

Committee(s):	Date(s):
Policy and Resources	22 March 2013
Subject: Support for a Small Business Micro Loan Programme	Public
Report of: Director of Economic Development	For Decision

Summary

1. The London Community Foundation, a well-established grantmaker across London, is working with the Fredericks Foundation, a charity focused on making small business loans to individuals who have been declined finance from mainstream providers, to set up a series of Small Business Micro Loans Funds across London.
2. This report proposes that your Committee approve a financial contribution of £77,000 towards a ringfenced Small Business Micro Loan Programme for the City's seven neighbouring boroughs. The proposed contribution would comprise £70,000 to be used as loan capital and £7,000 towards delivery of intensive support, mentoring and general business advice for both applicants and recipients of loans.
3. The proposed contribution to loan capital would attract a 60% (i.e. £42,000) match-funding contribution from the Government's Regional Growth Fund to enable delivery of a comprehensive programme of essential support to groups considered too high a risk for finance from mainstream providers.
4. The proposed contribution would enable an estimated 25 loans of between £3,000 and £5,000 to be made, disbursing a projected £113,000 into local communities over 3 years as loans are repaid and capital recycled. An estimated 31 jobs would be created.

Recommendation(s)

Your Committee is requested to approve the proposal to provide funding of £77,000 to the London Community Foundation from your Committee's contingency for 2012/13, charged to City's Cash, to establish a Small Business Micro Loan Fund jointly with the Fredericks Foundation London.

Main Report

Background

1. Increasing opportunities for self-employment by promoting start-up businesses as a route out of unemployment is a key priority for the Government and, at a local level, for local authorities across London. As a response to this, the London Community Foundation and the Fredericks Foundation are working together to establish Small Business Micro Loan Funds specifically targeted at individuals who have been turned down by mainstream lenders, often owing to factors such as age, long-term unemployment, disability or a criminal record.
2. The London Community Foundation (LCF) is a charity that encourages and enables effective charitable giving by individuals, foundations and companies. Primarily a grantmaker and a community catalyst, its vision is of a strong and generous London where individuals, business and government act to create a fair and good society for all who live or work in the capital. On behalf of its fund holders, it has given over £35 million in more than 5,000 charitable grants since 1995.
3. Fredericks Foundation (FF), also a charity, was set up in 2001 by Paul Barry-Walsh, a successful entrepreneur, to help disadvantaged people to set up or expand their own business as a means to achieve financial independence while rebuilding their confidence and self-esteem. In 2012 a report by the Centre for Social and Economic Inclusion outlined how, for every £1 invested in a Fredericks Foundation loan to a person on benefits, at least £2.90 – and sometimes as much as £6.50 – is generated. Since 2001 Fredericks has provided over 950 loans.

Current Position

4. As part of discussions with all London boroughs around establishing Small Business Micro Loan Funds for a specified locality, the City Corporation has been approached by LCF/FF to make a financial contribution to help establish such a fund.
5. The contributions sought from London boroughs – at a minimum level of £50,000 – would be used as loan capital, to be held in a restricted fund, which would be recycled as loans and repaid (with interest) to the restricted fund held at LCF.
6. These contributions would in turn allow LCF/FF to draw down additional 'match' funds from the Government's Regional Growth Fund (RGF) at a rate of 60%, e.g. a £50,000 contribution (the minimum required) would leverage £30,000 in RGF monies. The RGF element would cover most of the costs of the rigorous assessment of loan applications and ensure delivery of targeted, intensive mentoring and business support to both loan applicants and recipients to reduce the risk of loans defaulting. To provide for the comprehensive level of support necessary, local authorities are also required

to contribute a sum equivalent to 10% of the contribution to loan capital (i.e. £5,000 on a £50,000 contribution), giving a total minimum contribution of £55,000.

7. While the minimum contribution of £55,000 would achieve some positive impact and would be welcomed, the LCF/FF strongly urge consideration of a larger contribution in view of the City Corporation's general policy priority of targeting support of this nature across our seven immediately neighbouring boroughs. This report therefore proposes a higher contribution of £77,000, as outlined further below, to allow a notional allocation of £10,000 for each of the seven neighbouring boroughs (plus a 10% contribution to deliver costs), a level seen as the minimum to ensure meaningful impact across an area broader than one London borough by the LCF/FF.

Options

8. **Option 1 Make a total contribution of £77,000 (£70,000 loan capital, plus a £7,000 contribution to delivery of support) towards establishing a Small Business Micro Loan Fund for the City's seven immediately neighbouring boroughs (preferred option)** – This amount would secure a meaningful impact across each of the neighbouring boroughs, through establishing a restricted fund at the London Community Foundation which would initially make an estimated 25 loans of between £3,000 and £5,000, disbursing a projected £113,000 into local communities over 3 years as loans are repaid and capital recycled. An estimated 31 jobs would be created. The contribution would also attract £42,000 in match funding from the Government's Regional Growth Fund to support the rigorous assessment processes, mentoring and ongoing business advice for both applicants and recipients of loans, which reduces the risk of loans defaulting. The loan fund would be clearly branded as a City Corporation supported initiative.
9. **Option 2 Make the minimum contribution of £55,000 (£50,000 loan capital, £5,000 contribution to delivery of support) towards establishing a Small Business Micro Loan Fund for the City's seven immediately neighbouring boroughs** – Making a contribution at the minimum level required by the LCF/FF would still attract match funding of £30,000 and could make an estimated 18 loans of between £3,000 and £5,000, disbursing a projected £81,000 into local communities as loans are repaid and capital recycled. An estimated 22 jobs would be created. However, a contribution at this level would fall below the amount considered by the LCF/FF to be viable when delivering the kind of support required by the target recipients spread across the seven neighbouring London boroughs. This would likely result in some retargeting of the resource to a smaller geography, which would not sit neatly with the focus of much of the enterprise support work delivered through EDO and other parts of the City Corporation. For this reason this option is not recommended.
10. **Option 3 Decline to make a contribution towards the Small Business Micro Loan Fund** – While declining the request to make a contribution

towards the fund would not result in directly negative profile for the City Corporation, it would represent a missed opportunity to make a visible and high impact contribution to the issue of ensuring access to finance for business for groups excluded from mainstream finance provision. For this reason this option is not recommended.

Proposals

11. Development of a local Small Business Micro Loan Fund across the City's neighbouring boroughs could commence as soon as your Committee's approval is secured, unlocking the central government match-funding immediately.
12. The programme would build on the combination of expertise offered by LCF and FF, the former as a major 'grassroots' grantmaker with in-depth knowledge of communities across London, the latter as a charity helping disadvantaged people across the UK, typically those who have been refused mainstream to set up or expand businesses.
13. The key features of the Small Business Micro Loan Fund are set out at Appendix A.
14. Providing loan capital to lend to entrepreneurs in disadvantaged communities across the City's neighbouring boroughs through the Small Business Micro Loan Fund proposed is a tangible way for the City Corporation to support the enterprise agenda at the grassroots level among individuals who would otherwise struggle to access finance to become self-employed or grow their small business. At a local level, the proposed contribution would go some way to meeting the need for finance for groups who are considered too high a risk for mainstream lenders and would potentially broaden the awareness of the City Corporation as a supporter of enterprise in London.
15. Support for the Small Business Micro Loan Fund would also act as a useful complement to other initiatives undertaken by the City Corporation to support communities across London, such as the £100,000 grants to London boroughs to tackle youth unemployment through the City Bridge Trust and the £2m employability programme currently being developed through Central London Forward.

Corporate & Strategic Implications

12. The proposed contribution to a Small Business Micro Loan Fund contributes to The City Together Strategy themes:
 - a. ...is competitive and promotes opportunities
 - b. ...supports our communities
13. It also supports the Economic Development Office Business Plan 2013-2016:

- Objective 3 - Encourage, support and promote enterprise and responsible business growth across London; and
 - Objective 4 - Act as a key partner in regeneration, research, corporate responsibility, social investment and SME growth to help realise the economic and social potential of London, especially the City and our neighbouring boroughs.
14. An equalities impact assessment has been undertaken concluding that the proposed sponsorship would not have an adverse impact on equalities.

Implications

15. There is no possibility of meeting the proposed funding from existing local risk resources. The Policy Initiatives Fund 2012/13 is fully committed. It is therefore proposed that the funding of £77,000 to the London Community Foundation to create a Small Business Micro Loan Fund jointly with the Fredericks Foundation is drawn from your Committee's contingency for 2012/13 and charged to City's Cash. The current uncommitted balance available within your Committee contingency for 2012/13 amounts to some £404,000, prior to any allowance being made for any other proposals on today's agenda.

Conclusion

15. The opportunity to work jointly with the London Community Foundation and the Fredericks Foundation to develop a targeted Small Business Micro Loan Fund targeted at the City's neighbouring boroughs sits well with the City Corporation's wider work to support communities across London and promote enterprise, jobs and growth. The central government match-funding to support the essential support required by groups who have been declined loans by mainstream providers- made possible by working with LCF and FF – provides considerable assurance that the loans made will create sustainable jobs and generate positive long term impact.

Appendices

- **Appendix A** – Key elements of the Small Business Micro Loan Programme

David Pack
Economic Development Office

T: 020 7332 1268

E: david.pack@cityoflondon.gov.uk

Appendix A

Key elements of the Small Business Micro Loan Programme

- a. *Eligibility* – Adults resident in one of the City’s neighbouring boroughs turned down by mainstream lenders for a variety of reasons (including but not limited to age, long-term unemployment, disability, criminal record etc) and identified through the LCF and its extensive community links. All applicants to have viable business plans with a demonstrated ability to repay.
- b. *Loan use* – Start-up or expansion loans covering legal and sound business with the exception of i) political or religious purposes ii) activity which might bring the fund into disrepute (e.g. gambling, pornography etc) iii) refinancing existing debt or bad debts.
- c. *Loan size* – Typically £3,000 - £5,000.
- d. *Interest and loan arrangement* – Interest charged at a fixed rate of 15% APR, charged on the reducing balance. A loan arrangement fee (typically 5%) would be charged.
- e. *Repayment terms* – Up to 5 years, but typically 2-3 years.
- f. *Security* – Loans would be unsecured in the name of the individual applicant except in some rare cases when made to a Limited Company.
- g. *Application and assessment* – Pre-application and initial assessment would be undertaken by a FF Client Manager followed by a presentation in person to a local lending panel, convened by FF on at least a bi-monthly basis.
- h. *Monitoring and repayment* – FF monitor the loan using a widely used microloan tracking system, undertaking recovery actions in line with their standard micro loan procedure involving multiple telephone and email contact and the use of recovery agents. Reporting to the City Corporation would take place on a quarterly basis.
- i. *Bad debt* – A default rate of 25% has been built into lending profiles given the high risk nature of the client groups. However, FF report a repayment rate of 78% over their 11 years of lending to comparable client groups and 70% of typical FF loan recipients are still trading three years after receiving a loan.