



# Donbac Limited

## Social Return on Investment Study

October 2013

## Donbac: Our social return on investment

When asked about credit for Small and Medium Enterprises (SMEs) the Rt Hon Dr Vince Cable MP, Secretary of State for Business, Innovation and Skills and President of the Board of Trade said at the 2012 CDFA<sup>1</sup> conference:

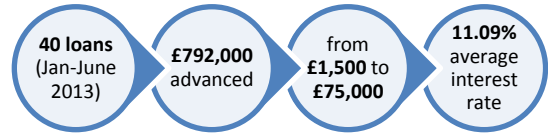
*"My assessment of it is we do have a considerable amount of unmet demand from small and medium sized companies for credit which the system currently doesn't provide for; I don't buy the argument that there's no demand...we do surveys in our department that show (the) considerable extent of rejections from what seem perfectly good, sound businesses, and a lot of others are discouraged from applying, so there is a need. The CDFIs are an important part of that solution particularly at the micro finance end of the spectrum"*

Dr Cable's comments resonate with us. Here at Donbac we lend money at the SME<sup>2</sup> end of the spectrum; small loans to solid propositions. We see new and existing businesses, with good business plans and strong proposals, ignored and unwanted by mainstream lenders. We operate in this market to provide an alternative source of loan finance for businesses unable to access mainstream funds. In the first six

<sup>1</sup> Community Development Finance Association

<sup>2</sup> Small & Medium Sized Enterprises

months of 2013, we advanced over £¾m ranging from £1,500 to £75,000.<sup>3</sup>



Donbac is a Community Development Finance Institution (CDFI), an accredited Enterprise Agency and a registered lender under the Enterprise Finance Guarantee scheme (EFGS).

## Our process: Getting to know our customer and their business

We lend to SMEs refused mainstream credit, but who meet our credit worthiness assessment. In 2013 we asked our customers about our business; about what we do and how we do it. Customers were interviewed by an independent consultant, during August and September 2013. Their responses were anonymous. About our process of borrowing they said:

- **"Process was very smooth, very friendly, never thought we wouldn't qualify. They were very personable, fast and efficient. It never felt like a bank."**<sup>4</sup>

<sup>3</sup> Fund analysed was Donbac European Regional Development Fund (ERDF) one (of 8) funds managed by Donbac representing 70% of the total disbursed funds in the period Jan-June 2013

<sup>4</sup> Donbac interviewee borrowing £15,000 (Sector: Computer & Related Activities)

- “The loan was turned around almost immediately, excellent relationship, they’re like a local bank model, or what it should be.”<sup>5</sup>
- **“Donbac, can’t fault them, absolutely spot on, treated as people not as numbers. A fantastic part of our development.”<sup>6</sup>**
- “The guy I talked to (at Donbac) is the guy who can say “yes” or “no”, it’s not like a bank which is more car showroom like, when the guy you talk to cannot make the final decision.”<sup>7</sup>

## Our lending: Saying yes when mainstream says no

The evidence remains strong that net lending to SME companies is still contracting despite government initiatives like *the Business Growth Fund*, *the Enterprise Finance Guarantee*, *Project Merlin*, and *Funding for Lending Scheme*.

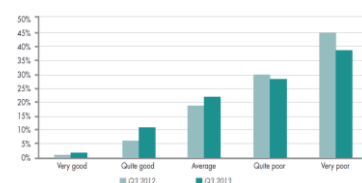
The government commissioned Breedon report<sup>8</sup> (2012) recognised a finance gap created by demand and

unmet supply, and encouraged the establishment of alternative finance. (Breedon estimates this credit gap to be between £26bn and £59bn UK wide). A government report for BIS in April 2013 reported:

*“Even controlling for risk factors...the evidence suggests greater credit restrictions for term loans than overdrafts...Overall, we suggest that the research is indicative of a shortage of finance for SMEs...If the situation is not resolved, output, investment and employment will be lower than would otherwise be the case, with adverse effects on economic performance in the short and longer term.”<sup>9</sup>*

The FSB reported in September 2013 that (although there has been a recent rise in response to more positive economic indicators) confidence about accessing capital amongst just under two thirds of SMEs was poor:

**65% of FSB panel (Q3 2013) said poor or very poor in response to perception of credit availability.**



<sup>5</sup> interviewee borrowing £10,000 (Business Services)

<sup>6</sup> interviewee borrowing £10,000 (Construction & Building Related)

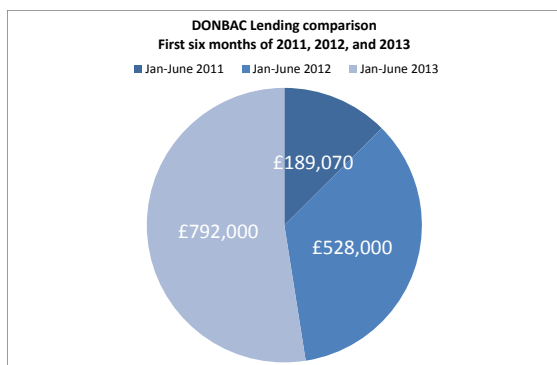
<sup>7</sup> interviewee borrowing £30,000 (Business Services)

<sup>8</sup> “Boosting finance options for business” Report of industry-led working group on alternative debt markets, Tim Breedon, (March 2012) BIS

<sup>9</sup> “Evaluating changes in bank lending to UK SMEs over 2001-12 – ongoing tight credit?” Econometric analyses using data from the UK survey of SME finances and the SME finance monitor (April 2013) BIS

Whilst Donbac lending is a fraction of the estimated £7bn borrowed by SMEs across Yorkshire & The Humber, the £5m we have advanced since 2008 is producing both social and financial return.

The pie chart (below) compares the first six months lending of 2013, with the equivalent period in 2012 and 2011; **we've increased our loan volumes by 320% in that period:**



Without our intervention and support, many of the businesses would either not be in business or their business proposition would be so altered as to be unrecognisable from the one that the borrower desired. When asked how they would have continued without Donbac's loan, borrowers told us:

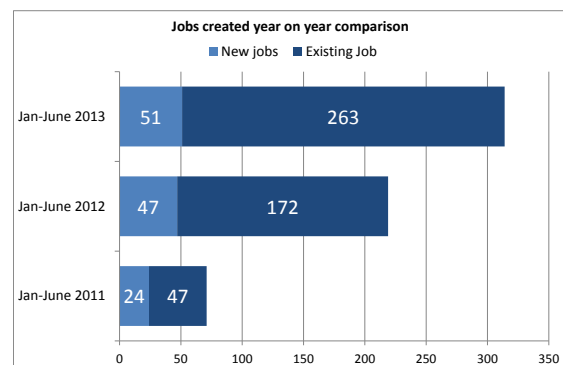
- "Strong possibility that business would have been sold, would certainly have lost control of the business."<sup>10</sup>

<sup>10</sup> interviewee borrowing £75,000 (Manufacturing)

- "It would have been very difficult, almost impossible."<sup>11</sup>
- **"It could have had a devastating effect on the business – customers would have been asked for C.O.D."**<sup>12</sup>
- "Wouldn't have gone out of business but, we'd be drawing on personal savings, and it would have an impact on cash flow."<sup>13</sup>

### Loans = Jobs

Donbac loans have secured or assisted in the creation of 314 jobs in the first six months of 2013 alone; over the same period last year this figure was 219, and 81 for the equivalent period in 2011.



<sup>11</sup> interviewee borrowing £10,000 (Business Services)

<sup>12</sup> interviewee borrowing £15,000 (Manufacturing)

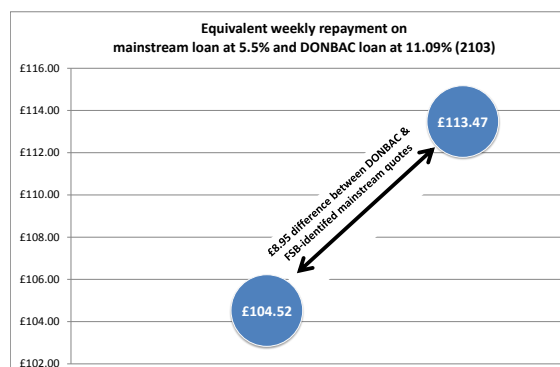
<sup>13</sup> interviewee borrowing £50,000 (Creative Services)

## Price and cost

Our mean average loan price in 2013 is 11.09%.

The FSB reported in Sept. 2013 that their members were being quoted (before any arrangement fee was included) average loan rates of 5.5%, with around one in ten quoted interest rates at our end of the spectrum.

We price for risk, and an interest rate that is double the FSB quoted average is, of course, not double the repayments. In practical terms, using our median loan value of £25,000 over our typical 3 year term, the difference for our customers is around £9 per week.



Many of our customers consider that this differential is a price worth paying:

- “Price is a lot, but it’s the best you can get; my bank wouldn’t entertain it, yes, it costs more but they’re more honest in their dealings; a bit more forgiving.”<sup>14</sup>
- **“In preference to going for lower interest rate, we would willingly pay more for that (DONBAC) service – and I mean that.”**<sup>15</sup>
- “I’d approached bank, very difficult, they wanted an arrangement fee regardless of whether we got the loan or not – I’d go to Donbac rather than a bank.”<sup>16</sup>
- **“There is no doubt at all that we would use DONBAC again, price point and value.”**<sup>17</sup>
- “A phenomenal process, quicker than I thought it would be – don’t think I’ll borrow again but if I did I’d use DONBAC, loyalty works both ways, if it means a little extra in interest I would gladly pay it.”<sup>18</sup>

<sup>14</sup> interviewee borrowing £30,000 (Business Services)

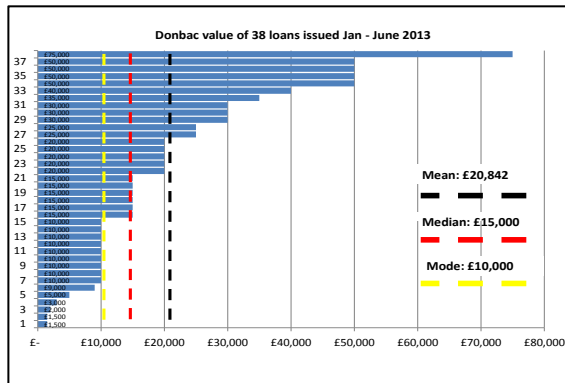
<sup>15</sup> interviewee borrowing £10,000 (Business Services)

<sup>16</sup> interviewee borrowing £9,000 (Business Services)

<sup>17</sup> interviewee borrowing £10,000 (Computer & Related)

<sup>18</sup> interviewee borrowing £10,000 (Construction & Building)

Our median loan value in 2013 is £25,000, over a typical 36 month term.



We think that for a £25,000 loan, a Bank will hardly know their customer at all; it might be one loan of hundreds in a typical bank's Relationship Manager's portfolio. At Donbac, our people build relationships, get to know customers and their business, regardless of the apparent complexity of the enterprise:

- "When the proverbial hits the fan you need a relationship. Quite surprised that they had such an understanding of our business – they were very quick to grasp where we were at."<sup>19</sup>
- **"They were very supportive, thorough, they kept us going, without them we'd have gone out of business."**<sup>20</sup>

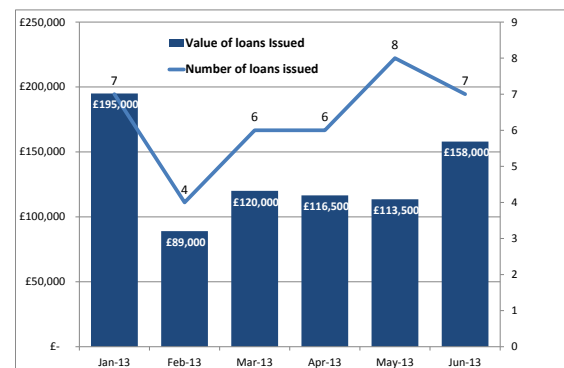
<sup>19</sup> interviewee borrowing £15,000 (Manufacturing)

<sup>20</sup> interviewee borrowing £30,000 (Leisure, Sports, Ents)

- "Borrowing process very easy, we are a horribly complex animal, they got it, I'm very glad they plugged the gap, they did an excellent job."<sup>21</sup>

- **"Donbac understood the holistic overview, more interested in us than just crunching numbers. They listened and reacted."**<sup>22</sup>

In the first six months of 2013, we invested £792,000 in 40 businesses. We are filling a gap in the market.



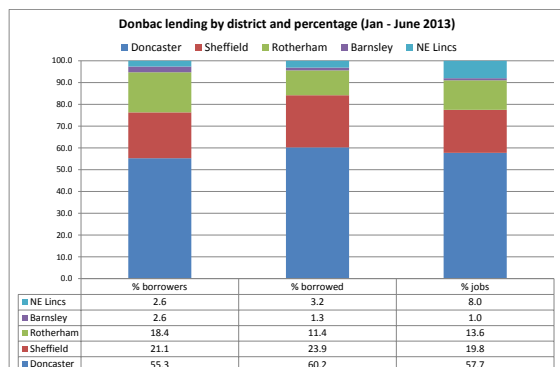
Our loans support businesses, which in turn support individuals and communities. In our sample of businesses, all bar one reported a turnover over the VAT threshold and three reported turnover over £1million. **Over 50% of interviewees were drawing a salary above average earnings.**

<sup>21</sup> interviewee borrowing £75,000 (Manufacturing)

<sup>22</sup> interviewee borrowing £10,000 (Computer & I.T. Related)

Our loans in the first six months of 2013 supported businesses throughout South Yorkshire, creating and sustaining employment and providing enterprise and opportunity.

49% of our loans are still issued closest to our Doncaster base, and we're largely hidden in plain sight. Many of



our customers are recommended to us, from our borrowers' accountants and bank managers who recognise that their institution will not or cannot lend. Our marketing doesn't seem to drive much business to us, which we need to improve in Barnsley, Rotherham and Sheffield.

- "...was not aware of Donbac beforehand, bank told me about them."<sup>23</sup>
- **"It was on the advice of our bank manager that we went to Donbac; it was like someone lifting a great weight."**<sup>24</sup>

<sup>23</sup> interviewee borrowing £15,000 (Leisure, Sports, Ents)

<sup>24</sup> interviewee borrowing £15,000 (Manufacturing)

- **"Donbac – name doesn't help, we hesitated because of the Doncaster part, we were pleasantly surprised that it was not just Donny."**<sup>25</sup>

- "We were not aware of them initially, Nat West told us about them. They're a well-kept secret"<sup>26</sup>

In difficult times securing loan finance has proved challenging for all but the most credit worthy businesses. For those SMEs without compelling financials or significant "skin in the game" mainstream lenders are showing continued reluctance to invest.

A loan from Donbac provided peace of mind and in many cases was viewed as the vital component for the businesses we support.

It lifted a stress for the borrower and allowed them to concentrate on their business development whilst knowing that we were there to support them at every turn.

All interviewees said they would recommend Donbac to other businesses.

**100% of interviewees said they'd recommend Donbac**

<sup>25</sup> Interviewee borrowing £10,000 (Computer & Related...)

<sup>26</sup> Interviewee borrowing £15,000 (Computer & Related...)

- “I never felt it was 100% guaranteed that I’d get the loan, it had been very stressful up to the point that they said yes, that eased things. It wasn’t a slow process, they were recommended to me by my bank manager. The guy I dealt with at Donbac was a professional chap, no bullshit.”<sup>27</sup>

- **“Going back 3 years we couldn’t get credit (previous firm went into administration) no one wanted to know us, we still have difficulty renting a car for business use. It was definitely a relief (to get the loan) from approval to drawdown it absolutely worked.”<sup>28</sup>**

- “Getting the loan was like a concrete block being lifted from our heads; remember having a spring in my step.”<sup>29</sup>

- **“It’s a credible organisation that makes a difference in people’s lives, very important in South Yorkshire, helping people make a go of it.”<sup>30</sup>**

We lend throughout South Yorkshire and the wider Sheffield City Region (not just Doncaster!) to small and medium sized enterprises seeking loan finance. We have a team of experienced and motivated staff which has grown to help us maintain our growth in investments levels year on year...

**Donbac is an accredited Community Development Finance Institution (CDFI), an accredited Enterprise Agency and a registered lender under the Enterprise Finance Guarantee scheme.**

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<sup>27</sup> interviewee borrowing £40,000 (Business Services)

<sup>28</sup> interviewee borrowing £50,000 (Creative Services)

<sup>29</sup> interviewee borrowing £10,000 (Construction & Building)

<sup>30</sup> interviewee borrowing £9,000 (Business Services)



## Gross Domestic Household Income (GDHI)

Additional to the social returns described, Donbac loans have also contributed to the GDHI of the region.

Over a 12 month period (calculated by annualising 10 months figures to October 2013), Donbac investments helped to create and/or safeguard 951.5 jobs in the Sheffield City Region.

Using an average weekly wage of £441 multiplied by 52 (weeks in the year) and based on the assumption that 75% of income remains local, this equates to a contribution to GDHI of £16.3 million.