

A Feasibility Study on Fair and Patient Capital in Barking and Dagenham

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Barking & Dagenham Giving

Executive Summary

This study conducted by Barking & Dagenham Giving (BD Giving) delves into the demand and potential for fair and patient loans that support small, private businesses impacting the local communities of Barking and Dagenham.

Insights were gathered via interviews, Town Hall events, focus groups, and conversations with community leaders and suggests these businesses are interested in funding that helps them grow. Previously, when they've gone looking for funding they have faced geographical limitations, challenges with paperwork and the language of finance, and the ongoing effects of systemic inequality.

According to these businesses, the ideal loan offer has flexible repayment terms, low interest rates (less than 5%), and the potential for a revenue-sharing agreement. They are also looking for a more equitable lender-borrower relationship. BD Giving intends to use these insights to develop a loan product for these businesses, recognising the importance of community participation, learning and scaling. BD Giving will require collaborative partners and catalytic funding for this endeavour.



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1. Introduction and rationale

For community businesses, accessing funding and understanding different types of finance can be challenging to navigate. With a growing focus on developing alternative and repayable funding streams, BD Giving spent nine months considering our community's understanding of and appetite for funding options that are structured around repayment.

There were two main reasons for this:

a. We believe community businesses are integral to the social fabric of Barking and Dagenham.

b. There isn't enough funding flowing to local businesses in Barking and Dagenham. Despite interest from social investors, there is a gap in the market for funding privately-owned businesses. We want to develop a new loan product that closes the gap.



The data collected will inform the development of programmes and services that join up and deliver on the current needs of community businesses. We gather the building block for a product that truly feels 'fair for all'. And, we lay out what businesses need to become more resilient, more sustainable, and to thrive in a changing Barking and Dagenham.

2. Background

Many local, private businesses cannot keep up with the pressures of the high street nor can they access funding that's flexible enough for them to keep up with the pace of societal change. These businesses are the salons or barber shops offering a listening ear or a corner grocer offering the only fresh food on a council estate. They make a difference to residents, and sometimes the difference is just being there.

Unless something is done, the demise of these businesses will negatively impact communities.



What do we mean when we say a community business that 'makes a difference'?

While charities and social enterprises have a clear mission driving their work, private businesses are often overlooked for their contributions to their communities. We asked borough residents to tell us about businesses in their community that make a difference in their daily life.

Example: Darth Faderz

Darth Faderz is a family-run barbershop in Dagenham Heathway, serving the black community. Resident Cashain David highlights its impact on his family, particularly the accommodations made for his autistic teenage son, including quiet hours dedicated solely to him, so he can enjoy a comfortable barbershop experience.

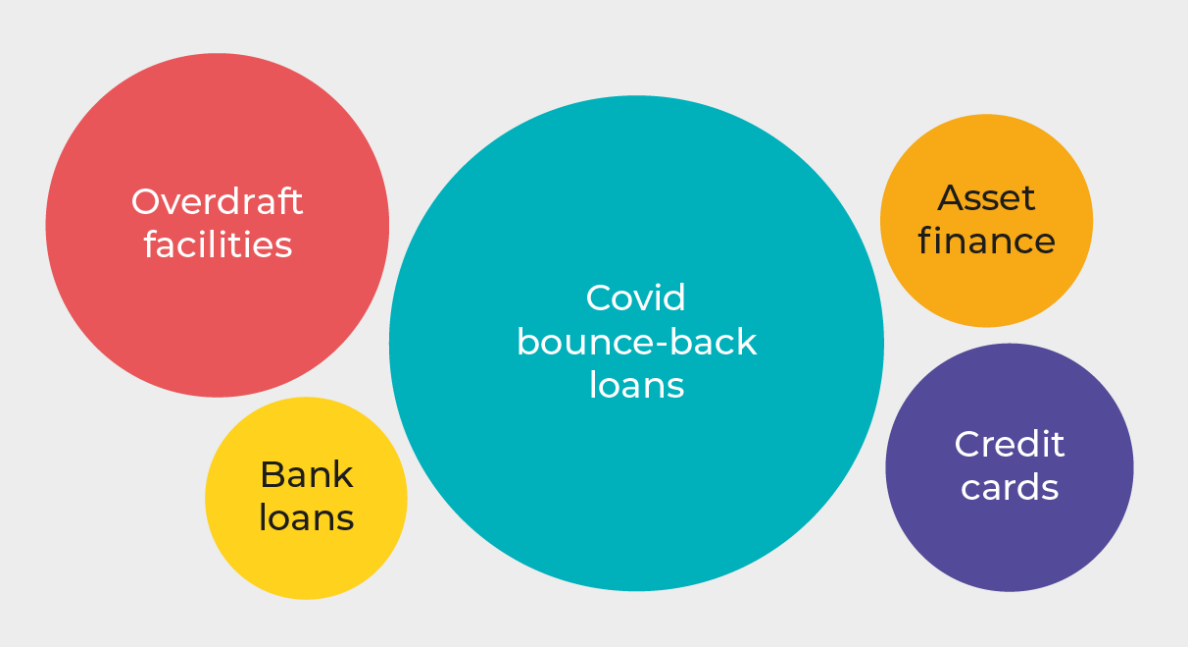
About the business landscape:

- Small and medium businesses (0-49 employees) account for 99% of UK businesses and employ 61% of the workforce. (The Federation of Small Business, 2023)
- In Barking and Dagenham, there are an estimated 7,790 businesses, 88% of which are microbusinesses (0-9 employees) and the top three sectors are 1) construction; 2) computer consultancy; and, 3) wholesale/retail trade. (London Councils, 2019)
- Barking and Dagenham's wholesale/retail sector accounts for 41% of total business turnover–the London average is 29%--and employs 20% of the borough's working population. (London Councils, 2019)
- Barking and Dagenham's total economic output (Gross Value Added) per registered business is 0.51 which is substantially lower than the London score of 0.75, and the lowest across all London local authorities. (DEFRA, 2024)

In the wake of a global pandemic, businesses from every sector and in every place have had to adapt and innovate. Innovation often requires an injection of money but investment markets have developed in a way that makes it difficult for small businesses to access funding. Investment can make or break long-term success.

2.1 Fair and patient loans

The Federation of Small Businesses (2022) recent report, “Credit Where Credit’s Due” concluded that small businesses rely on debt. The proportionate circles below illustrate what small businesses have applied for in the past five years. Only a small percentage applied for alternative funding such as: equity investment (4%), start-up loans (3%), or trade finance (1%).



This sample is from across the country (not specifically Barking and Dagenham) yet it indicates that small businesses are in need of funding to grow or sustain their business. They face barriers to funding, which include:

- History: Lenders find it difficult to assess credit-worthiness without a proven track record. Sometimes personal credit history can become a factor too.
- Risk: Lenders perceive small businesses as riskier than more established ones.
- Collateral: Many lack the assets to use as collateral to secure loans.
- Amounts: Smaller loan amounts are less attractive to lenders.
- Industry: Some industries are riskier due to volatility / uncertainty / rapid change.

- Plans: A developed business plan may not be in place hindering perceived viability for lenders.
- Documents: Accessing financing involves significant paperwork and adherence to regulatory requirements. Small businesses may lack the resources or expertise to navigate this.
- Economics: Economic troubles can lead to a reluctance to invest.
- Options: Small businesses have fewer funding options than larger ones.
- Inequalities: Some businesses will be diverse-led which come with its own set of challenges that have been entrenched within society, such as gender, ethnicity, class, geography, educational background, age etc.

It's clear that small businesses can face barriers even before searching for funds. Once funds are secured, small businesses face terms typically designed to benefit lenders who are looking for timely repayment and to maximise profit.

What do we mean when we say 'fair' and 'patient' funding?

In the context of this report, funding means a loan or money that is expected to be repaid. However, it can also mean a grant or a donation.

When we say 'fair' funding, we mean a loan that re-balances the power dynamic between lender and borrower. Often the power is skewed towards the lender via extractive interest rates; or a lender favouring a certain type of business or founder; and, even the amount of questions to answer, paperwork to complete, or time one must give to apply. A fair lender often takes a more holistic view and considers the nuances of the business and the situation of the founder to arrange a loan with a lesser interest rate, and in some cases, no interest at all.

When we say 'patient' funding, we mean a loan that removes the pressure of monthly repayment. Often borrowers are penalised if repayment dates are missed. A patient loan can be repaid at a slower rate and repayments can be paused if the business faces challenges.

Depending on what the borrower prefers and their revenue stream, they could pay back a percentage of their monthly sales, which means during slower months they'll pay less, and during busier periods, they'll pay more. This is often referred to as a revenue sharing agreement, or in finance jargon terms, a quasi-equity investment.

Example: Covid Bounce Back Loans

The Covid Bounce Back Loan facilitated by the UK Government for small businesses guaranteed 100% of the loan. There weren't any fees or interest to pay for the first 12 months. After 12 months the interest rate was 2.5% a year. The loan length was 6 years, with potential to extend to 10 years but you could also repay early without a fee.

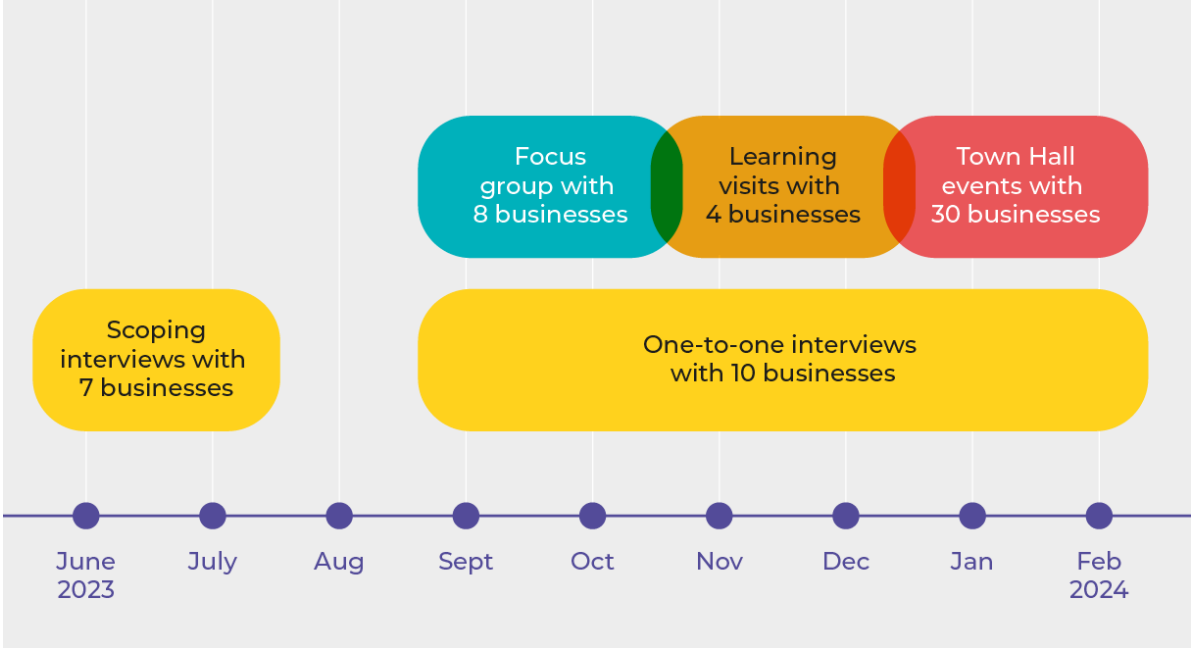
Regarding the language of loans, Sung-Hyui Park's (2023) work on 'Equalising Deal Terms' highlights the current challenges which exacerbate the inequities in funding. The language seems to reward those who already understand it, making it hard for someone without prior experience in business funding to access it.

Fair and patient funding can contribute to a more inclusive and supportive funding environment, helping small businesses setup for the long term. By offering loans that prioritise stability, businesses can better navigate a difficult economic climate and take the time to innovate without the pressur



3. Methodology

BD Giving spoke to approximately 61 local businesses, most of whom were locally-trading, private businesses. We also spoke to leaders in the business community, residents, and social sector partners. The timeline below outlines our approach.



3.1 Semi-structured interviews with 17 businesses

In June 2023, a 45-minute scoping interview was conducted with seven businesses to inform the data points and questions for the feasibility study. The businesses were nominated by community members. Questions focused on their appetite for funding, borrowing options, business impact, and barriers to accessing funds.

From September 2023 to February 2024, we conducted in-depth interviews with ten businesses. Leaders in the borough helped us identify these businesses. In each interview, we introduced a vignette scenario about a fictitious business considering renting their salon space in the evening to community groups, framing the conversation around mutual support while building rapport. Questions focused on business growth, funding appetite, business impact, desired loan terms, future plans, and barriers to accessing funds. See Appendix 1 for the interview schedule.

Participants received £50 for their time. We employed 'snowball sampling' to recruit new participants, asking interviewees to recommend others.

Interview data was coded using a thematic analysis approach and presented as key learnings and findings in the following chapter. See Appendix 2 for a list of businesses interviewed.

3.2 Two "Town Hall" events with 30 businesses in total

Local businesses were initially invited to two events scheduled for November 2023. Due to low uptake, the event was postponed to January 2024. The delay allowed for additional time to engage with businesses on a one-to-one basis and encourage their participation. Over four weeks, we walked the high streets and distributed 100 leaflets inviting businesses to attend the events. We engaged approximately 75 businesses in impromptu conversations about loan terms, interest rates, and their relationships with the local authority, gaining valuable insights.

In January 2024, two events were held—one in Barking and one in Dagenham. Participants were paid £25 for attending. See Appendix 3 for a sampling of the questions that were asked. The data was coded using a content analysis approach from notes taken during the events - counting how many times certain themes emerged.

3.3 Focus group with eight businesses

In October 2023, we facilitated a discussion with eight grant-holders from BD Giving's social enterprise support programme (see Appendix 4 for participant list). They discussed social investment, borrowing money, business growth, and modelling new systems. This dialogue directly influenced the development of our GROW Fund loan product and contributed valuable data points for this feasibility study.

3.4 Hyperlocal business engagement

We conducted a site visit to Andrew's Corner, a historically significant community retail area in Dagenham, where we spoke to an optician, florist, independent supermarket, launderette, barber, and more. During the visit, a local resident brokered new relationships between BD Giving and local businesses.

3.5 Local stakeholder engagement

We engaged in discussions with the council's Communications and Inclusive Growth teams, as well as the Barking Enterprise Centre (BEC), to gain insights into the business trends in the borough. Our aim was to understand patterns, the levels of growth support they have previously been offered, and their understanding of business's needs in regards to finance. Additionally, we spoke with local residents to learn about their perception of existing services and offers as well as their personal connections to local businesses.

3.6 Learning from others

Between December 2023 and February 2024, we met with Kindred LCR, Big Issue Invest, Sumerian Foundation and Daring Capital to understand their respective processes for deploying money. We drew inspiration for our own future loan product and considered ways to incorporate local participation into BD Giving's process.



4. What did the research tell us?

BD Giving's data set suggests there is demand for a fair and patient loan product. Every business we spoke to expressed more staff, increase their local impact, and be part of a stronger local business community.

Of the 30 businesses we spoke to at the Town Hall events, almost all would take money that had to be repaid. Of the 17 businesses with whom we conducted in-depth interviews, the views are represented through the graphic below.



Testing the data

Though our feasibility study may not capture the entire local business landscape, there are trends that surfaced. We aim to validate these findings by continuing our work according to the process illustrated to the right.



Business engagement efforts

While engaging with businesses was successful, discussing a potential loan offer was challenging. It is difficult to discuss something intangible. We noticed this exacerbated the discomfort that often comes with discussing money. Understanding businesses' hesitancy regarding loans is key—whether due to disinterest, lack of knowledge, or trust issues.

Our previous work designing funds with local residents revealed that the language we use to engage people in conversations about money and finance is key. Time is needed to create the space for honest and open conversations, which then surfaces the words, terms or concepts that aren't understood. Once people feel comfortable enough, the questions begin to flow and we often find ourselves questioning society and the way it has been set up.

4.1. Key Learnings

The data gathered has been organised into five key areas:

1. Desired funding products;
c. Barriers to investment;
d. Business support needs;
e. Language of investment; and

f. Lender-borrower relationship.

4.1.1 Desired Funding Products

Businesses express a preference for financial products with flexible repayment terms and low interest rates (below 5%), showing interest in equity investment and revenue-share models despite their relative novelty in the investment sector.

Traditional loan models are also considered by some. However, many participants lack understanding of social investment and its benefits over traditional loans, indicating a need for further education in alternative funding options.

4.1.2 Barriers to Investment

The research revealed common barriers to investment, including geographical constraints (owning a business in one of London and the UK's most deprived areas), cultural and religious factors, systemic inequalities related to class, gender, and educational background, as well as industry-specific challenges.

A closer look into 'cultural and religious factors'

According to Islamic Finance principles, earning interest on a loan is prohibited. This poses a significant barrier to funding for many business owners in Barking and Dagenham, considering 24.4% of residents identify as Muslim. (Office for National Statistics, 2021).

From our research...

Several Muslim business owners expressed reluctance or avoidance in discussing loans. Two of the business owners mentioned the potential of a revenue sharing agreement, where investors receive a portion of income revenue, offering a viable investment avenue that works within Islamic Finance principles.

Overall, we observed reluctance towards borrowing. Many expressed a stigma towards debt and some conflated the negative perceptions of personal debt with business debt and an inability to see a loan as part of a growth plan. Businesses shared that high street bank loans and other commercial lenders have high interest rates and relative inflexibility when it comes to paying back loans. Businesses fear strained relationships with lenders and the pressures of repayment schedules.

A closer look into 'class and educational factors'

Barking and Dagenham is London's most deprived borough in regards to education, skills and training. Only 26% of residents have obtained degree level education or above– the lowest rates in London– and 10% of residents are without any formal qualifications. (Trust for London, 2021)

Additionally, the most recent census suggests a substantial increase from the previous census in residents born outside of England (ONS, 2021). Many of the local business owners we met learned English as a second language, which comes with its own set of societal barriers.

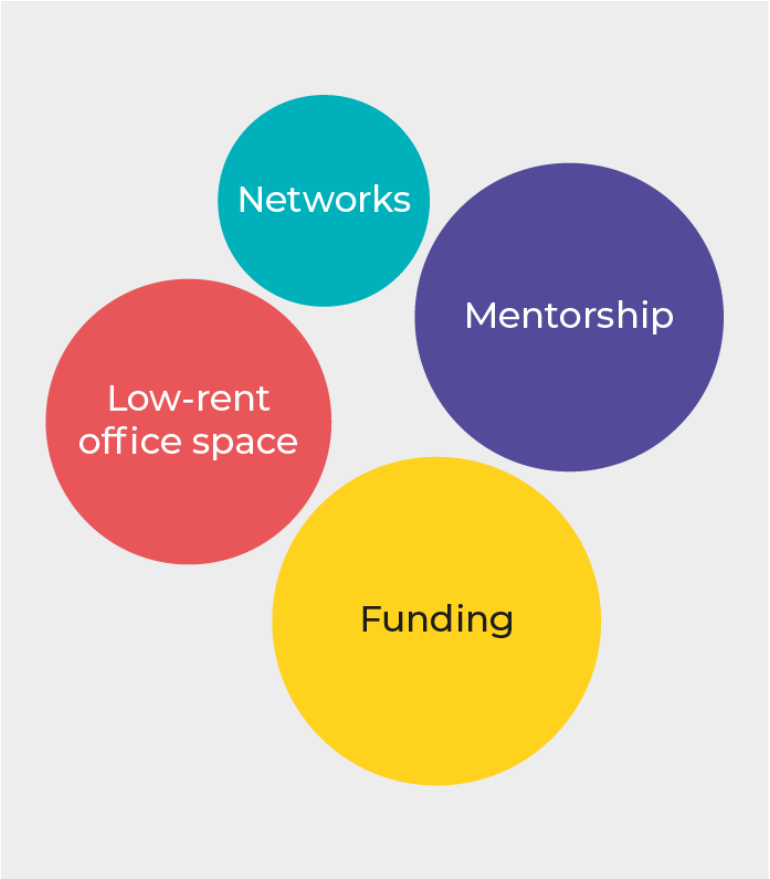
From our research...

A cafe run by a North African family steadfastly maintaining a £5 lunch offer in Barking Town Centre amid increasing operating costs, shared huge ambitions to grow. They need money to do this. Over the last few years, they applied for several bank loans to support interior renovations and were repeatedly denied due to the bank's concerns about their cash flow. They resorted to borrowing money from their family. They are now looking for money to open up a second cafe in a neighbourhood considered a food desert. They revealed little knowledge of funding options other than high street bank loans.

In many conversations, we encountered a limited understanding of funding options and social investment as an alien concept, especially with business owners where English is their second language. Overall, understanding the breadth of funding options and where to go for information is a barrier to accessing funds.

4.1.3 Business Support Needs

Businesses express diverse support needs, ranging from financial management assistance to low-rent office space. Coaching and mentorship are also sought for guidance in business growth and scaling, particularly among those transitioning from grant reliance to new funding streams. The proportionate circles to the right reveal the findings from the Town Hall events. Overall, every business we meet aspires to grow. However, 'growth' is subjective and should be defined by the businesses themselves.



4.1.4 Language of Funding

Challenges persist in communicating about funding due to complex terminology from the outset. Simplifying communication is crucial to improving access, particularly for marketing new funding products. This insight has been seminal throughout business engagement and data collection, supporting Park's (2023) work on 'Equalising Deal Terms' in the sector.

4.1.5 Lender-Borrower Relationship

Businesses emphasise the importance of collaborative relationships between lenders and borrowers, built on trust, respect, and genuine concern. They advocate for a partnership approach characterised by regular communication and a simple application and reporting process. The lender-borrower relationship surfaced as the most important aspect of

any loan. Businesses want a lender to genuinely understand their business and their ambitions. With high levels of frustration expressed towards high street banks, we asked participants how they felt about borrowing from BD Giving. Most, if not all, said they would be happy to. Some businesses wanted to further explore a 'stewardship model' where profits get reinvested into other local businesses. Some stated that this model was fair and helped alleviate some of their concerns about borrowing money.



5. Moving forward

BD Giving recommends several actions moving forward. First, there is a need to expand local business engagement, facilitating deeper and more meaningful conversations, and rigorously testing the data collected. We know the borough boasts a substantial retail and wholesale sector; therefore, relationships need to be developed beyond the high streets and within the borough's largest sectors.

Second, there is a need to design a fair and patient loan offer tailored for businesses that the community recognises as making an impact. True to BD Giving's values, we recommend a co-design process for this loan product as well as a loan distribution process where residents play a key role in deciding where and how the money flows.

Additionally, we recommend a comprehensive strategy that allocates time, skills, and resources to effectively engage with businesses in Barking and Dagenham and with appropriate language. We also recommend tools that support the wider investment sector in adopting simpler language. This strategy will ultimately help build a more inclusive pipeline of businesses interested in a fair and patient loan offer.

Finally, being mindful of existing barriers to funding is insufficient; instead, we must actively work to dismantle entrenched power imbalances and develop a fair and patient loan offer for community businesses that sits within a wider ecosystem of fairly distributed money. We will continue to collaborate with other lenders who are considering their work part of a wider movement. This approach will serve as a measure of our potential success in addressing the limitations we have encountered.

Conclusion

This study emphasises the need for fair and patient funding options in Barking and Dagenham, with the potential to share new models in other places.

The businesses that residents define as 'community businesses' play a vital role in the local economy and in the social fabric of our neighbourhoods but face challenges in accessing fair and patient funding. This research aimed to determine if businesses would be interested in this type of funding if it were available. The findings indicate a clear demand for fair and patient loans.

However, fair and patient loans are not simply a binary feasible or unfeasible proposition; instead, it falls within a spectrum that requires exploration. Therefore, we will explore co-designing a loan offer with patient repayment terms, low interest rates (less than 5%), and a partnership-oriented lending approach, potentially incorporating revenue-share agreements.

BD Giving cannot address the demand for this loan product alone. For example, we require legal advice as we build a new loan product. And, as with all our initiatives, we will involve the local community in the product's development. We also seek support from place-based investors and those interested in exploring alternative funding models to collaborate on a pilot. Most importantly, we require catalytic funding to kick-start the first round of loans to community businesses in need.



7. List of Appendices

Appendix 1: Interview schedule

Starts with a vignette scenario to frame conversation with participants and to evoke a fruitful conversation about the role of businesses in society. First activity used to foster an open discussion and to build trust and rapport with the participant.

A local salon has a big client base. It's the best in town and is always rammed during weekdays and Saturday's. Alicia, the owner, is looking to expand, to hire more colleagues and to ultimately get more cash in. She has realised that the salon is not used during the evenings nor at all on Sunday's. She is thinking of profiting from this available space, which is almost wasted when the salon isn't open.

Alicia's best mate, Saz, is part of a women's survivor group. They meet twice monthly. It's been a pivotal part of Saz's healing and Alciia has witnessed the impact it has had on her life. However, the person leading the group has recently told them that they can no longer use the local library anymore. With funding tight, they need a space. A no brainer, Alicia decides to offer her salon to the group at a cheap rate, with refreshments thrown in too. Alicia feels great knowing that her salon is being used for alternative purposes.

Though, she starts to ponder about the possibilities that her businesses could offer to the community. She then starts to question the role of business in society and what part they can play in helping others.

- How did this make you feel?
- Did anything particularly strike you here?
- What role do you think businesses play in communities and what role can they play?
- How can businesses and communities support each other?
- What does community and social impact mean to you? And how does that fit into your business?

What is your understanding of social investment?
(elaborate as much as you can, even if it's not much - then BD Giving will define what social investment is from their perspective)

Do you have any concerns/woes around borrowing money?
(this could include borrowing money, debt, repayment)

Do you have the appetite to grow your business and secure capital?
(this may be a closed question, but try and unpack a little to feed into the below)

If you were to grow your business, do you think you would face any barriers when it comes to financing your business?
(or are there any alternatives to grow your business that don't involve investment?)

If you had unlimited resources, how would you want to grow your business?

What would the "perfect financial product or model" look like for your business and borough?
(offer examples if appropriate. I.e. equity investment, revenue share, unsecured debt)

What are your ambitions for your business?

What does the future look like?

Final comments/questions

- Do you have any questions for BD Giving?
- Was today helpful at all?
- The next part of the process would be to design how businesses would be selected for capital investment, is this something you'd like to be a part of?

Appendix 2: List of businesses interviewed

Business Name	Company Structure	Business Theme
Couleur Cafe	Private limited company	Food & Drink
Kromanti	Ltd Private company limited by shares	Food & Drink; Manufacturing
Easylight Healthcare	Private limited company	Health & Social Care
Ramis-Ark Global	Private limited company	Administrative & Management Services
Sacoma Foods Innovation	Private limited company	Food & Drink; Education; Environment & Sustainability
Party Box UK	Private limited company	Retail & Wholesale; Entertainment
Jerram Falkaus	Private limited company	Construction
Nails Trip Ltd	Private limited company	Beauty & Cosmetics
MAKE IT London	Private limited company	Workspace & Community Space; Hospitality
Brennan & Burch	Private limited company	Arts & Culture
SENspired	Private limited company	Education; Young people
Bluebird Pictures	Private limited company	Film & TV production; Education
Nurse Kitty Kat	Soletrader	Beauty & Cosmetics
Sleepgoddess	Soletrader	Health & Wellbeing
Heal Studio Ltd	Private limited by guarantee	Health & Wellbeing
Konverse Dance Crews	Private limited by guarantee	Arts & Culture; Sport & Recreation
Polishpad	Private limited company	Beauty & Cosmetics; Technology

Appendix 3: Town Hall events: question prompts

a. What are the local businesses that make an impact in your community?

b. What support does your business need?

   i. What financial support?

   ii. Any particular skill sets you need?

   iii. Is there any information you do not have easy access to?

c. Would your business accept money it had to repay?

   i. What are the risks to your business by accepting?

   ii. What would change your mind?

   iii. If you don't borrow money, what are your options?

d. Regardless of your answer to the following topic, how would you make the process of borrowing money fair?

   i. Fair to both the business borrowing money and the lender?

   ii. What would unfair look like?

   iii. Can you think of any examples of fair borrowing?

Appendix 4: List of focus group participants

GROW Fund grant-holders

- Fruitful Orchard CIC
- The Boathouse CIC
- One Room Live CIC
- Barking & Dagenham Youth Dance
- Future Moulds Communities
- Sew London Project CIC
- Company Drinks CIC

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Barking & Dagenham
Giving

Everyone Included

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