Responsible Finance

**Category of Good Practice**: MFI & Bank Partnership

**Good Practice's title:**

A first loss mechanism enables MFIs to leverage commercial investment from banks and thereby increase their outreach.

**Main objective:**
The main objective of this partnership was to create a fund that the MFI sector could access. The government funder required that the fund size be matched by investment from the private sector. Consequently, a partnership was established with Unity Trust Bank and the Co-Operative Bank who matched the BIS grant with a loan to the MFIs.

**Key words**:
Partnership, Banks, MFIs, Borrowing, funding

**Type of organization:** Network
**Country: UK**
**Year of inception of the good practice: 2012**
**Services and products provided:** Fund management; access to funding for members; policy and advocacy; networking opportunities and product innovation.
**Portfolio (€): 216 million (Fund is £60 million)**
**Avg loan size (€): £5,400**
**# of clients: 50,600**
**Website:** http://www.responsiblefinance.org.uk

**Address:** Unit 5, Angel Gate
320-326 City Road
London EC1V 2PT

Tel: 020 7430 0222

With financial support from the European Union

**Institutional profile:**
Responsible Finance is a trade body for MFIs that disburses loans to clients who do not have access to finance from commercial banks. It is a network of MFIs in the UK whose mission is to increase prosperity and wellbeing in communities that are financially underserved. Responsible Finance, which was incorporated in 2002, also provides support to the member organizations.

**Mission of the organization**
Responsible Finance's mission is to support the development of a thriving and sustainable MFI sector that provides finance for disadvantaged and underserved communities and, as a consequence, to contribute to the increasing prosperity of these communities.

**Governance structure**
Responsible Finance is a not-for-profit organisation and is a company limited by guarantee. Responsible Finance's board is composed of members representing various geographies and market segments in the UK as well as external stakeholders who bring the knowledge and expertise of the broader sector.

## Good Practice

**Introduction**
The partnership between Responsible Finance and banks aims to increase funding for MFIs in the network. 50% of the funding was obtained from banks. Responsible Finance and the Department of Business Innovation and Skills (BIS) initiated the partnership, which is managed by Responsible Finance. In the case of Responsible Finance, the partnership was a necessary condition for the creation of the fund. Responsible Finance then engaged with Unity Trust Bank and the Co-Operative Bank who matched the BIS grant with a loan to the MFIs.

**Target group and accessibility:**
The target group consists of small and micro businesses and social enterprises that cannot access finance from mainstream banks. These businesses provide jobs and services to the local community.

**Innovativeness:**
We collaborate closely with Unity Trust Bank on a number of policy, research and funding initiatives. Unity is a major investor in our Regional Growth Fund programme and supports Responsible Finance's flagship publication on the activities of our members.

**Relevance given the context:**
Since the 2008 financial crisis, the UK has faced high concentration within its banking sector. One externality has been decreased lending to individuals and SMEs that are considered relatively higher risk. Finding a solution to reach these excluded customers is important for the UK's economic recovery and growth.

With financial support from the European Union

**Adaptability to other contexts:**

This type of fund is adaptable to other contexts, such as other markets or lending purposes. The use of a first loss element (grants, assets, guarantees, or patient investments) can leverage commercial investment into a fund whose activities may normally be viewed as too high risk. In addition, this fund is available to a consortium of CDFIs –so multiple organisations can access the funding.

**Efficiency:**

This model is efficient as it operates through a consortium structure. The funder has one point of contact (Responsible Finance), rather than working directly with multiple MFIs.

**Outcomes:**

According to Responsible Finance management, the bank loan allowed its members to increase the number of the clients and to increase outreach, including the poor, very poor and the financially excluded. The programme increased the number of women clients and improved the general financial performance of MFIs.

The obvious advantages of the partnership for Responsible Finance include increased access to sustainable funding and more opportunities to lend. The banks, on the other hand, are penetrating new markets via a relatively safe investment and participating in social value creation.

**Sustainability:**

The sustainability of this model depends on the availability of a first loss mechanism (in this case the BIS grant). Responsible Finance's Regional Growth Fund is a 3-year programme, and the funds can be recycled once they are repaid by the borrower.

With financial support from the European Union