Sheffield South Yorkshire, United Kingdom

BACKGROUND INFORMATION	
PROJECT TITLE	There are two projects funded by the ERDF in the current period. The first is called **Key Fund Social Enterprise Fund** and the second is called **Yorkshire and Humber Small Loans**. Case study title: Grants and loans for social enterprises
Beneficiary	The Key Fund
Duration of project	1) October 2010–August 2013 2) November 2010–December 2013
Member State	UK, Yorkshire and Humber region, South Yorkshire, Sheffield. According to the terms of the grants the first 40% is targeted at the South Yorkshire area and 60% at the rest of the region. In the second one 30% of the funds are to be spent in South Yorkshire and 70% in the rest of the region.
Geographic size	Sheffield, South Yorkshire Population 550 500
Funding	1) Total of €3 403 110 of which €1 540 669 is ERDF and €1 862 440 is match funding 2) Total €23 802 000 of which €11 901 000 is ERDF and €11 901 000 is match funding. All capital expenditure is equally distributed over three years.
Operational Programme	**Y**orkshire & Humber 2007-13 Operational Programme
Managing Authority	Yorkshire Forward Regional Development Agency, which was wound up in 2011 and the contract transferred to the national Department for Government and Local Communities
Cohesion Policy Objective:	Competitiveness Priority 3 – Objective 2: 'Support to foster a dynamic enterprise culture including access to finance' Priority 3 – Objective 3: 'Support to strengthen social enterprises including access to finance'
Main reason for Highlighting this case	The model used by the lead partner to deliver the two ERDF projects is a unique blend of grants and loans to support small businesses and social enterprises in the region. The funds have the potential to become self-sustaining, as the repaid loans are recycled to help new businesses grow. They effectively target disadvantaged communities, and provide access to finance for organisations that have been refused mainstream loans from commercial banks. Over the past 10 years the Key Fund has developed unparalleled sector expertise. Its rigorous systems, skilled staff team and local knowledge make it a successful model to stimulate start-ups and growth in social enterprises serving the most disadvantaged communities.
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Keywords/Tags	Social enterprise, loan, equity, community development finance initiative, Innovation, financial engineering

1. PROJECT DESCRIPTION	
Overall objective / goals	The two ERDF projects aim to fill a gap in the market by providing small grants and loans to social enterprises which require support to develop, but which are unable to attract the required finance from mainstream sources or other established finance products. This provision of small grants and loans to social enterprises will ensure that social enterprises can overcome barriers to finance and thus develop and make a greater contribution towards the regional economy by creating employment opportunities. **Key Fund Social Enterprise Fund** is delivered solely by the Key Fund to social enterprises in the Yorkshire and Humber region. The project aims to • overcome barriers to finance experienced by social enterprise • foster a change in culture and attitudes to debt finance by social enterprises **Yorkshire and Humber Loans** is a consortium of eight Community Development Finance Initiatives (CDFIs) led by the Key Fund. It aims to create regional coverage of a standard loan product which can be accessed by SMEs and social enterprises that have had difficulty in accessing mainstream finance The project aims to: • make capital available to each of the region's CDFIs, thereby building their capacity in respect of sustainability • support SMEs in disadvantaged areas regarding access to finance • make loans up to a maximum of €56.8k • create capacity to continue to invest in SMEs that have been refused mainstream finance through the continued work of those participating CDFIs; Both projects aim to: • create new businesses; and • create new jobs and invest in SMEs in deprived areas.
Description of activities	The projects deliver a financial product to disadvantaged communities, the majority of which are in disadvantaged urban areas. They offer small business loans and grants to SMEs and social enterprises, backed up with business support, which in turn helps to sustain and create new businesses and jobs. Client officers work with applicant organisations and a monthly Investment Panel decides on awards, and reviews deal flow and management reports. The loan repayments go into a revolving fund which is then recycled into new loans, which helps to build capital in the CFDIs and provide long-term sustainability. The blend of grants and loans helps to move SMEs and social enterprises away from grant dependency and onto a sustainable business footing.
Recipients	Recipients of the ERDF projects are social enterprises and voluntary and community groups in the Sheffield area. The projects target organisations based in areas with high levels of deprivation (according to the Index of Multiple of Deprivation[1] which is based on a wide basket of indicators) or whose activity covers these areas, so serving disadvantaged and under-represented communities and individuals. In many cases the social enterprises supported by the funds employ people and offer volunteer placements to those who may traditionally be far from the labour market, such as disabled people, ex-offenders, black, Asian and minority ethnic people and the long-term unemployed. Typical activities of social enterprises receiving support include: advocacy

[1] http://www.communities.gov.uk/communities/research/indicesdeprivation/deprivation10/

	and training, food businesses (cafés, drop-in centres and community pubs), provision for young people and families, community arts and sports, low-carbon business, (e.g. micro-generation of renewable energy in small businesses, recycling and waste businesses, car clubs)
Mainstreaming of gender equality and non discrimination	The ethos of the projects is one of promoting inclusion, providing a funding source for SMEs and individuals that have been financially excluded by being refused funding by mainstream lenders i.e. banks. Particular emphasis is given to: • members of the BAME communities • women entrepreneurs • young entrepreneurs • older entrepreneurs • social enterprises • people with disabilities • long-term unemployed people • people who have been made redundant or are in danger of becoming redundant • environmental benefits
Intended outputs and results	**Outputs** For the first project – Key Fund Social Enterprise Fund the outputs are: • 20 new businesses created • 120 businesses assisted that are SMEs • 120 businesses assisted that are social enterprises • 23 new jobs created • 62 jobs safeguarded For the second project, Yorkshire and Humber Loans, each of the 8 partners operates in a distinct geographical patch in the region. The output targets across the 8 CDFIs in the project are: • 1 790 gross new jobs created • 300 gross jobs safeguarded • 400 new businesses created • €4.7m gross increase in GVA (gross value added) • 1 075 businesses assisted that are SMEs In terms of **Strategic Added Value** the project aims to deliver one cross-regional partnership. The fund will have a strategic catalyst and regional economic leadership role and make a contribution to broader policy development and intelligence.
2. POLITICAL AND STRATEGIC CONTEXT	
National and regional framework for implementing ERDF funded urban development projects	The projects were selected following an open call from the managing authority. They support a whole range of EU, national and regional policy goals, from enterprise, innovation, and green growth to social and financial inclusion. The UK government's vision for more entrepreneurs and businesses is dependent on access to the finance they need to enable greater levels of enterprise, through both start-up and growth. The key issues around access to finance which they address are: • the demand for business finance – developing investment readiness support • reaching underrepresented groups • improving financial skills and knowledge • maintaining businesses' access to finance • accessing and managing debt finance • finance for growth Additionally, The Department of trade and Industry (DTI)'s *Simplifying*

	Business Support consultation in June 2007 specifically details providing Risk Capital targeted at the Equity Gap, which the HM Treasury report *Bridging the Finance Gap* (2003) identifies and defines as up to £2 million (€2.27 million). The lead partner's Key Fund Strategy 2008-2012 points out that the Yorkshire and Humber region underperforms economically in relation to the rest of the UK. Enterprise is one of the five key drivers of productivity. The region requires more new businesses that will survive and grow to close the gap with the other regions. Access to appropriate finance has been identified as a key barrier to enterprise and business growth. This was re-emphasised in the Enterprise Strategy (March 2008) In terms of the **Regional Economic Strategy** (RES) the project hits targets under a number of objectives: • RES Objective 1, A, iii) – 'Stronger promotion of enterprise to women, BAME communities, graduates, older people and those at key life points in deprived areas; • RES Objective 1, B, ii) – Support specific needs of new social enterprises through mainstream business support; and • RES Objective 1, B, iii) – Improve business access to finance, working with banks and other financial institutions, Finance Yorkshire and Investment Funds. This projects fit with Priority 3 of the **ERDF Programme** which aims 'To target resources at these most deprived communities where continued under-performance is a threat to the region's economic growth – focussing on tackling social and economic exclusion and improving territorial cohesion, creating enterprise opportunities within disadvantaged neighbourhoods and extending the social economy.
3. IMPLEMENTATION	
3.1. PROJECT DESIGN AND PLANNING	**Project idea** The Key Fund concept dates back to 1998 when it started as an informal partnership giving South Yorkshire Objective 2 grants from the Single Regeneration Budget, the Training and Enterprise Council and the Coalfields Regeneration Trust to third sector organisations. It had a budget of € 4 million between 1998 and 2001. Isobel Mills at the Government Office for Yorkshire and Humber then advocated a simplified grant and loan scheme under the South Yorkshire Objective 1 programme in response to the difficulties faced by community groups in accessing and delivering EU-funded projects, and by social enterprises in establishing and growing social impact businesses. The idea was to do the match funding at source, have a simplified application process with simple outputs, and have quick, locally-made decisions. The approach had strong support from the then Director-General of DG REGIO. The Key Fund was set up as a company in 2002 and received a €10.2 million contract to deliver funds from the European Social Fund, Neighbourhood Renewal Fund, European Regional Development Fund, Single Regeneration Budget, Coalfields Regeneration Trust, Learning and Skills Council and Coalfields Regeneration Trust. In 2004 the Key Fund successfully applied to the Phoenix Fund, winning one of the largest awards at €1.2 m. Since then the Key Fund has evolved its services and expertise in serving the social enterprise market. In the past ten years it has received funding from the European Social Fund, Single Regeneration Budgets, the Phoenix Fund and charitable foundations as well as the ERDF.
	Evidence of need Business survival rates in the region are similar to the UK average (approx-

	imately two-thirds survive their first three years). However, start-up rates are notably lower – there are approximately 32 business starts a year per 1 000 adults compared with 39 per 1 000 in the UK. These start-up figures are lower still in deprived areas. Female entrepreneurship lags behind male as men are three times more likely than women to be self-employed. Many CDFIs nationally have recently cited that their potential business – based on increased demand – is 200% to 300% above the previous year, but they can't deliver that much because they simply do not have the capital. Research by the Community Development Finance Association shows an average of 14% of credit applications from small businesses are refused. Businesses, however, claim an average refusal rate of 24%, with this rising to 30% for the smallest companies.[2] An evaluation of CDFIs[3] published in March 2010 found: 'There exists strong and robust evidence for continued public sector support to CDFIs.' CDFIs continue to address the consistent market failure to reflect the economic and social benefits of lending in underserved markets, leading to reduced enterprise outcomes, particularly amongst disadvantaged groups and areas. An external evaluation of Key Fund services published in April 2010[4] included a needs analysis of customers and potential customers. It concluded that there is a large demand for grant and loan funding from the Key Fund target customer base of social enterprises. This sector is likely to increase and there is a large self-justification and demand for grant funding.
	Managing authority selection The projects were selected after an open call. They met the OP objectives of tackling financial exclusion, and pump-priming the emerging social enterprise sector in the region.
	Management of risk The risk assessments included the possibility that Yorkshire and Humber loans would not achieve even regional coverage. This is mitigated by close monitoring and mapping of investments. There was also the risk that insufficient funds would be available, so the product would not meet the market needs. The fact that the ERDF is paid in arrears after the loans have been paid out means that the project partners have a strong incentive to keep lending high and revenue costs low. The loan recipients are all high-risk, having been refused by mainstream banks as they have no trading history or credit rating. This risk is managed by good due diligence and rigorous assessment of each case and active monitoring of repayments by Key Fund staff and the Investment Panel.
	Sustainability Sustainability is at the heart of the Key Fund concept implemented in the ERDF projects. By offering loans as opposed to just grants, the fund has the possibility to sustain itself over time. As the loans are repaid to the fund, they can then build up capital to be recycled into new loans. In order for this to happen there needs to be sufficient capital to get the fund started. The Key Fund has estimated that it needs just over €9 million per annum turnover to be self-sustaining in this way. This is part of its strategic direction. The projects are designed in a way to allow the CDFIs to build up capacity to continue lending. The loan repayments are kept by the funds. The managing authority conducts an annual review and, subject to perform-

[2] Chambers of Commerce Quarterly Surveys
[3] Evaluation of CDFIs by GHK, sponsored by BIS and Office of the Third Sector
[4] Evaluation of Key Fund Yorkshire's Services Jan 200–Dec 2009, Viewpoint

	ance, allows 70-100% of the repaid loans to be kept, and to be spent within the ethos of the CDFI constitutions. Returns from the two current ERDF contracts are expected to be €2 440 191. **Transferability** The Key Fund concept is transferable. The key conditions are openness of the regional/local authority to this model of finance, and the ability of the microlender and other stakeholders to cooperate and not compete. Sufficient start-up capital is required. For the fund to be transferred successfully there need to be robust systems, local knowledge and good mix of expertise in the staff team and Investment Panel.
	ERDF added value Without ERDF support, the Key Fund would not have been able to work. Although it was a modest initial investment, it was a catalyst to get started in 2002, and it continues to help building up capital.
	No other EU funds are involved in the current project. The Key Fund concept grew out of South Yorkshire Objective 2 grants in 1998.
3.2. MANAGEMENT, MONITORING AND EVALUATION SYSTEM	**Management System** The lead partner agency, the Key Fund, is legally constituted as an incorporated company. It is a social enterprise and a CDFI. It has a board of nine directors, and a team of 12 staff. The project management team is made up of the Chief Executive, Ann Oldroyd, who has ten years' experience at the Key Fund, the Client Services team led by Matt Heath, and a very experienced Finance Manager, Janet Bennett. The Key Fund has developed over time a tried and tested procedure to offer financial support to social enterprises and community organisations. A team of client officers work with potential lenders to develop an application. The application provides detailed information about the applicant organisation's status, accounts and business plans. The client officers complete the report and paperwork, including research, due diligence, and their own assessment of risk. They are responsible for the business facing work; each has a portfolio and prepares updates for management reports and panel meetings. They will suggest conditions for loans, such as planning permission, evidence of procurement, legal checks. In this way the fund keeps the bureaucracy minimal for clients. Each month, at the end of the month, the Investment Panel meets; it is made up of 4 Key Fund directors and 5 co-opted members. Paperwork is circulated in advance and officers present the cases to the panel, before a detailed question and answer session. Very occasionally a lender will be invited to present to the panel, if the amount requested is significant, e.g. in the region of £100 000 (€113 000), or if it is a trial project. A decision is made by the panel on each case, and recorded. Regular agenda items for panel meetings also include an update on local and national news of relevance, management reports, deal flow, and performance in regard to delinquencies and defaults. This information is presented in a chart with categories of proposed 'write-off', 'delinquent,' 'managed' and 'performing well'. Around 8 to 10 deals are presented at each Investment Panel meeting. Some are quick to assess, while others take 20 to 30 minutes. At the end of each panel meeting, the loan agreements are usually signed on the day by the Chair and the paperwork is ready to go. A staff debriefing session takes place immediately after the panel, during which all decisions are clarified, including any conditions attached to an offer, interest rates and duration. The Finance Manager records the

	decision from which funds the loans will be taken, and when it will be defrayed. Progress is monitored by Key Fund officers. Repayments are collected by direct debit on the same day every month from projects. If an organisation is struggling to repay the loan officers may make a visit, renegotiate terms and do what they can to help resolve the situation. The philosophy is to help borrowers to stay in business, so the Key Fund often repackages the loans. The Investment Panel also serves as a learning exchange and team building exercise.
	Staff resource In total the lead partner agency – Key Fund – has 12 staff, five of whom are in client services (client officers) and spend around half of their time out and about in the region working face-to-face with social enterprise applicants and recipients. There is a monitoring officer, two finance staff, a marketing officer, the CEO and her PA. The board has nine directors. This staff services the two ERDF contracts and some additional grants from public and charitable sources. The success of the Key Fund has led to it becoming a specialist fund manager for a number of other regions in Northern England including the North West, North East and East Midlands.
	Steering Group The Yorkshire and Humber loans project has a steering group with representatives from each of the eight CDFIs involved. Monthly meetings take place to monitor progress. The Key Fund is the lead partner for both projects, as it has the most expertise with this social enterprise micro-finance model. A managing authority representative attends the consortium meetings.
	Monitoring The Finance Manager at The Key Fund maintains detailed records of the loans and repayments, and puts together the financial claims to the managing authority. Organisations receiving the loans provide monitoring information to the Key Fund. Although the Key Fund tries to protect borrowers from much of the paper-work involved, the external evaluation reported that many of the organisa-tions found this burdensome. The managing authority representative reported that a recent Article 16 audit had only found one small issue around the number by of hours reported in a day on timesheets.
	Evaluation An external evaluation of Key Fund activity between 2007 and 2009 was undertaken in 2010 by Viewpoint.[5] It included a comprehensive survey of stakeholder satisfaction, a needs assessment survey, a literature review, as well as overall conclusions and recommendations. The Key Fund itself conducts regular surveys amongst the organisations it serves. The Investment Panel reviews progress against outputs and overall performance at its monthly meetings.
	No other EU funds are used at the moment.
3.3 GOVERNANCE:	**Key Fund Social Enterprise Fund** is delivered solely by the Key Fund to

[5] Evaluation of Key Fund Yorkshire's Services Jan 2007–Dec 2009, Viewpoint, 2010.

PARTNERSHIP, PARTICIPATION AND EMPOWERMENT	social enterprises in the Yorkshire and Humber region. **Yorkshire and Humber loans** is a consortium of 8 CDFIs for which the Key Fund is the lead partner.
	Partner roles Each partner CDFI in the **Yorkshire and Humber loans** ERDF project has its own budget, outputs and delivery plan, agreed within the consortium framework. The Key Fund Investment Panel has co-opted members including chief executives of social enterprises, the previous head of a New Deal for Communities and a NatWest bank representative. The Key Fund is well connected and maintains active relationships with peers, networks and other stakeholders, such as CDFA, Social Enterprise Coalition, Charity Bank, Finance Yorkshire, Business Link and government departments. These stakeholders provide information, intelligence and political support to Key Fund.
	Social enterprises and community organisations can apply to the Key Fund ERDF projects for financial support in the shape of loans and grants. Communication is through the client officers who help to develop applications, and manage relationships over time. Key Fund surveys the recipients of its funds to assess impact and get feedback about the process.
	The area in Yorkshire covered by the ERDF projects led by Key Fund has 55 local authorities It is hard to maintain links with all of them but the Key Fund does so on concerns of strategic interest, such as transforming local infrastructure plans, where social enterprises have the possibility to take control of assets such as buildings and space.
	The Key Fund has provided leadership for the model, the sector and the ERDF project. It is well respected in the field and the region. The Chair of the Investment Panel, Hugh Rolo, is one of the driving founders of the CDFI movement. The innovation is to bring a new blend of financial products to support financial inclusion into a consortium approach.
4. INNOVATIVE ELEMENTS AND NOVEL APPROACHES	
4.1 INNOVATION **PROBLEM-SOLVING PRACTICES**	The Key Fund model used to deliver the ERDF projects was first created in 1998 and has evolved over time. It fills a gap in the market where mainstream banks refuse credit. By offering grants and loans to social enterprises, entrepreneurs and community groups in the region, it allows bottom-up business growth in disadvantaged areas. The social enterprise model is slow. It takes longer to make a surplus. Social enterprises often have a range of objectives linked to their social welfare mission, for instance taking on volunteers and staff from long-term unemployed groups. They may have a closer relationship with the community, and put more effort into consulting the community than traditional businesses would. CDFIs feel that banks are not patient about the yield from this type of business, and do not understand them. The Key Fund does not use a standardised definition of social enterprise. Instead it tests the objects in the lenders' Memorandum of Association and looks for exit clauses to protect assets; it then tests social impact in the due diligence. Primarily it is looking for organisations that demonstrate that profits are not for personal benefit. With any type of lending there is a risk of delinquency and defaults on loans. The Key Fund has mitigated this by having a very robust assessment process to make decisions about lending. It develops proactive and hands-on relationships with lenders and works with them to try to overcome problems related to repayment. A specialist worker, who is separate from the staff team deals with delinquency and defaults.

	New approaches to management The management of the Key Fund model is innovative in the way it balances a patient, empowering approach to applicant businesses with robust systems and sound investment principles. This is how the fund deals with the high level of risk inherent in its lending activity.
	New approaches to communication The Key Fund has a high profile in the microfinance sector, and maintains visibility by participating in networks, conferences and consultations. The Key Fund was shortlisted for the Barclays innovation award in 2012.
	New approaches to exploitation of results The Key Fund has a high profile in the social enterprise and CDFI sector, and is actively engaged in lobbying government to show the results achieved in tackling social and economic challenges and to advocate for the right conditions for the sector to flourish. It promotes the model through the website, applications for funds and services and in stakeholder meetings.
	Challenges related to innovation The Key Fund is a frontrunner in terms of delivering the loan and grant blend to social enterprises under an ERDF project. It has to solve issues without the benefit of reference to other organisations working with the same model. Its board, staff team and Investment Panel have a great deal of expertise and commitment to finding solutions to these challenges, and to sharing the lessons learnt within the sector to support its growth.
4.3. THEMATIC FOCUS	**Financial engineering** The Key Fund offers a different model for microlending using ERDF. It was not possible to operate as a Financial Engineering Instrument as there was not enough match funding up front to capitalise the fund. Instead the lead partner is paid in arrears after defrayment of loans to social enterprises. The returns from loans are held with the Key Fund (as with each CDFI in the consortium project). The managing authority reviews them annually and, depending on performance, will allow the retention of between 70% and 100% to use within the spirit and ethos of the CDFI constitution. This helps build up capital reserves to sustain and grow lending potential.
5. FUNDING	
	ERDF and ESF The Key Fund works with an amalgam of funds. There are two ERDF projects under the current operational programme. One is for Key Fund activity only; the other is the Yorkshire and Humber loans consortium of 8 community finance development organisations in the region. The Key Fund also has a legacy fund, with capital from ERDF, Phoenix Fund and RDA single pot funds in the past. The ERDF and private capital spend is profiled as follows: Key Fund Social Enterprise Fund: ERDF PRIVATE 2010/11 €526 361 €620 813 2011/12 €503 781 €620 813 2012/13 €511 387 €620 813 Yorkshire and Humber Loans: ERDF PRIVATE 2010/11 €3 072 000 €3 072 000 2011/12 €3 982 000 €3 982 000

	2012/13 €4 266 000 €3 982 000 At the end of each Investment Panel meeting, during the staff debrief, the team clarifies from which fund the grant and loan will be taken, to make sure the activity is eligible.
	Private sector leverage Forecast leverage from private sector partners, such as banks and Grant Thornton, from January 2011 to March 2012 across both ERDF projects is €9 190 191 of which € 4 446 172 has been evidenced.
	The fund has paid out a total of €4.2 million over the last five years and is expecting €0.6 million back this year. In 2012 it expects to pay out €4.8 million and in 2013 it will get a third of that back. In 2011 €0.6 million worth of deals were not taken up, partly because applicants managed to find finance elsewhere, or in some cases because they were unable to fulfil the conditions.
6. PROJECT ASSESSMENT	
6.1. FINANCIAL SUSTAINABILITY	**Financial sustainability** The Key Fund is a lender of last resort. Applicants have to show proof that they have been refused credit elsewhere. The level of loans is from €1 120 to €30 000 for businesses in deprived communities and up to €60 000 for social enterprises. The minimum term is six months, the maximum term five years and a maximum six-month capital repayment holiday is available (subject to approval). With the exception of loans to social enterprises any request for a loan in excess of €30 000 is referred to a separate body, Finance Yorkshire, which administers larger budgets. State aid rules mean that the interest rates offered on loans have to be 4% above the hurdle rate. The ERDF project applications state the range will be between 11 and 14%. For the sake of simplicity most loans are agreed at 6.5% flat rate, which works out at 12.5% APR. The fund has paid out a total of €4.2 million over the last five years and is expecting €0.6 million back this year. In 2012 it expects to pay out €4.8 million and in 2013 it will get a third of that back. In 2011 €0.6 million worth of deals were not taken up, partly because applicants managed to find finance elsewhere, or in some cases because they were unable to fulfil conditions. Delinquency rates are low. Each month the loan portfolio is monitored. The data for February 2012 showed that in relation to total outstanding loans of around €3 850 000, 77.6 % were performing, 13.5 % were managed, 4.2% were delinquent and 4.8% were proposed write-offs. Management costs are capped at 3.5% of the fund by the managing authority.
6.2. TRANSFERABILITY	**Continuity** The Key Fund concept dates back to 1998 when Isobel Mills, then Head of the South Yorkshire Objective 2 programme at the Yorkshire & Humberside Government Office, introduced a simplified grant and loan scheme in response to the difficulties faced by community groups in accessing and delivering EU-funded projects. Since then the Key Fund has evolved its services and expertise in serving the social enterprise market. In the past ten years it has received funding from the European Social Fund, Single Regeneration Budgets, the Phoenix Fund and charitable foundations as well as from the ERDF.
	Mainstreaming: No
	Transferability The Key Fund is expanding outside the region with its own reserves and with the support of the Esmée Fairbairn Foundation. Philanthropic

	foundations are taking a great interest in this model as it brings a better return with a revolving fund. It acts as a specialist fund manager in neighbouring regions. CDFIs are a growing phenomenon using similar packages to fund social enterprises across the UK. Key Fund participates in the policy debate and in national stakeholder networks to promote and advise on its replication. The model is transferable given a policy framework of support to social enterprise and an openness of local and regional authorities to invest in and encourage it. It is particularly relevant in areas of need and where social enterprises are already growing in number and strength, such as in the North East and North West of England.
6.3 ISSUES AND PROBLEMS	**Problems and solutions** The diversity of business sectors that Key Fund ERDF grants support pose the challenge of understanding such a range of businesses. The solution is to have some specialisms in the team, for instance geographical or sectoral, and to support the team to learn from each other. Deal flow is not steady or predictable. The solution is to encourage flexibility in the team around tasks. The whole process is labour and time intensive. The small deals take as much time and effort as the large ones. From the managing authority perspective, raising understanding in the voluntary and community sector about the loan and grant finance models is still a problem. A parallel ERDF-funded initiative ‘Understanding finance’, in which the Key Fund is a partner, runs events and toolbox talks to provide the hook to get people into workshops to educate third sector boards. The Yorkshire and Humber Loans consortium approach (of 8 CDFIs) was a challenge at the outset. The solution was a project-specific quality manual for claim and audit. There are the negative impacts associated with the recession in the reorganisation of services and public sector outsourcing. Some of the calls for tender have inadequate resources. The danger of these reduced tenders can be for providers to become target-driven and to neglect those furthest away from the job market. The Key Fund’s solution has been to develop a new level of scrutiny on these types of contracts, to look at them closely together with the social enterprises and see if it is possible to deliver for the money offered. Social enterprise is more expensive than similar business models but it has a greater social return. One of the challenges is to implement an agreed framework mechanism to measure and monitor social impacts.
6.4 PROJECT OUTPUTS & RESULTS	**Outputs and results** Both ERDF projects are performing well against targets. **Yorkshire and Humber loans** is overachieving its output targets at this stage of the project. Key Fund results that are not captured in ERDF outputs include business support, leadership in the social enterprise and CDFI sector, and contributions to policy debate. Between January 2011 and May 2012 the Key Fund has made 65 loans up to €30k, 15 between €30k and €120k and 1 over €120k. Many of the cases illustrate a contribution to the triple bottom line, for instance a Doncaster furniture recycling business has a €1.2m turnover, trains and employs people, and diverts waste from landfill.
7. CONCLUSIONS: KEY SUCCESS FACTORS AND LESSONS LEARNED	
	The Key Fund’s ERDF success comes from having turned the direct experience of the past ten years into a highly effective service that manages to balance the ability to be responsive in a market tacking social

	need with sound investment principles. It demonstrates the need for specialist expertise and agencies to deliver this kind of service to underpin social enterprise growth. The ethos of relationship banking is critical, working with people to get them investment ready, and maintain repayments, in a context where the Key Fund is their only chance of financial support. A supportive approach is counterbalanced by robust systems, policies and procedures, transparency and very good due diligence. The fund puts simplicity, flexibility and customer focus at the heart of its client-facing work, and as far as possible protects the recipients from bureaucracy. Efficient back office systems and teamwork allow that to happen. It is able to react quickly and flexibly, for instance providing bridging and cash flow finance in a matter of days or weeks – which can make all the difference between an SME going down or not, or being able to seize a business opportunity in time. The local knowledge of the board, staff team and panel members means that their decisions are backed by a sound understanding of the context in which the loan and grant recipients are operating. The board has a good mix of expertise: social entrepreneurs, commercial bank, investment specialists, and community organisations. Microlending models like the Key Fund need to have regular injections of capital to maintain the ability to lend. In order to reach independent sustainability their turnover has to increase to a critical amount, in the case of Key Fund, €9.5 million a year, and this entails significant scaling up of staff and systems.
8. FURTHER INFORMATION	
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