Start Up Micro-Enterprise Project

An Evaluation

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Start-Up Microenterprise Project:
An Evaluation

This project was delivered in partnership with:

Responsible Finance

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Introduction

Start-Up Micro-enterprise

The Start Up Micro-enterprise project intended to test new models of Community Finance that support housing residents become community entrepreneurs. As a HACT and Responsible Finance (previously known as Community Development Finance Association, CDFA) collaboration, it was also an action- learning based project for housing associations. The project brought together resources from interested housing associations, Community Development Financial Institutions (CDFIs), organisations with experience delivering affordable and responsible lending to lower income groups and social investors to create a ring-fenced loan fund, with the aim of supporting the start-up of new resident-led businesses.

The rationale of the project was that self-employment and entrepreneurship are routes for which social housing residents are generally not encouraged to pursue, but that there may be an appetite. However, social housing residents are unlikely to have the capital themselves to launch a business or access capital through the traditional methods such as high-street bank loans. As such, many social housing residents are effectively barred from self-employment, regardless of whether they have the motivation and a viable business idea. The project aimed to tackle this by designing a loan that could be made available to social housing residents, enabling them to start their own businesses.

Partners

A total of 15 housing associations took part in the project in two cohorts, with the first cohort finishing their involvement in the project in December 2015 and the second cohort in September 2016.

Partners in the first cohort included:

- City South Manchester
- Isos
- Peaks and Plains
- Regenda
- Watmos
- Wigan and Leigh
- Your Housing Group

Partners in the second cohort to finish the project included:

- Genesis
- Northwards
- Poplar HARCA[1]
- Southway
- Swan[1]
- Tower Hamlets Homes[1]
- Trafford
- Wandle

The CDFIs involved in the project included:

- Business Finance Solutions
- Five Lamps
- London Small Business Centre

Evaluation

The purpose of this paper is to evaluate the project: what worked, what did not work, what the challenges were, what lessons can be learned and what the future for self-employment in housing association employment support programmes may be. In order to do this HACT undertook interviews with representatives from all participating organisations. The purpose of this was to get the perspective of both housing associations and CDFIs, understand their experiences of the project, and look for themes and commonalities. HACT also conducted an interview with Tarek, a successful loan applicant, in order to understand the experience of someone who went through the project.

For ease, the findings of these interviews will be presented in thematic subsections: participation, challenges, successes and lessons. The paper will conclude by drawing together the findings and suggesting where they point for the future of self-employment as a part of housing associations' employment support offers.

[1] Poplar HARCA, Swan and Tower Hamlets Homes participated in the project as a consortium.

Participation

The organisations which participated in the project were diverse in terms of size, geographical location and local contexts. However, they share similar motivations and reasons for joining the project with the underlying reasons for many being that it:

- Aligned with existing work and business priorities;
- Provided opportunities for learning and partnership building;
- Incorporated a match funding model.

Some of the participating housing associations had previously identified self-employment and enterprise as an area in which they wanted to develop their employment support offer to residents. The SUME programme proved an opportunity to develop their employment support offer as it **aligned with pre-existing work and priorities.** In comparison, other housing associations did not have pre-existing plans specifically around self-employment prior to participating in the project, but saw it as an opportunity to plug a gap in their existing service delivery. This synchronicity with existing work was demonstrated by the fact that in most cases the project was delivered as part of partners' existing service infrastructure, with an internal team taking responsibility for delivery.

The SUME project was also viewed by both housing associations and CDFIs as an **opportunity to develop networks and partnerships** both within and across their respective sectors. Given their expertise in delivering affordable finance to economically marginal and less prosperous groups, social housing residents are a target population for CDFIs, but one to which they have limited access, unlike housing associations. As such, participating in a project that brought the two together provided a good way to raise awareness, make contacts and build relationships between key staff. Additionally, some of the participating housing associations had previous dealings with the participating CDFIs, and the project provided an opportunity to deepen these relationships.

In order to make the offer attractive to housing associations, the project **incorporated a match funding model.** The project required a £50,000 investment from each housing association which was matched through CDFI monies and money from the social investor, the Start Up Loan Fund to create a dedicated Loan Pot for each housing association and its residents of £150,000. Participating housing associations referred to the project as being 'win-win' and 'low risk', as the investment required was relatively low, and would be returned if loans were ultimately not given out. For some, this proved crucial in gaining internal interest and buy-in from the wider organisation into the project.

Challenges

The primary aim of the SUME programme was to support social housing residents to develop and establish their own businesses with the provision of a loan and additional business support. Initial expectations were that there would be approximately 30 successful loan applicants per pilot and 390 across the project as a whole. In practice, despite the generally strong level of interest and initial engagement, the project was not as successful as hoped in distributing loans, with only 3 individuals successfully receiving loans.

Given this much lower than anticipated level of loan distribution, it is necessary to look at why this might be and the challenges that prevented the generally good initial level of interest being converted in the loans. These included:

- Identifying and engaging the target audience
- Profile of social housing residents
- Eligibility
- Changing political and housing sector landscape

Whist a number of housing associations and CDFIs highlighted a strong initial interest and uptake into the programme, others encountered **limited interest amongst their target audience** and found it difficult to engage people in the programme. Broadly, it appears that those who had more success in generating interest may have been those housing associations with existing enterprise teams which integrated the programme into existing services and were therefore able to leverage existing infrastructure to generate interest and refer people.

The lead-in time for the project was vastly underestimated with contract negotiations taking longer than anticipated. The slower progress also affected the benefits gained from attending the learning sessions. Some of those attending the sessions felt they didn't provide useful learning and opportunities to networking until the later sessions. For example, the topic of marketing with regards to engaging target audiences wasn't covered until one of the later sessions whereas it would have been beneficial to cover this earlier on as this would have provided additional support to housing associations to identify and engage their target audience.

The **issue of eligibility and credit** was emphasised by the majority of housing associations and CDFIs as being a key challenge in the project. Almost universally, partners reported that the credit check was a barrier to people receiving loans. This is an inherent difficulty in providing loans to the target demographic; those to whom it would have the most benefit are those perhaps most likely to be ineligible at the early stage. Whilst participating housing associations set their own funding criteria, all applicants needed to meet the SULCo eligibility criteria which as a minimum includes:

be aged 18 years or older; be a UK resident; be able to work in the UK on a fulltime basis for the duration of the loan with no restrictions on type of work or self-employment; and the business was either a start-up or has been trading for less than 12 months and based in the UK. Additionally, applicants should be unable to access alternative financing elsewhere. Despite attempts being made at the outset of the project to design the loan so as to be more likely to suit social housing residents, the fact remains that many social housing residents have poor credit ratings and, as a project partner from one of the CDFIs explained, there are still guidelines on responsible lending that need to be followed.

Changing of policies and the tightening of eligibility criteria further inhibited the ability for the target audience to access these loans. Furthermore, in many cases the possibility of passing a credit check became a moot point, as individuals decided that they simply did not want to take on the debt, regardless of the beneficial rate offered. Both these issues stem from the circumstances of the target population for this project. Project partners found that the **profile of social housing residents** tends to be individuals a long way from the job market, perhaps further than anticipated. This means that, necessarily, passing any kind of eligibility criteria is going to be challenging and even if they were found eligible, people may lack the confidence to take on the debt. This same issue also caused challenges when it came to the process of providing a loan. It was felt that, in some cases, individuals initially enthusiastic quickly became less so when confronted with the paperwork and an explanation of the full process. To those so far from the job market and who do not necessarily have much experience in business, this was daunting and therefore not something they felt willing or able to take on.

It appears that those who were successful in their application for a loan under the SUME programme are perhaps unrepresentative of the wider social housing population. It was found that many of those individuals who expressed interest were at an early stage in the development of their business plan with most needing 'pre-support' to develop an idea as opposed to business support or a loan. One housing association indicated that successful individuals came to the programme from a different position to others as they had already developed their business idea over a long time period. For example, Tarek, one of the successful applicants, had a background in business, having previously worked at a Fortune 500 company, in various roles. Additionally, he had made previous attempts to access finance to get his business off the ground, and as such had much of the foundation paper work and checks already completed, which made the process easier.

If these challenges are perhaps somewhat inherent in attempting to provide microenterprise loans to social housing residents, there were further challenges that were more external relating to the **changing political and housing landscape**, and difficult to foresee. Principal amongst these was the July 2015 budget, which drastically changed the landscape in the social housing sector, introducing the 1% rent reduction and welfare reform. Whilst the project was designed and started before the budget, the bulk of it took place after.

During this time many of the project partners saw huge organisational change in terms of personnel, structure and priorities, which hindered their ability to deliver the project as effectively as they would have liked. In particular, many project partners delivered it through their community investment or development department, a part of the sector that was particularly severely affected by many of the changes housing associations implemented. The changes in structure and personnel also hindered the CDFIs ability to work closely with their partner housing associations in some cases. The CDFI respondents interviewed felt that the success of such a project would rely strongly on the relationships between housing association and CDFI staff, which in some cases simply could not develop as the staff responsible for the project at a housing association changed, often multiple times.

Finally, there were a couple of other challenges less severe than the above, but brought up by a handful of organisations, external to the housing sector. Firstly, between the project being designed and put into practice other schemes emerged that either fulfilled a similar purpose or were targeted at a similar demographic. For example, the Enterprise Allowance Scheme did not exist at the outset of the project but, once available, was often felt to offer a better route for residents. This is principally because the Enterprise Allowance allowed individuals to continue receiving welfare benefits whilst trying to get their business off the ground. Also mentioned in some cases was the existence of other bodies that offered smaller amounts, but in the form of a grant rather than a loan, which, in many cases, was a more suitable offer for individuals interested in the project.

Secondly, unemployed social housing residents are often under pressure to get into work. One housing association felt that they had had individuals enrolled in the project who may have been good candidates for self-employment and receiving the loan, but who, being encouraged to do so by Jobcentre Plus, found normal employment before they could progress any further. There is perhaps an irony here, in that those who are most likely to be good candidates to receive microenterprise and be able to start their own business are also, due to the exact skills that make them good candidates, most likely to be able to find employed work before they can progress through the project.

Taken together, these challenges, some of which could not be foreseen before the project began, meant that the project was not as successful as anticipated in terms of providing loans to residents. Nonetheless, there were other ways in which it was successful and which merit consideration.

Successes

For most of the participating housing associations, generating interest and locating potential participants was not a major issue illustrating an interest and appetite for self-employment and enterprise opportunities amongst social housing residents. However, the major challenge for the project was turning this interest into successful loan applicants. Despite not having significant success when it came to distributing loans to residents, participating housing associations and CDFIs identified a number of benefits from participating in the project, including:

- Value of non-financial aspects of the programme
- Greater knowledge and understanding of residents and communities
- Development of staff skillsets
- Developing partnerships

The **value of the non-financial aspects of the programme** was highlighted by housing associations and CDFIs alike as being particularly valuable and effective for those social housing residents who engaged with the programme. None of the housing associations offered the loan as a standalone element, but rather as a wider programme of training and business support. For many individuals, it appears that the support and advice was most attractive about the project, not the potential for a loan. This suggests that the majority of people enrolled in the scheme were not at the point of being able to launch a business, if provided with funds, but rather were in the early stages of business development. This is perhaps not surprising when one considers that many housing association residents are, as discussed previously, particularly far from the job market. These individuals are likely to be in a position where some upskilling, advice and raised confidence is a far more appropriate offer than a loan, when it comes to encouraging enterprise. The opportunity for residents to discuss and get advice on their idea for a business, and receive some general information and support was a valuable one, helping to increase their confidence and boost their general employability. Indeed, it was pointed out that some who took part subsequently went on to gain regular employment, to which their participation may have contributed.

A recurrent theme was that participation in the project helped both housing association staff and the CDFIs better **understand the needs of their target audiences**. Many organisations involved in this project found one of the biggest successes was the chance to better understand their communities, the appetite and potential for self-employment and enterprise, the sorts of businesses residents want to start and their ideas, and what level of support and guidance is needed. Engaging with residents was also found to be helpful in terms of gauging what support would be required in future, if helping residents into self-employment was to become an ongoing part of the general employment offer. Engaging with the project also proved valuable to the CDFIs in terms of understanding the market, which will be important if they look to work with more social housing residents in future.

In delivering the programme, many of the housing associations were able to develop the **skillsets of staff**, particularly with regards to thinking about how existing networks and resources can be used in new ways. Many found that delivering an enterprise or self-employment project was something they were able to do with relatively little disruption, by taking advantages of existing relationships, resources and facilities. For example, one housing association has established an enterprise hub in June 2016 partnership with the London Small Business Centre, providing an affordable workspace for SMEs, workshops and business support from the London Small Business Centre. Other housing associations involved in the project have adopted a similar model to providing support for entrepreneurs and resident-led businesses.

As well as **strengthening existing relationships,** a strong theme was that the project also helped **foster new ones**. Principally, the building of relationships with housing associations and specific staff was seen as particularly valuable for the CDFIs, given that their residents are generally those whom CDFIs tend to target. Many housing associations involved found that working in partnership with organisations in the project, particularly the CDFIs, was valuable, with some looking to continue these relationships going forward. For some of the more place-based housing associations taking part, building these relationships proved particularly useful, as they were able to work together to deliver the project beyond what would be their normal area of focus.

Conclusions

This project sought to provide loans to social housing residents in order to help them start their own businesses and stimulate entrepreneurship, with the hypothesis that there was a group willing and able to do so, only lacking in the start-up capital necessary. In practice, this did not prove as straightforward as anticipated, with very few individuals receiving loans. However, this was due more to the difficulty faced by social housing residents such as meeting the eligibility criteria for the loan than lack of interest. Most of the housing associations involved found that upon advertising the project they received a strong level of interest. This suggests that, in keeping with the original idea for the project, there is appetite for entrepreneurship amongst housing association residents.

It would appear that there is certainly a way forward for housing associations to deliver enterprise and self-employment support as part of a general employment support offer. Indeed, many of the housing associations involved in this project stated that they are interested in looking at how they can do just this. Given that the project was not as successful as anticipated in terms of its primary goal of distributing loans, but did deliver a number of other successes, it is important to ask what we can learn from this experience. The findings from this project should provide useful lessons for designing future projects in this area.

Key learning

A key lesson that can be drawn from the project is the need to **ensure that the loan is accessible to the individuals to whom it is targeted**. If an alternative eligibility criterion could be established, one that allowed more of these individuals to receive loans, it would perhaps increase the effectiveness of the scheme. However, given that there does need to be some sort of criteria and eligibility check, to ensure responsible lending, there may only be so much that can be done in this area. Nonetheless, an organisation looking to pursue a similar project in future would be well advised to consider how it might be able to overcome this challenge.

However, if the eligibility for a loan is perhaps difficult to tackle, there are a number of lessons that can be learned from this project that would be immediately implementable. The first would be to **consider the balance and relationship between the loan and business support and training**. The element of the project that was universally felt to be successful was the business support and advice, with all partners feeling that participating residents had enjoyed and benefitted from the business planning advice and support made available. Therefore, learning from this, if a housing association wished to encourage enterprise and self-employment amongst its residents, it is perhaps the case that the project it designs should take the format of support and advice on planning, design, marketing and so on, with the loan element a potential avenue at the end of the process for those who are in the position to be able to make effective use of one.

Alternatively, and an idea suggested by some of the housing associations interviewed, **it may be more effective to offer small grants than larger loans.** It was found to be the case that for many individuals who had a good business idea and plan the required injection of capital to launch was not as large as the loan on offer. Rather, individuals tended to require smaller amounts to buy equipment or pay for some marketing. Therefore, to these individuals, the larger loan was not necessarily attractive. A future project to encourage self-employment and enterprise may wish to consider identifying individuals who are ready to launch their business but lack the liquidity to be able to purchase the necessary elements, and offer small grants to these individuals, perhaps on the basis that they undertake the course of business support and advice discussed previously. It seems likely, from the findings of this project, that this model may have more success in stimulating local start-ups than the offer of a larger loan.

At the heart of both these lessons is a third lesson: **the need to have a strong understanding of the potential for enterprise in a community**. In order to design a really effective enterprise project, it is necessary to have a firm understanding of all these in advance. For example, identifying those who have solid business plans and how much capital they need to launch would guide whether the offer is a grant or a loan. Understanding the skill base would inform the level of business support that needs to be offered. It may be the case that an effective project could have more than one stream, with advice and support for all participants, and further financial support available for those with firmer ideas and plans, or more experience in business. A really strong understanding of their communities would allow a housing association to answer these and similar questions, and have a greater chance of designing a project to meet their and their communities' needs.

Another element of this pre-design work that an organisation may want to consider doing is **investigating which organisations are based in the area that may be able to contribute or partner on such a project**. CDFIs are clearly very suited to this sort of work, but there may also be a whole range of charities or social-enterprises able to provide useful input or support. Likewise, it would be prudent to engage with local government services. For example, coordinating the project with Jobcentre Plus may be useful both in terms of increasing awareness of the project and in ensuring that people taking part in the project are not simultaneously under pressure from Jobcentre Plus to find regular employment, as at least one housing association in this project found. Another important consideration would be relationship building and the need to understand the level of commitment that organisations can provide to ensure good partnership working.

Whilst the project did not achieve its intention to support housing association residents into self-employment or entrepreneurship through the provision of loans and business support, it does demonstrate that there is appetite for these routes to employment amongst this population. A number of participating housing associations indicated that self-employment or enterprise work is something they wish to look at continuing or amalgamating into their broader offer. If this is the case, this project and the key learning from the challenges encountered and the successes achieved can be extremely valuable in directing who work and informing future similar projects to be as effective as possible.