

# Big Local social investment guide to small business lending



# Welcome to the Big Local social investment guide to small business lending!

This is one of four publications that provide more specific details on topics that we introduced in the *Big Local guide to social investment*. We encourage you to read the more general social investment guide before tackling the more detailed versions.

## MORE INFO

You can download the Big Local guide to social investment, as well as the four supplementary guides, at:

[www.localtrust.org.uk/biglocal/resources](http://www.localtrust.org.uk/biglocal/resources)

There are four main types of social investment that Big Local areas can consider. These are:

- personal lending
- microfinance lending
- small business lending
- civil society lending.

This guide focuses on small business lending. It looks at:

- What is small business lending (using social investment)?
- Why is small business lending part of Big Local?
- What are the risks?
- How does small business lending work and who administers the loans?
- Next steps.



# What is small business lending (using social investment)?

A social investment is a loan or other financial investment that aims to make a positive economic, social or environmental impact in a community, as well as earning income. Within social investment, small business lending means making loans to businesses – or business owners – with fewer than 50 employees, to help them start or develop their businesses, when they cannot borrow money from traditional banks. If someone can get a loan from a high street bank, they should not be given a small business loan supported by Big Local money.

The average small business loan is around £12,500 borrowed, for four years, with an average interest rate of 11.5 per cent annual percentage rate (APR).

Typical customers include nurseries, small manufacturing businesses, construction companies, and shops and restaurants employing between 10 and 50 people. They may want to borrow money to help expand or position their business to become more successful.

Using social investment to support small business lending aims to make your area a better place to live. It can also improve life for the borrowers and their communities. For example, to offer loans to local small businesses to increase employment or to buy raw materials and machinery to deliver a new contract. Or you might use social investment to support community finance organisations (see further in this guide for an explanation of what they are).



# Why is small business lending part of Big Local?

Small business lending, using social investment, is an important option for Big Local areas to consider, if it can help you tackle particular problems and achieve your community vision. Some of the problems that small business lending can help to address include:

- profitable businesses in the area struggling to access finance from the banks
- difficulty in attracting businesses
- lack of employment for local people
- keeping and circulating money within the local economy
- unused industrial and commercial buildings, shops, offices and social facilities in your area
- lack of local community services provided for and by local people
- lack of self-esteem among people who are not working, especially in terms of managing and making money.

Small business lending helps local businesses to survive and thrive, creates employment and provides services. It can attract new businesses into the area. It can bring unused shops and other facilities back into use. Successful local entrepreneurs can act as positive community role models.

For example, you might decide to work with a community development finance institution (CDFI) to offer loans to provide working capital for businesses that have won new orders and are creating employment, to help save jobs in an existing business that cannot get finance from the banks, or to finance a buyout of a company by its employees so that it will continue operating in the area.



Social investment can offer other benefits to your community and your local partnership:

### 1 Impact.

Social investments can have a positive impact because the loans are designed to create economic, social and environmental benefits for your area.

### 2 Make your money go further.

Each time a social investment loan is successfully repaid, the money can be used to make another social investment. Over time, this means that you may be able to do more with your money and make a bigger impact. You may also earn interest on the loans.

### 3 Empowering and strengthening communities.

Understanding and managing social investments are very valuable skills. Many people in local areas have never had the opportunity to learn them. By identifying local needs and taking action through social investment decisions, your area can make positive changes to strengthen the community.



# What are the risks?

Sometimes, small business lending is not the right answer. If a business is struggling and there is no real chance that it can survive or generate a social or environmental return, the CDFI would have to turn down the loan application.

Businesses or business owners that take personal loans and are unwilling to repay them may feel resentful if the lender takes action against them.

There may not be local demand for small business lending, so your social investment will not deliver the improvements to your area that you hoped for.

As with any financial investment, social investments can be risky. Whether a loan or a grant, there is no guarantee you will achieve the results you are aiming for. You must review your plans and be clear about how much risk you are willing to take on and how you will learn from the successes and failures of your investments.

Some people or local areas may object to lending on moral or religious grounds. We will only work with reputable, community-based lenders, such as CDFIs, and will do our best to make lending available that complies with ethical and religious principles.



# How does small business lending work and who administers the loans?

If your local area is interesting in offering small business lending through social investments, you will need to work with a trusted, reputable community finance organisation that is legally able to provide different types of small business loans.

## **Community development finance institutions**

(CDFIs) provide small business lending using social investment. They lend money to businesses and business owners that struggle to access finance from high street banks and loan companies. They help deprived communities by offering loans and support at an affordable rate to businesses and people who cannot access credit elsewhere. CDFIs' aims are not to make a private profit but to support communities by providing affordable finance that would not otherwise be available.

CDFIs provide a range of different small business loans for different reasons:

- to get a new business up and running
- to buy a vehicle or other equipment
- for advertising or marketing to reach new customers
- to lease or fit out a building
- working capital, to finance the business until customers pay their bills.

## **How do we select a community finance organisation to work with?**

If your local area wants to fund small business lending using social investment, Local Trust can help you to select a CDFI to manage the lending on your behalf. For more information, contact Local Trust.



Social investment loans are just one way that Big Local areas can spend their £1m - areas can also make grants, and purchase services.

#### MORE INFO

For more information on social investments, grants or services, talk to your Big Local rep. Alternatively, you can talk to the staff team at Local Trust by ringing 0207 812 5456, or emailing: [info@localtrust.org.uk](mailto:info@localtrust.org.uk).

This document will be developed over time with input from the people using this material. If you have thoughts on how this document can be made more useful for you, particularly if you live in one of the Big Local areas, please let us know.

## Local Trust

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[www.localtrust.org.uk](http://www.localtrust.org.uk)

The endowment for the Big Local programme is held by the Big Local Trust and overseen by Local Trust. The Big Local Trust was established by the Big Lottery Fund with a National Lottery grant of £196,873,499.

***If you need this document in other formats or a community language please get in touch with Local Trust and we will help you.***

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