure new contracts and deploy their donated products. In May 2005 KFSY provided further support with a Growth Fund finance package of £20,000 grant and £10,000 loan at 6.75% interest rate with a total of £11,350 payable upon maturity. The loan element of the award was repayable over two years with a three-month payment holiday at the beginning to dovetail with lead in times on the tender pack development.

As a part of their long-term plans, Refurnish want to develop an asset base, and diversify into residential and commercial property letting to VCOs and social enterprises. The income generated will reduce the contribution made by state aid and improve their capacity to become self-sustainable.

To pursue these plans Refurnish again contacted KFSY for finance to purchase and refurbish a first property. In April 2006 they received a grant of £20,000 and a secured loan of £60,000 at an interest rate of 6.5% with a total of £71,700 payable upon maturity over five years for property purchase.

KFSY's packages of grants and loans have enabled Refurnish to develop and diversify income-generating activities. The tapered approach to borrowing complemented by grants has also helped introduce the organisation to borrowing, developing their confidence and ability to manage external debt.

Investment decision criteria

Lenders and investors often have checklists of material they require or things they want to see. Understanding how lenders and investors make decisions will help VCOs get ready for finance and make applying quicker, easier and more likely to be successful.

Many commercial lenders make decisions based on an acronym – CAMPARI:

C – Character	Who is the customer?
A – Ability	Can they do what they say they can?
M – Means	What assets do they have? Is there any security?
P – Purpose	What will the money be spent on?
A – Amount	Too little? Too much? Multiple funding streams?
R – Repayment	Will the business be able to afford it?
I – Interest	What rate is appropriate given the risks/potential for success?

By contrast, many grant-makers concentrate on what their grant buys – activities, outputs and impact, to name but three. The long-term success of an organisation is of less importance than the project being funded.

Grant-makers also tend to fund for one, two or three years, leading organisations to spend a lot of time securing ongoing funding and causing peaks and troughs in service delivery. Commercial lenders normally invest over ten or more years for asset purchase and even overdrafts, which although repayable on demand, are in reality long-term facilities.

The Tool below highlights the main issues considered in the decision-making process. Although based on the processes of one provider (Adventure Capital Fund), the principles are relevant when approaching any finance provider.

Tool – Checklist of investment decision criteria

The following table is a guide to the main issues considered by Adventure Capital Fund in its loan application assessment process. It uses the CAMPARI approach as a starting point. Ensuring a VCO has addressed all the issues outlined here is a good starting point for applying for finance.

	What we look at	What we're looking for
Customer	Legal status, board members, main staff.	That a VCO is properly constituted, with a board that is fully engaged with the organisation and the project we're asked to fund – after all, it's the board that has the legal responsibility for any agreement. Day-to-day management needs to be handled by competent and effective staff.
Ability	Governance, experience, skills.	What systems are in place? Is there regular management information – financial and otherwise? Does the VCO know (or can it find out) how well it's doing at any given time and what to do if things are going wrong?
Means	Is there security available?	If funding is required for a major expansion involving a building, or if the project is particularly risky, security may be sought. Often this is to ensure the provider is part of any round table discussions in the future as much as for any wish to realise (sell) the security to repay a debt – and it means the provider might be able to stop other lenders so doing. Not having security available is not necessarily a deal-breaker and many providers will not ask for personal security – but remember, if trustees or directors act without due care, they can become personally liable for debts.
Purpose	What will our investment be spent on?	Property? Salaries? Equipment? To cover early losses? A provider will look at all requirements and take a view on what they can fund. Some providers can fund aspects of a project that other funders can't.
Amount	Is the request for the right amount? Are other funding streams confirmed or likely to be?	Is it too much or, just as likely, too little? How firm are capital costs etc? Who else will be investing and are they committed? Can the provider work with them to overcome difficulties in funding packages? What percentage of total costs are they being asked to fund?

	What we look at	What we're looking for
Repayment	Financial – can they afford it now or within an agreed time limit? Social – what impact does the project have? Impact on the organisation?	Is the investment going to help a VCO's work? For example, a £1.5m building project should generate a reasonable surplus when in use – otherwise an applicant might as well put the money in the bank and use the interest (about £60,000 a year) to fund community activity. Don't aim for break-even in the organisation long-term – VCOs need surpluses to grow and develop even after repaying a loan. Some lenders are very interested in social impact – if the investment is a splash in the pond, what are the ripples and how they be measured?
Interest	Fixed rate or variable?	Commercial lenders vary these depending upon their assessment of risk and the security available. For deals between £50,000 – £500,000 they might vary between 2.5% and 5% over bank base rate (7 – 9.5% total). CDFI's are often higher reflecting risk and delivery costs. Some such as Futurebuilders and Adventure Capital Fund ask for around 6%.

Summary – Finance providers

- There are many more providers of external finance than high street banks.
- Other providers include CDFIs and tailored finance initiatives such as Futurebuilders and the Adventure Capital Fund.
- Understanding how lenders and investors make decisions will help VCOs get ready for finance and make applying quicker, easier and more likely to be successful.

5

5 Where next?

Loans are not an income source, but a financial tool or enabler. They can help VCOs in many ways. They may be an option where a large sum of money is needed, to bridge gaps between receipt of grant payments, or to enable projects to move forward during the time taken to raise capital from more traditional fundraising methods. They can be particularly useful where waiting while money is raised will mean an organisation misses a valuable opportunity. In short, they provide an injection of cash that makes things happen now.

The information and Tools contained within this guide are intended as a starting point to help organisations in thinking through what might be involved in considering loans or other finance and applying for it. Further Tools will be available in the *Finance Hub Toolkit for Funding Advisors* due for publication early in 2007. The *Toolkit* will complement the information contained in the *Introductory Pack* guides to provide a working support pack of resources to enable VCOs and their advisors to work together in thinking through funding options.

For organisations in need of support to explore finance options a first point of call should be local agencies such as Councils for Voluntary Service (CVS); these can be located via the NAVCA website as listed in the resources section. Advisors can assist groups by discussing ideas, assisting with developing business plans or applying for finance. Advisors should be able to signpost to specific finance providers and other relevant professional specialists (e.g. legal advisors). In addition, a number of useful resources including support agencies, publications and websites are included at the end of this guide. Many of the CDFIs listed in the directory will also be willing to discuss finance options with potential applicants in advance, and may even signpost to more suitable providers if they are unable to invest.

Prior to meeting with an advisor or a CDFI, it may be useful for organisations to use some of the Tools included here and to have considered potential financing options. This will provide a starting point an advisor or CDFI representative can build upon to ensure organisations get the most out of any advice session.

Although loans may not be appropriate for every organisation they can be helpful to many VCOs and in many ways. They are useful to consider no matter what an organisation's current situation or size.

Key words and phrases

Community development finance institutions (CDFIs) – CDFIs are a new financial tool for social, economic and physical renewal in under-invested communities. They lend and invest in areas and markets that cannot access mainstream finance from banks. They are sustainable, independent organisations that provide financial services with two aims: to generate social and financial returns.

Debt finance – investment with the expectation of repayment, usually in the form of interest. Generic term for standard bank loan.

Equity – investment in exchange for a stake in an organisation, usually in the form of shares.

Financial management – discipline of systems, processes and tools used to ensure funds are available when needed and that they are obtained and used in the most efficient and effective way to the benefit of an organisation.

Financial strategy – a plan that sets out how an organisation will finance its development, identifies what funds are required, and from where they will be sourced.

Full cost analysis – understanding and calculating the full costs of a project or service, where the full costs of a project or service equal the direct costs of the project or service plus a relevant share of overheads.

Full cost recovery – means funding, or ‘recovering’ the full costs of a project or service.

Income diversification – having a range of income sources so as to avoid reliance on any one of them.

Quasi-equity – sometimes used to describe mixed investments of loan, grant and equity or where a provider grants an extended period of time before requesting repayment.

Security – one or more valuable assets belonging to a borrower, usually premises or equipment, that a finance lender takes a charge over through mutual agreement between the lender and borrower during the period of any loan.

Further support and resources

Directory of CDFI registered providers

This directory includes details of a variety of local, regional and national providers. It includes some rural and BME focused providers. It lists contact details and a brief description of what they will finance and what products they offer. Some will invest in any VCO activity, some in social enterprise busineses or VCOs developing social enterprise (trading) activitiy only.

Adventure Capital Fund
T: 020 7488 3455
E: info@adventurecapitalfund.org.uk
W: www.adventurecapitalfund.org.uk

Provides combined packages of loan, grant and support for organisations wanting to become more self-sufficient through using enterprise without losing sight of their core mission. Provides investees with mentoring and support services to help with associated organisational change and development. Aims to encourage organisations to use different types of finance to begin moving away from sole reliance on grants. Website also includes an array of development and monitoring tools to help VCOs manage the changes necessary to become a sustainable community organisation.

Aston Reinvestment Trust (ART)
T: 0121 359 2444
E: reinvest@gn.apc.org
W: www.reinvest.co.uk

Provides loans to start-ups and existing businesses and social enterprises in the Birmingham area that are unable to secure it via conventional sources. Borrowers range from sole traders, partnerships and limited companies to registered charities. Aims to provide job opportunities and contribute to regeneration, particularly in the most needy parts of Birmingham and neighbouring areas including North Solihull. Loans from £2,000 to £50,000 with repayment terms varying from six months to ten years. The average loan is around £20,000. Will lend on its own or in partnership with others.

BIGInvest
T: 020 7953 7814
E: info@biginvest.co.uk
W: www.biginvest.co.uk

BIGinvest is a national wholesale fund for the CDFI sector. In addition to providing loans to other CDFIs, BIGinvest provides loans directly to social enterprises, complementing local CDFIs. These loans are aimed at sectors that may require specialised underwriting skills as well as larger deal sizes than typically offered by other CDFIs.

Black Country Reinvestment Society Ltd
T: 0121 359 2444
E: enquiries@bcrs.org.uk
W: www.bcrs.org.uk

Provides loans to new and existing small businesses and social enterprises in the Black Country and Southern Staffordshire region that make a positive contribution to the social and economic well being of the area and that cannot access mainstream finance. Loans range from £10,000 to £50,000 with repayment terms from one to five years.

Business Enterprise Fund
T: 01274 207 217(Bradford)
0113 247 0000 (Leeds)
E: info@befund.org
W: www.befund.org

Offers loans to anyone with a viable business proposition who is unable to access finance from traditional sources, such as high street banks. Finance is also provided where businesses need to top up investment from other sources, which could include traditional sources. Loans of between £500 and £15,000, repayable between one and three years, with the possibility of a capital repayment holiday of up to six months. Typical APR is 10.6% or 5% over the Bank of England base rate. Borrowers are required to make use of the Business Enterprise's mentoring services. This is charged at £45 per hour with a minimum charge of £180 per month.

Business Finance North West
T: 01204 546 600
E: info@bbvonline.net
W: www.bbvonline.net

Provides support encouragement and development to entrepreneurs and growing organisations in North Manchester. Services include information and advice on all aspects of running a business, mentoring and networking as well as provision of loan finance for traditional businesses, social enterprises and community organisations. Loans are available to assist start-ups and existing businesses. There is also a specific Loan fund to assist women in business as well as help with crèche facilities managed workspace and confidence building – see www.eveworks.net. Also operates an Ethical Loan Fund, which is Sharia compliant.

CapitaliSE
T: 01642 649 801
E: john@capitalisenortheast.co.uk
W: www.capitalisenortheast.co.uk

A £1m loan fund which provides an information and signposting service for social enterprises seeking loan finance and a 'Money with Management' support scheme for social enterprises that access loan finance. To be eligible, organisations must be located within the North East region, be a social enterprise or community-based organisation and have a business idea suitable for loan finance.

Capitalise Business Support Limited
T: 0845 601 8326
E: info@capitalise.org
W: www.capitalise.org

Works across Sussex and into Kent covering the districts of Ashford, Folkestone and Maidstone. Supports start-up and established small and medium-sized enterprises, as well as social enterprises. Eligible organisations must have been declined finance through mainstream lenders. Loans of between £3,000 and £25,000 with repayment periods of six months to five years. Each customer gains a business mentor for the lifetime of the loan.

Charity Bank Ltd
T: 01732 774 050
E: enquiries@charitybank.org
W: www.charitybank.org

A fully authorised bank and a registered charity. Provides finance to charities, social enterprises and VCOs where the aims are charitable. Also offers depositors a social as well as a financial return. Loans or guarantees from £3,000 up to £500,000 for projects that the banks are either unwilling to consider or when their terms are too onerous. Larger loans can be arranged among several lenders or placed in the commercial market.

Co-operative and Community Finance
T: 0117 916 6750
E: info@co-opandcommunityfinance.coop
W: www.icof.co.uk

One of the country's oldest CDFIs, set up more than 30 years ago to widen access to finance for cooperatives. Also lends to other enterprises, which practise or support the principles of co-operation, common ownership, community or social ownership and equal opportunity or workplace democracy. Operates a number of loan funds throughout the UK. The majority cover larger geographical areas, such as the West Midlands or parts of South Wales. Some are designed for specific cities, such as Manchester. For areas not covered by these funds, it operates a national fund for worker cooperatives. Loans offered usually range between £5,000 and £50,000.

Coventry & Warwickshire Reinvestment Trust (CWRT)
T: 0845 606 6216
E: enquiries @cwrt.uk.com
W: www.cwrt.uk.com

Provides loans to organisations improving the sub-region in terms of employment, the wider economy, service provision or the environment. Loans of £500 to £40,000 can be granted to sole traders, partnerships, not for profit companies, limited companies and charities who are based in, or operate primarily in, Coventry or Warwickshire. Loans are granted based upon the impact they will have on the area and the ability of the business or organisation to meet the agreed repayments.

Cumbria Community Asset and Reinvestment Trust Ltd (CART)
T: 01768 869 514
E: enquiries@ccart.org.uk
W: www.ccart.org.uk

A rural CDFI serving entrepreneurs, existing businesses and social enterprises throughout Cumbria who are unable to obtain finance from mainstream lenders. The applying organisation must be based in or operate from Cumbria. Offers two types of loan. The Enterprise Loan is aimed at start-up businesses and ranges from £500 to £5,000 repayable over a maximum period of 36 months. The Business Development Loan is available over a maximum period of 60 months for amounts between £5,001 and £30,000.

Derbyloans
T: 01332 365 550
E: info@derbyloans.co.uk
W: www.derbyloans.co.uk

Provides finance to individuals, community enterprises and both start-up and existing businesses that struggle to access mainstream finance. Offers personal loans within the city of Derby and community/business loans to organisations based within 20 miles of the city. Aims include helping people without a business or banking track record set up their own enterprise. Most loans are in the range of £2,000 to £8,000. It works closely with other business support organisations and most loans are charged at 12% APR, except for very small loans.

DSL Ltd
T: 0141 572 5551
E: info@dsl-businessfinance.co.uk
W: www.dsl-businessfinance.co.uk

Provides financial support to small businesses and social economy organisations operating in West Central Scotland that can demonstrate commercial viability but can't raise all the finance they need from traditional sources. Loans of up to £30,000 where it can be the sole lender or form part of a package. Repayment can be over five years and there are no penalties for early repayment.

East Lancashire Moneyline (IPS) Ltd (ELM)
T: 01254 696 203
E: elmoneyline@btconnect.com
W: www.elmline.co.uk

Provides affordable and accessible credit to local individuals and businesses unable to obtain help from mainstream banks. Also works with two local banks to give customers access to bank accounts, and with other local organisations to provide debt advice and more general financial help. ELM offers loans across East Lancashire. Loan sizes and repayment terms are decided on a case-by-case basis. To date, loans ranging from £65 to £50,000 have been made.

Enterprise Credit Union
T: 020 8366 8244
E: nlec@entreprise.uk.com
W: www.nlec.co.uk

Supports groups currently under represented in businesses, including women, black and minority ethnic groups, people with disabilities, ex-offenders and former children in care. Normally requires its members to have saved money with it for three months before a loan can be made but some are considered earlier than this. In general, the credit union offers loans of up to five times what has been saved. Interest is charged at 1% each month.

Enterprise Loan Fund Ltd
T: 01474 327 350
E: info@elfund.co.uk

Provides loans to start-up and growth enterprises in both the commercial and social sectors in North Kent that cannot access funding from mainstream sources. Close association with the Enterprise Agency of North Kent which provides business support to clients. Loans to micro-enterprises of £500 to £5,000 for start-ups and up to £15,000 for established organisations.

Finance Wales
T: 029 2033 8100
E: info@financewales.co.uk
W: www.financewales.co.uk

Operates throughout Wales offering loans and venture capital to new and growing small and medium-sized businesses and social enterprises. The business should be able to demonstrate its commercial potential in a business plan. It must also be creating and or preserving jobs. The support provided includes loans, equity and mezzanine financing.

First Enterprise Business Agency (FEBA)
T: 0115 9423 772
E: rtyas@first-enterprise.co.uk
W: www.first-enterprise.co.uk

Provides loans to existing and start-up businesses within the East Midlands Objective 2 areas which are unable to access finance from mainstream sources. Particular emphasis on black and minority ethnic (BME) businesses and enterprises that help tackle social exclusion. The fund makes loans of up to £20,000 to be repaid over two to five years. Applicants must have lived in or have had a business in Nottingham for at least 18 months and must be able to raise at least 30% of the investment required from other sources.

Foundation East
T: 01284 757 777
E: info@foundationeast.org
W: www.foundationeast.org

Provides loans to any start-up or existing enterprise unable to access mainstream finance in Suffolk, Cambridgeshire, Norfolk or Essex. Loans of between £1,000 and £50,000 for existing or new enterprises, including social enterprises. Terms of loans can be arranged anywhere between six months and 10 years.

Futurebuilders England Ltd
T: 0191 261 5200 or 020 7927 6340
E: info@futurebuilders-england.org.uk
W: www.futurebuilders-england.org.uk

Futurebuilders England is a £125m Government-backed investment fund for developing the capacity of the VCS to deliver public services in England. Invests in projects that deliver public services in one or more of the following areas: community cohesion, crime, education and learning, health and social care and children and young people. Combines the four roles of bank, venture capitalist, grant maker and consultancy broker into one. A loan will provide the major part of every Futurebuilders investment, but there is also likely to be an element of grant and sometimes a performance related investment. Investments sometimes include funding for organisational development through consultancy support to help strengthen particular aspects of an organisation's operations.

Gloucestershire Development Loan Fund
T: 01452 544938
E: info@gdlf.co.uk
W: www.gdlf.co.uk

Targets financially disadvantaged groups, individuals and their wider communities by helping economic development and regeneration, where a lack of access to loans hinders business and enterprise. Offers unsecured loans to start-up and expanding small businesses and to social enterprises based in Gloucestershire. Loans between £500 and £9,500, repayable at a fixed interest rate over one to five years. Support funding can be accommodated under Sharia Law. Advice can be given in how to prepare business plans and develop ideas. Mentoring is given throughout the loan period.

HBV Enterprise
T: 020 7241 7071
E: mail@hbv.org.uk
W: www.hbv.org.uk

Offers loans to enterprises in seven London Boroughs: Hackney, Camden, Islington, Barnet, Enfield, Haringey and Waltham Forest. No restrictions on the enterprises supported provided applicants can show evidence of being viable through a robust, up-to-date business plan, and is unable to raise all its finance requirement from mainstream sources. Offers fixed rate loans for up to 5 years, from £3,000 to £25,000. Provides 'Access to Finance' consultancy support across London, and a wide range of enterprise support including training, advice and managed office space to start-up and existing enterprises in Hackney and beyond.

Impetus
T: 01684 893 883
E: info@impetus-marches.co.uk
W: www.impetus-marches.co.uk

Impetus' aim is to improve the economy and environment of the rural areas in which it operates for the benefit of all the people who live and work there. It currently works in Herefordshire, Worcestershire and Southern Shropshire. Impetus offers enterprise finance, making loans to applicants who are unable to secure finance from mainstream lenders. Impetus offers loans of up to £40,000, repayable over a period from six to 10 years. The loan can be for any number of purposes, including covering business start-up costs or to help an existing business manage its cash flow. Alternatively, loans might be used to turn someone who is unemployed into someone who is self-employed.

Key Fund (South Yorkshire)
T: 0114 2493 469
E: info@sykeyfund.org.uk
W: www.sykeyfund.org.uk

Offers funding to social economy organisations – including social enterprises and VCOs – primarily in South Yorkshire. Consideration also given to applications from organisations throughout Yorkshire and Humber. Provides a range of grants, loans and patient capital, starting from small grants of £1,000 to support activities to increase employment skills and encourage social renewal. Packages of up to £100,000 available to enable applicants to become self-sustaining by becoming competitive in the market place. Co-investment with partner organisations enables the Fund to broker debt finance of up to £250,000.

Lincolnshire Development
T: 01522 550619
W: www.lincolnshire.gov.uk

Provides finance to disadvantaged individuals, including the unemployed, disabled and ex-offenders and to community groups starting up or expanding businesses in Lincolnshire. Loans also available for community enterprises undertaking some form of trading activity. The initiative works in partnership with Barclays Bank offering loans from £500 to £20,000 over a maximum of five years.

Local Investment Fund (LIF)
T: 020 7680 1028
E: information@lif.org.uk
W: www.lif.org.uk

Provides loans to not-for-profit community enterprises unable to secure funds from traditional sources. These include social enterprises, charities and VCOs. Loans of between £10,000 and £250,000 available to projects and organisations across England. Operates community loan funds in each of the English regions. The regional funds make loans of between £15,000 and £100,000.

London Rebuilding Society (LRS)
T: 020 7682 1666
E: jacklyn.awobayikun@londonrebuilding.com
W: www.londonrebuilding.com

Provides loans and financial services to support social and ethical enterprises and VCOs in London. Offers support to applicants in preparing investment proposals and strategy for developing sustainable enterprises. Four loan products exist, offering organisations between £5,000 and £250,000. These are the Social Enterprise Fund (SEF); Assistance and Business Loans for Ethical Enterprises (ABLE); the Mutual Aid Fund (MAF); and the LDA/Barclays Bank Growth Fund for Social Enterprise, which is managed jointly with Co-operative and Community Finance, providing loans from £50,000 to £250,000.

Merseyside Special Investment Fund Ltd
T: 0151 236 4040
E: info@msif.co.uk
W: www.msif.co.uk

Offers loans and venture capital to new and growing businesses throughout Merseyside. Applicants must demonstrate commercial potential and be creating or preserving jobs. Supports start-ups, expansions, management buy-out and buy-ins. Also offers rescue packages in some circumstances. Loans and equity packages from £3,000 to £3m and business support provided alongside the finance. Operates three main funds: MSIF Small Firms Fund for loans of up to £150,000; MSIF Mezzanine Fund for loans with an equity option of up to £1m, and MSIF Venture Fund for equity packages of up to £2m.

Norfolk & Waveney Enterprise Services
T: 01493 850 204
E: gy@nwes.org.uk
W: www.nwes.org.uk

Offers support to anyone looking to enter self-employment with loans from £3,000 to £30,000 through a programme called NWES Advance. Also provides high-quality workspace and free, impartial advice for business start-ups. Runs the award-winning Best Start Programme for potential entrepreneurs, covering subjects like market research, book-keeping and how to write a business plan. A Business Volunteer Mentoring scheme allows enterprises to learn from those already in business.

Salford Money Line (IPS) Ltd
T: 0161 736 6500
E: mikewhitnall@btopenworld.com
W: under construction

Provides a range of loan products for individuals and businesses unable to obtain finance or banking facilities from mainstream banks. Loans from £50 to £25,000 with a loan fund dedicated to community businesses. Business loans split into three categories: Enterprise Link Loan, Supporting Local Business Loan and the Getting into Business Loan.

Sandwell Advice & Moneylink
T: 0121 553 3110
E: arun.budon@googlemail.com
W: under construction

Provides affordable loans, access to various help and advice services and money management guidance. Also assists anyone interested in setting up their own business or who needs access to finance in order to expand. Loan products include Business Start-up Loans of £100 to £5,000 over a maximum of 60 months for business set up costs; and business loans of £500 to £10,000 over 120 months to help with expansion/development.

S.E.N.E.T
T: 01670 811 690
E: rolandbell@senet-ict.co.uk
W: www.senet-ict.co.uk

Offers loans to businesses and social enterprises across Northumberland. Loans can be from £1,000 to a maximum of £15,000. The maximum term for repayments is five years.

Social Investment Scotland (SIS)
T: 0131 558 7706
E: info@socialinvestmentscotland.com
W: www.socialinvestmentscotland.com

Offers finance to social enterprises including trading arms of charities, community businesses, cooperatives, social firms, charitable trusts and social landlords. Applications are assessed according to social impact, economic viability and management capacity. Loans of £10,000 to £200,000 for one to seven years at rates fixed over the life of the loan. Property loan repayment can be extended to 10 years. Loans available for facility finance, such as an asset purchase or development; operational finance, for working capital; and bridging finance, for gap funding over three months to one year. Business development advice and assistance during the loan process is provided to all customers.

South West Investment Group (SWIG)
T: 01872 223 883 (Cornwall)
01392 314 603 (Exeter)
E: info@southwestinvestmentgroup.co.uk
W: www.southwestinvestmentgroup.co.uk

Provides loans to social enterprises, SMEs, microenterprise or high growth businesses across the South West. The Cornwall Business Development Funds offer interest-free loans of up to £50,000 for eligible manufacturing and service businesses that 'export' their service beyond the Cornwall Objective One region. The Cornwall Women Into Business Fund offers loans of up to £5,000 for new and early-stage businesses owned by women in the South West. The Devon Business Support Fund offers loans of up to £20,000 for start-ups and SMEs in the Objective Two areas of Devon. The Phoenix Business Development Fund offers loans of up to £20,000 for new and early-stage businesses in the South West.

The Enterprise Fund Ltd
T: 0161 245 4977
E: info@enterprisefund.co.uk
W: www.enterprisefund.co.uk

Provides loans to entrepreneurs and social enterprises located in Greater Manchester or Cheshire area that struggle to raise loans from mainstream lenders. Loans up to £30,000 available to start-up and existing companies. Aims to prove that many businesses refused finance can succeed and seeks to progress these to 'bankable status'.

The Prime Initiative
T: 020 8765 7851/33
E: prime@ace.org.uk
W: www.primeinitiative.org.uk

Set up by Age Concern to give people over the age of 50 years old access to finance to set up in business. Applicants must be over 50, have been turned down by mainstream banks, not yet trading or in paid work and have a viable business plan. Loans up to £5,000, or up to £10,000 for a partnership. Applicants receive free advice and help with preparing their business plan, and mentoring for the three year term of the loan.

The West Yorkshire Enterprise Agency Limited
T: 01484 438 800
E: enquiries@wyea.co.uk
W: www.blwy.co.uk

Small loan fund for clients who find accessing mainstream finance difficult or impossible. Loans can assist start-up or existing businesses, with the minimum available being £500 and the maximum £20,000. The maximum repayment period for any loan is three years.

Triodos Bank
T: 0117 973 9339
E: mail@triodos.co.uk
W: www.triodos.co.uk

Lends to organisations creating real social, environmental and cultural value – charities, social businesses, community projects and environmental initiatives. Offers term loans, working capital loans, overdrafts, bank guarantees and other forms of credit facility. Credit facilities can be arranged for up to £10m. Each application is assessed on a case-by-case basis using its knowledge and understanding of organisations that promote positive social change. Also runs a loan fund for organisations working with disadvantaged groups or based in deprived areas.

Ulster Community Investment Trust (UCIT)
T: 028 90 315 003
E: info@ucitltd.com
W: www.ucitltd.com

Supports social enterprises throughout Northern Ireland in both rural and urban areas. Examples of eligible organisations include Local Enterprise Agencies, housing associations, community-based rural development and tourism projects, community groups which let business/retail units or accommodation and not-for-profit private/ community sector partnerships established to regenerate run-down areas. Provides flexible finance for social enterprises with loans, equity investments and free support and mentoring. Loans between £25,000 and £500,000.

Urban Partnership Group
T: 020 8746 2120
E: upg1@urbangroup.co.uk
W: www.urbanpartnershipgroup.co.uk

Operates in the London Borough of Hammersmith, Fulham and Brent. Provides finance and business support for social enterprises, capacity building in the VCS and socially excluded people. Special emphasis given to single parents, women and asylum seekers. Business support in the form of advice, guidance and training workshops also provided.

Venturesome

T: 020 7832 3000
E: venturesome@cafonline.org
W: www.venturesome.org

Provides unsecured loans, underwriting and investment capital for charities throughout the UK (including those with international work), with emphasis on high social impact. Charitable organisations do not have to be registered charities. Offers loans and other types of investment from £25,000 to £200,000 repayable over usually three years. Interest on loans is decided individually for each organisation. Provides support for three types of funding needs: pre-funding of fundraising (bridging loans), working capital (underpinning cash-flow) and development capital (building new streams of income generation). Support may be in the form of an underwriting facility, equity, or an equity-like facility.

WEETU – Full Circle Fund

T: 01603 767 367
E: info@weetu.org
W: www.weetu.org

A micro-credit programme based on 'peer lending'. This enables women without assets or reliable income to participate in business skills training and access small loans towards setting up a business. Priority is given to women at most disadvantage with particular focus on women returning to work, disabled women, lone parents and those with few or low levels of qualifications. First loans of up to £1,500 and second loans of up to £2,500 are available. Also assists with childcare and travel costs for participants.

Wessex Reinvestment Trust Group

T: 01392 332 853
E: enquiries@wessexrt.co.uk
W: www.wessexrt.co.uk

Offers finance to people in rural communities across Devon, Dorset and Somerset. Aims to bridge the finance gap that high street banks cannot meet alone. Provides loans for rural enterprise, small businesses, social enterprises and for housing of between £1,000 and £30,000 for start-up or expansion. Access to property and workspace also offered. Support and technical advice is given on developing community property and land.

Loan finance specific advice and support

Charities Commission's risk assessment toolkit – helps to identify organisational risk and to plan preventative action. Available on the Commission's website. See www.charitycommission.org.uk

Community Development Finance Association (cdfa) – website carries regular updates on the latest information from the CDFI sector including a full member directory of organisations that provide finance. See www.cdfa.org.uk

Community Interest Companies – website with free downloadable guides to CICs, model constitutions, and a database of all CICs registered to date. See www.cicregulator.gov.uk

Development Trust Association's organisational health check – helps organisations to look at where they are now and how to move towards best practice in a number of areas. See www.dta.org.uk

Social Investment Scotland – offers business development assistance to enable social economy and VCOs to make use of loans. Social Investment Scotland also sponsor a network of 'loan ambassadors'; organisational development workers who can help social economy organisations weigh up the pros and cons of loan financing in comparison to other available options for funding growth and change. See www.socialinvestmentscotland.com

Publications

Social Enterprise Coalition (2004) *Unlocking the Potential – A guide to finance for social enterprises*. London.

Bates, Wells and Braithwaite and Social Enterprise London (2003) *Keeping it Legal: Legal forms for social enterprises*. Available from www.bateswells.co.uk.

General voluntary and community sector support

www.ncvo-vol.org.uk	NCVO (National Council for Voluntary Organisations)
www.navca.org.uk	NAVCA (National Association of Voluntary and Community Action)
www.bteg.co.uk	Black Training and Enterprise Group
www.acre.org.uk	Action for Communities in Rural England
www.guidestar.org.uk	Guidestar
www.charityfacts.org	Charity Facts
www.charity-commission.gov.uk	Charity Commission

ChangeUp Hubs of expertise

Finance Hub

The Finance Hub is delivering to the Government's ChangeUp programme to create VCOs which are effective and independent because they are financially sustainable. Further details and resources available at www.financehub.org.uk

Governance Hub

The Governance Hub aims to improve the quality of governance of VCOs in England at national, regional and local level. It offers a wide range of services and resources to chairs, trustees and boards that are inspirational and useful to help them in effectively leading and developing their organisations. Further details and resources available at www.governancehub.org.uk

ICT Hub

The ICT Hub aims to improve VCS information and communications technology infrastructure so that VCOs are enabled to achieve their missions more efficiently and effectively through the better use of ICT. It provides ICT guidance, good practice, advice and support accessible at a local level. Further details and resources available at www.icthub.org.uk

Performance Hub

The Performance Hub aims to bring together in one place the wealth of experience and expertise in performance improvement that already exists, and make this expertise far more accessible to VCOs. It also helps local, sub-regional, regional, and national infrastructure improve the quality and quantity of the support they can offer to VCOs and works with funders and policy-makers to improve the environment within which VCOs operate. Further details and resources available at www.performancehub.org.uk

Volunteering Hub

The Volunteering Hub works to achieve a leaner, effectively marketed and high-quality volunteering infrastructure reaching, recruiting and placing a greater number and diversity of individuals coupled with improved volunteer management. Further details and resources available at www.volunteering.org.uk/aboutus/volunteeringhub

Workforce Hub

The UK Workforce Hub helps VCOs recruit, retain and develop the staff, volunteers and trustees they need. It works in four main areas: learning and skills, human resources and good employment practice, leadership and working and volunteering in the voluntary sector. Further details and resources available at www.ukworkforcehub.org.uk

Additional support

Councils for voluntary service and other support agencies

The NAVCA website can help with locating local CVS. Available at www.navca.org.uk

CIB/fit4funding

fit4funding (The Charities Information Bureau) provides training, information and consultancy on every aspect of the funding process – from giving grants, accessing and managing funds, to giving funding advice. A Finance Hub commissioned programme of training designed for funding advisors and delivered by partners (fit4funding, SYFAB, CA Hants, FINE, Engage East Midlands and NAVCA) throughout the country will be launched in 2006. Further details available at www.fit4funding.org.uk

Collaborative working

NCVO's Collaborative Working Unit provides good practice information and advice to help VCOs make decisions about whether and how to work collaboratively.
See www.ncvo-vol.org.uk/collaborativeworkingunit

Strategic planning and foresight

NCVO's Third Sector Foresight project helps VCOs to plan effectively for the future by providing information on trends affecting the sector and planning guidance to deal with these. The project's annual publication, *The Voluntary Sector Strategic Analysis*, is a useful tool for future planning and decision-making. For more information, visit www.ncvo-vol.org.uk/3sf

Sustainable funding

NCVO's Sustainable Funding Project works to encourage and enable VCOs to explore and exploit a range of funding and financing options. Further case studies illustrating how VCOs have pursued income diversification and other resources providing ideas, information and inspiration are available on the Sustainable Funding Project website www.ncvo-vol.org.uk/sfp

To register for the Sustainable Funding e-newsletter – delivered free via email each month – email sfp@ncvo-vol.org.uk and ask to join the mailing list.

NCVO's Sustainable Funding Project encourages and enables voluntary and community organisations to explore and exploit a full range of funding and financing options to develop a sustainable funding mix.

The Sustainable Funding Project
funding in the round
Website: www.ncvo-vol.org.uk/sfp
Tel: 020 7520 2519
Email: sfp@ncvo-vol.org.uk

The Finance Hub is delivering to the Government's ChangeUp programme to create voluntary and community organisations which are effective and independent because they are financially sustainable.

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