

Call for Evidence on Small Business Access to Finance

8th May 2025

A Submission by Responsible Finance

Responsible Finance welcomes the opportunity to feed into this important Call for Evidence on Small Business Access to Finance. Our response is based on extensive consultation of our members, and therefore contains qualitative evidence from frontline CDFIs. Our key recommendations are as follows:

Recommendation	Further information
<p>1. Encourage a compact between banks and CDFIs to create a structured, consistent and proactive partnership, where banks:</p> <ul style="list-style-type: none"> • Invest capital directly such as through the Community ENABLE Funding programme managed by the British Business Bank • Implement referral schemes to CDFIs for borrowers who banks are unable to help • Provide grants for: <ul style="list-style-type: none"> ○ technical support and capacity ○ comprehensive business mentoring for all applicants ○ a programme to support new CDFIs to start-up 	<p>The Government can encourage and incentivise these partnerships through:</p> <ul style="list-style-type: none"> • Convening banks and seeking a voluntary compact between banks and CDFIs that is mutually beneficial. Or, • Implementing legislation like the United States’ Community Reinvestment Act (CRA), such as the Fair Banking Act.
<p>2. Make the Growth Guarantee Scheme permanent</p>	<p>Loan guarantee schemes have been a critical part of overcoming market failure in SME finance. They provide a mechanism to bridge the divide between institutional</p>

	<p>funding and the small businesses which are supported by CDFIs.</p> <p>We recommend extending the Growth Guarantee Scheme beyond its current two-year commitment to a minimum 5-year commitment, to allow CDFIs and investors in CDFIs to undertake long-term planning for future growth.</p>
<p>3. Amend Community Investment Tax Relief (CITR) by raising the £2.5 million limit that a wholesale CDFI can on-lend to a single retail CDFI to the lesser of £25 million or 25%.</p>	<p>The investment limits on CITR were increased substantially in the 2023 Spring Budget. However, the limit on wholesale CDFI on-lending to retail CDFI was not changed at that time. Currently, it cannot support large scale wholesale private investment into scaling CDFIs.</p> <p>Our proposal would ensure the original policy intention is met, making CITR more widely used and a more attractive tool for institutional investment.</p>
<p>4. Overhaul HM Treasury’s Bank Referral Scheme (BRS) to make the most of untapped potential in small businesses looking to grow</p>	<p>Feedback from CDFIs has shown that there is huge untapped potential for HM Treasury’s Bank Referral Scheme to support small businesses who are declined or discouraged by their bank. 99% of CDFIs’ customers have already been declined by a bank, yet they receive very few referrals through the Bank Referral Scheme. We are also concerned with how the BRS directs customers to lenders who pay the highest commissions, rather than providing the lowest cost or most appropriate funding.</p>
<p>5. Investigate the gap in small business lending under £25,000</p>	<p>The current £25,000 Consumer Credit Act threshold means that often loans under this value are subject to regulation by the FCA, and lenders are not able to use the Growth Guarantee Scheme to underpin them. Due to this, CDFIs have highlighted a gap in the market for microbusinesses and businesses</p>

	<p>that need to borrow less than £25,000. We recommend the Government investigate the gap in the market which isn't serviced by the Start Up Loans Programme, and makes regulatory or policy interventions to enable more lending into this gap.</p>
<p>6. Improve national awareness raising of CDFIs amongst small businesses and the small business support ecosystem</p>	<p>Small businesses are largely unaware of lower cost, local, flexible finance providers like CDFIs. We believe there should be a campaign to inform SMEs about alternative finance options. This should include targeting local authorities, enterprise agencies, accountants, brokers, Chambers of Commerce and anchor institutions, to ensure that small businesses know about their local CDFI if they wish to borrow and a CDFI is their most suitable option.</p>
<p>7. Improve transparency and awareness of high-cost small business lending</p>	<p>CDFIs have highlighted inappropriate affordability checks from high-cost lenders that result in high interest loans that drain small businesses of working capital and growth potential, creating a drag on the economy. We believe better standards should be encouraged around transparency and affordability as well as a more thorough investigation of practices.</p>
<p>8. Promote better standards for commercial finance brokers to improve outcomes for SMEs</p>	<p>Overall CDFIs report that the commercial finance brokers they work with work in the best interests of small businesses and have close connections to the CDFI sector. However, CDFIs have highlighted that there are finance brokers in the market who have adopted practices which may harm small businesses, such as referring to lenders that will pay the highest commissions (ultimately this cost gets passed onto the small business). We would encourage improved standards in this space.</p>

Questions for General Response

We have responded to the questions which are most relevant to CDFIs' expertise.

4. Do you believe that there are any barriers to demand for debt finance? If so, what are the main barriers?

Based on feedback and observations from our frontline CDFIs, the following factors can act as barriers to small businesses' demand for debt finance:

1. Fear of taking on finance

Many small business owners – particularly first-time entrepreneurs – are apprehensive about taking out finance, often due to a lack of understanding about how it can support growth, and negative connotations around finance as 'debt'.

2. Perceived complexity

The application processes for finance can be complex and intimidating, deterring engagement.

3. Low confidence in approval

Past rejections from banks reduce confidence, even when businesses are more finance-ready later. This can partly be due to a lack of transparency on reasons for rejection, to give businesses the tools to proactively work to make themselves finance ready in future.

4. Cultural and psychological barriers

In some communities, there's a stigma around borrowing or a general mistrust of financial institutions.

5. Economic uncertainty

Ongoing economic uncertainty, inflation, and interest rate rises have made some businesses more risk-averse, with many choosing to delay investment or avoid it altogether.

6. Cost of borrowing

Increased interest rates have made external finance less affordable, especially for smaller or lower-margin businesses, reducing appetite for debt.

7. Lack of awareness

Awareness of sources and uses of debt finance are persistently low, particularly for more disadvantaged groups. Business support organisations often don't have the expertise in access to finance to point SMEs in the right direction, and if they do, they may provide a long list of providers which can put a busy SME off.

8. Time constraints

As the SME finance market is complex to navigate, busy SMEs may not have the time to properly research finance options and contact lenders to select the right fit.

9. Lack of positive stories

SMEs may not be aware of good news stories of similar businesses who have used loan finance to fund their growth. This limits the ability of a business to feel confident about its growth options and how to find lenders that will consider an application based on forward-looking projections, rather than backward-looking factors such as trading history.

10. Lack of financial education and capacity within the SME Community

Many small business owners lack confidence in financial terminology and forecasting. They may not understand how lending works, and not have a dedicated finance professional or the management information data to support their lending application. This impacts both the quality of applications and the willingness of SMEs to apply in the first place.

“SMEs often don't have a dedicated financial professional, MI and forecast information. Lenders will often not spend the time to work with the SME to build the lending case, but this is where CDFIs differ.” – CDFI Quote

11. Lack of relationship-based, flexible lending options

Taking out a loan is a significant financial decision for many entrepreneurs and small businesses. Consequently, they often seek to discuss their options and fully understand the associated terms and implications. However, many are unable to do so with their bank. Even when they manage to speak with a bank representative, that person may not be familiar with their specific circumstances or able to visit their premises to gain a comprehensive understanding of the business. As a result, the advice provided may not be sufficiently tailored to meet their needs.

“SMEs now often don’t have a dedicated relationship manager and are dealt with by call centres. This means that they don’t have a champion to support them in a lending proposition.”- CDFI Quote

12. Happy non-borrowers

Some SMEs may be content with their current position and not looking to borrow for this reason.

For co-operatives, our CDFI members reported that there are additional factors impacting demand for debt finance:

13. Poor understanding amongst lenders of the co-operative structure

There is a limited understanding amongst mainstream lenders of the co-operative structure, for example many debt providers aren’t aware that Societies are listed on the FCA Mutuals Register instead of Companies House.

“General understanding of co-operative structure is poor, many debt providers don’t even realise that Societies are listed on the FCA Mutuals Register not Companies House. Or are even aware that the Mutual Register exists.” – CDFI Quote

14. Requirement for personal guarantees

As co-operatives are democratically controlled and owned by their members rather than a few individuals, the use of personal guarantees can be complex unless all of a co-operative's members are willing to sign guarantees.

“CDFIs aim to break these barriers through tailored support, relationship-based lending, and financial education, but the need remains significant.” – CDFI Quote

5. Do you believe that financial education or knowledge and availability of information are barriers to demand? If so, to what extent? In your view, how can these barriers best be addressed? Are there examples of support and advice frameworks in other jurisdictions you believe could benefit the UK?

Yes, as highlighted above, we believe that financial education and access to clear, trusted information are key barriers to demand. Many lenders are not able to spend the time to work with SMEs to build confidence around their business, opportunities for growth, and the lending case. CDFIs deliver thousands of hours of support each year, but SMEs would benefit from this support being scaled and made more consistent by separating it from their finance application.

We believe that addressing these barriers could include the following measures:

1. CDFI investment readiness programmes with mentoring and support, that are separate from the outcome of an application for finance

Many early-stage small businesses are eager to learn from advisers and peers but our members report that these businesses often don't know where to go for this. Mentoring and support which is provided before a finance application can make a real difference, especially for first time borrowers. CDFIs provide pre-and in-loan support, however could provide higher levels of support to all applicants (whether approved for a loan or not) with dedicated funding, so that the cost is covered regardless of the application outcome.

The benefit of this is that many small businesses are particularly engaged at the point of applying for finance, so support at this time can lead to more resilient and financially educated SMEs in the long-term. This advice and technical assistance offering could be funded through bank-CDFI partnerships.

2. In-loan mentoring

In-loan mentoring and financial coaching are just as important as investment readiness. CDFIs find that providing wraparound support on cash flow management, cost control, and financial planning drives business growth, creating more confident, resilient and ambitious businesses, which drive economic growth.

“Post-loan mentoring and financial coaching are just as important [as investment readiness programmes]. Providing wraparound support on cash flow management, cost control, and financial planning helps borrowers succeed and build resilience.”

– CDFI Quote

3. National awareness campaigns about CDFIs

Awareness raising of ethical alternative finance providers like CDFIs, with whom businesses can speak to and build relationships, may help to increase demand when businesses lack confidence, or are cautious about where to go to access finance. By framing finance as positive and approachable, more businesses may be willing to explore loans as a way to realise their ambitions.

4. Raise awareness of the British Business Bank's website as a source of information

The British Business Bank is a national brand and can act as a fantastic hub for businesses to direct them to information, including about the most appropriate type of finance for their organisation. Given that the SME finance market is difficult to navigate, driving more potential borrowers to British Business Bank will help them get free, factual and non-partial information.

5. Frame loan finance more positively

As part of awareness raising efforts, loan finance for businesses could be framed in a much more positive light to reduce fear and negative connotations around the idea of "debt". The term "credit" can be used instead.

6. Highlight the prevalence of high-cost business lending and improve transparency around the cost of borrowing

Our members and many of our stakeholders have observed the increasing use of high-cost, fast-to-access loans. Whilst these lenders provide speed of access, the high interest, aggressive marketing, lack of transparency on pricing and terms, and poor affordability checks are both harming existing businesses and deterring other businesses from accessing finance altogether. CDFIs have raised examples of small businesses coming to them with high-cost, short-term business loans which are poorly structured and deplete their working capital, meaning they cannot invest in growth (more on this under question 14).

7. Improve access to information and support for co-operative small businesses

For co-operatives, lenders can lack understanding about the co-operative model and therefore there is limited availability of information and support around finance options. Bespoke information and awareness for both co-operatives and lenders on the business model, how to start-up, how to convert, and how to access finance would be beneficial in this space.

6. Why are some small businesses permanent non-borrowers? Should this be considered a problem? How can policy intervention support small businesses in this category, who have ambitions to grow, to seek finance?

CDFIs work with businesses who are borrowers, however given how embedded they are in their local business communities, they fed back their observations of why an increasing number of businesses are permanent non-borrowers. Based on their feedback, we believe the following are factors that mean some small businesses are permanent non-borrowers:

1. Lifestyle businesses content with their current size
2. Businesses with personal wealth that they can invest
3. Businesses who would prefer to grow slowly and steadily using their own resources
4. Businesses with a positive working capital cycle who do not need to borrow
5. Businesses lacking confidence to successfully borrow and repay lending
6. Businesses lacking awareness or trust in banks and lending institutions
7. Co-operatives who may be more averse to riskier decisions, such as taking on borrowing, due to their consensus decision making

We believe that permanent non-borrower businesses are only a problem if those with the potential and ambition to become more resilient and/or grow are missing out on these opportunities due to one of the reasons above.

Based on input from CDFIs' experience, the following interventions could help to reduce the number of businesses who are permanent non-borrowers, but who have ambition to grow:

- Improving the availability of information around financing options.
- Strengthening the awareness of trusted, relationship-focused lenders such as CDFIs that help build business confidence to borrow.
- Providing funding for pre-investment mentoring, delivered by CDFIs with grant funding from banks.
- Providing grants or blended finance options as a stepping stone to accessing repayable finance.
- Raising awareness of success stories of businesses of a range of sizes, from a range of sectors, who have borrowed and brought their goals to fruition.
- Improving bank referrals and signposting to CDFIs for both discouraged and declined small businesses, so that businesses know if they are declined by their bank then this is not the end of the road.

9. In your view, what would help to encourage the volume of small business lending in the UK?

Given the challenges identified both in the research and through the experiences shared by our CDFI members nationwide, expanding the scale and reach of CDFIs is essential to the solution. CDFIs are uniquely positioned to overcome lending barriers faced by small businesses thanks to their relationship-driven approach, which incorporates a broader set of factors in decision-making. Their flexible products, hands-on guidance, and deep roots in the communities they serve make them more accessible and responsive to local needs. To unlock greater lending capacity—especially for underserved small businesses—we recommend the following actions:

- 1. Widening access to capital for small businesses by increasing the availability of capital through CDFIs**, particularly in more deprived and underserved areas where mainstream banks have limited reach (more on this in question 19).
- 2. Building stronger local ecosystems around CDFIs**, including partnerships with Local Authorities, enterprise agencies, accountants, brokers, chambers of commerce and anchor institutions.
- 3. Raising awareness of CDFIs through coordinated national and regional campaigns** so that SMEs know about them as a relationship-based, flexible lender who they can approach if they are thinking about borrowing.
- 4. Strengthening referral pathways, including a transformation of HM Treasury’s Bank Referral Scheme**, alongside improved signposting from accountants, brokers and local business support services.
- 5. Investigating the gap in the market for small business loans under £25,000, and creating programmes such as a new British Business Bank loan guarantee scheme to fill any gap identified.** Many CDFIs have highlighted that there is a gap in the market for small businesses seeking loans of less than £25,000 (who are not eligible for Start-Up Loans), due to the fact that the Growth Guarantee Scheme only supports lending from £25,000 upwards (we have written on this in more detail in our response to question 14.)
- 6. National and regional campaigns highlighting case studies of how businesses have accessed the finance they need to successfully grow.**

- 7. Embedding financial education and mentoring alongside lending, but de-linked from finance outcomes.** This will support business owners throughout their journey by giving them confidence to make a finance application, and to gain the skills and confidence to manage any finance they do raise well. This could be funded through CDFI-bank partnerships.
- 8. For co-operative small businesses, more flexibility, availability of long-term finance, a better awareness and understanding of co-operative structures and options for start-up, transitions and acquisitions into co-op, mutual or employee ownership.**

By combining access to capital with tailored support and catalytic partnerships, we can improve both the volume and impact of small business lending. The Government could play a convening role in bringing partnerships together.

“Building stronger local ecosystems around CDFIs, including partnerships with local authorities, enterprise agencies, accountants, brokers, chambers of commerce and anchor institutions, helps generate deal flow, build trust with communities, and provide wraparound support that enables responsible growth.” – CDFI Quote

**11. What role do personal guarantees (PGs) play when seeking debt finance?
Specifically, we would welcome the following evidence:**

data (over a period of at least 12 months and no more than 36 months) on:

- (i) the nature and/or size of lending for which a PG is required**
- (ii) the typical borrower characteristics where a PG is required**
- (iii) the proportion of lending to limited companies where a PG is used**

data (over a period of at least 12 months and no more than 36 months) on the extent to which the requirement for a PG has prevented an SME taking up credit when it has been offered to them (and the relative importance to other factors, such as overall loan cost)

evidence on the role PGs play in credit provision, including the extent to which the requirement for a PG has enabled access to credit by SMEs

evidence of the extent to which issues relating to the calling of PGs have been experienced, what these were and where in the lifecycle of the loan these have arisen – please specify when this occurred

Based on a survey of our members, most small business lending CDFIs require Personal Guarantees (PGs) on loans above £25,000. While actual recoveries from guarantors are often limited, according to our members PGs, they are beneficial because:

- They allow CDFIs to responsibly lend out government-backed funds by providing a form of recourse if a business defaults.
- They serve as a strong signal that the business owner believes in their business, is willing to put “skin in the game”, and can increase the business owner’s commitment to making the business succeed.
- They give lenders valuable leverage during negotiations and can encourage greater cooperation from borrowers. For instance, in default scenarios, the presence of a PG often leads directors to engage constructively with administrators to achieve the best outcomes—such as selling the business or maximising asset recovery. Any remaining liabilities are typically addressed within the limits of the PG through a structured repayment plan, often with partial waivers over time.

Supporting underserved small businesses

PGs allow CDFIs to support businesses that may have been declined by banks:

- They are particularly useful when the business lacks sufficient tangible assets for traditional collateral.
- They can enable Directors who had previously extracted value from their business (e.g., buying personal assets like a second home or luxury car) to use that value to help the business grow again.
- Data from a sample of CDFIs over the past 12 months found that PGs were taken on 96% of lending, rising to nearly 100% for loans to Limited Companies. Importantly, 79% of loans would not have been offered without the ability to take a PG.

CDFIs are proportionate and transparent in their use of PGs

- CDFIs generally do not take legal charges over a borrower’s primary residence, in line with the British Business Bank’s Growth Guarantee Scheme guidance, which explicitly prohibits using Principal Private Residences as security. This assurance usually alleviates business owners’ concerns.
- A survey of CDFIs estimates only about 2% of borrowers decline a loan offer due to the PG, although this data is not widely recorded. One CDFI loan officer is quoted as telling a business borrower: “just take your time, go through it, talk through anything with me, and do not sign unless you understand.”

In summary, for CDFIs PGs are a key part of responsible lending, helping to reduce risk, encourage borrower accountability, and enable broader access to finance.

12. In your experience, what are the barriers to borrowing to finance intangible investments relative to tangible investments?

Our member CDFIs report that intangible investments are more difficult to value and assess how recoverable they will be. Many lenders in the market do not understand the value of intangible assets within a business. Unlike tangible assets and property, they can be hard to value and even harder to assign as security. Lenders who take an automated algorithmic approach may find it more difficult to value intangible assets.

Intangible investments (e.g. marketing, IP development, software) are harder to justify in traditional lending models due to:

- Lack of physical security/collateral
- Difficulty measuring Return on Investment (ROI)
- Perceived higher risk from underwriters

This has an impact on access to finance, as small businesses often see these investments as critical for growth, but struggle to get funding due to the perceived non-asset nature.

One key barrier is that not being able to properly value the asset or activity means that the loan request would be unsecured. There is widespread anecdotal evidence that there are very few unsecured lenders in the SME finance market.

Another barrier when borrowing to finance intangible assets, is that the applications may be projection-led. It can be difficult for lenders to get comfortable with the loan repayment assumptions, and without tangible security, they will focus more on a business's trading history, which may not be favourable for bank lending. CDFIs will often fund projection-led applications, because they are able to work with the business to get comfortable with the likelihood of the projections. However, as having a projection-led budget is a common reason for decline, we know that not only are there are few lenders that will lend on an unsecured basis, but this is exacerbated if the lending application is based on projections.

Overall, CDFIs can be more flexible in this area than banks, and will fund less tangible activities such as growth and working capital, marketing, staff recruitment, because through the relationship they build with the business, they see the potential that growth in these areas will have.

“Without available tangible security, the customer will oftentimes find more focus on their trading history which may not be suitable for bank lending, particularly where the need is projection based, so the options are more limited for them, which can often lead to more costly arrangements.” – CDFI Quote

13. What is the experience of businesses seeking to use intangible assets as collateral for borrowing?

Most lenders are not equipped to value or realise intangible assets in the event of default or a winding-up scenario. This presents a particular challenge for creative industries, digital businesses, and innovation-led start-ups. Without a recognised valuation framework and appropriate lending instruments, these businesses face a finance gap. CDFIs, like other lenders, have trouble placing a specific value on intangible assets. However, their relationship-based approach helps them to understand the creditworthiness of the business and most of their lending is on an unsecured basis. This underscores the importance of the Growth Guarantee Scheme as it unlocks this type of lending.

“There is limited appetite in the ‘traditional’ market for non secured lending unless the track record is strong and profitability demonstrated consistently. Where the business is seeking to grow on a projection basis, with no or limited security, this is more difficult (if not impossible) and where CDFIs can become a key partner.” – CDFI Quote

14. Do you believe that regulatory change has affected business lending? If so, how?

Based on our experience in the wider lending market, we believe that regulation both helps and hinders small business access to finance. The following are some key aspects of the small business finance market that we wish to highlight in response to this question:

- 1. Open Banking and Open Finance**
- 2. The £25,000 Consumer Credit Act threshold**
- 3. High-cost business lending**
- 4. Commercial finance brokers**

1. Open Banking and Open Finance

Open Banking and Open Finance policies have improved access to finance for UK SMEs by providing alternative lenders with additional data to inform credit assessments.

Open Banking makes the assessment of bank account trends easier and provides an additional layer of protection against impersonation fraud.

It would be beneficial if the Open Banking access period could be extended to the life of the loan allowing lenders the same view of bank account conduct that the banks benefit from. This would allow CDFIs to identify signs of business distress sooner, leading to them being able to offer a variety of support options including:

- The proactive offering of payment holidays.
- Support or signposting to the right kind of support.
- Recommending Insolvency Practitioners who could identify how the business could turn things around or liquidate the business while there were still assets, to minimise the personal risk to owners.

2. The £25,000 regulatory threshold

Under the Consumer Credit Act, often loans under £25,000 are regulated by the Financial Conduct Authority. While we support strong consumer protections for individuals and small businesses borrowing smaller amounts, this regulation adds complexity to lending in this space, which in turn reduces the availability of capital.

A significant challenge is that loans under £25,000 are not eligible for the Growth Guarantee Scheme (GGS). As a result, CDFIs have identified a funding gap for businesses seeking smaller loans – specifically those needing less than £25,000 but lacking sufficient collateral to secure traditional finance.

Before the Covid-19 pandemic, the predecessor to the GGS – the Enterprise Finance Guarantee Scheme – covered loans from £1,000 to £1.2 million. At that time, the average loan size issued by CDFIs was approximately £20,000. Since then, the average CDFI loan size has increased to around £80,000.

CDFIs are designed to serve market gaps, and we welcome policy support that enables them to do so more effectively. We therefore recommend that the Government assess whether there is an unmet need for loans below £25,000 that is not addressed by the Start Up Loans Programme. If such a gap is confirmed, we encourage appropriate regulatory or policy interventions to address it.

“The £25,000 regulatory threshold creates a gap where very small loans (under £25k) don’t benefit from the Growth Guarantee Scheme — this disproportionately affects microbusinesses or those businesses that access less than £25k but have insufficient collateral – they are good, viable businesses, but the risk is too high to support them.” – CDFI Quote

3. High-cost business lending

Small business lending in the UK remains unregulated. While we support this approach to maintain access to credit for small businesses and to ensure that regulatory burdens on lenders remain proportionate – especially in light of the unintended consequences seen in the regulation of consumer credit, such as the contraction of lending options for low-income consumers – we believe that certain aspects of the Financial Conduct Authority’s (FCA) regulation of consumer lending could offer lessons, in particular relating to pricing practices.

Some CDFIs have seen a clear shift in the volume of customers approaching them with short-term high-cost business debt – in one case this is as much as 25% of new applications. They find this is typically due to the business not being able to secure what they need from a bank, and not being aware of all other options that could be viable for them. High-cost short-term products may initially seem attractive because they are fast and easy to access, however they are often unsuitable and unsustainable, leading to a cycle of debt that can ultimately harm the business and its growth potential. Where there is commercial benefit in doing so for the business, CDFIs may refinance and support the business to stabilise.

“A growing proportion of enquiries are from businesses looking to refinance high-cost business loans. These are often small, early-stage businesses that took on expensive credit products when they had limited alternatives.” – CDFI Quotes

CDFIs have reported some of the following observations about high-cost online business lenders:

- **High interest rates:** CDFIs have a number of refinancing requests from small businesses with high-cost loans above 30% - 40% interest. One lender cited a 67% interest rate to a small business.

- **Unserviceable repayments that impact cash flow:** we have heard a number of examples of small businesses who are being offered large loans by online lenders over a short loan term. As an example: a business applied for £50,000 spread over 5 years but was loaned £30,000 spread over 2 years at an interest rate above 30%. This results in larger monthly repayments. For a small business, these large repayments can deplete their working capital and ultimately make day to day operations and any investment in growth difficult. After taking out high-cost short-term loans, some small businesses approach CDFIs to refinance the loan over a longer period to make repayments more affordable, enabling them to thrive.
- **Lack of transparency about the true cost of borrowing,** due to the fact there isn't a regulatory requirement for business lenders to display the cost of borrowing and clear terms and conditions.
- **They spend a lot on customer acquisition:** These online lenders can have aggressive marketing campaigns, have effective SEO, and pay high commissions to the commercial finance brokers and to the bank referral platforms. This means that they are often the first option small businesses turn to if they need a loan and can't access one from their bank.
- **A feeling of desperation:** businesses sometimes take these products when they feel they have no other options, often after a bank rejection. In addition, we have heard that either due to an aversion to taking out loans, lack of internal capacity, or concern about the economy, small businesses may delay seeking finance, until the point where they need cash quickly, and therefore do not have the time to fully explore their options.
- **Working capital is decimated:** often by the time a small business with a high-cost loan approaches a CDFI to try and refinance, their working capital has been decimated, and the CDFI cannot help as it is unaffordable. These are the worst situations and is an example of how high-cost online fintech lenders are actually prohibiting growth of the economy.

One example we received was from a CDFI who supported a small independent restaurant after it had taken out a high-cost loan. While the high-cost loan provided short-term liquidity, the repayment structure severely affected cash flow, as a high proportion of its income was used to repay the loan each month. The business was concerned about its cash flow and being able to pay its employees, suppliers and bills. The CDFI was able to refinance this through an affordable loan with manageable monthly repayments, allowing the business to stabilise and reinvest in growth.

In consumer credit, transparency and clear communication around the total cost of borrowing are central regulatory requirements. The FCA mandates that firms clearly display the representative APR – defined as the rate at or below which the lender expects to offer credit to at least 51% of applicants. This ensures that consumers receive a realistic indication of loan costs, rather than being misled by headline rates. Furthermore, the FCA’s Consumer Duty requires all lenders to strive for good customer outcomes, including being able to demonstrate the fair value of their products.

In the small business lending space, CDFIs report that they frequently encounter businesses struggling to repay high-cost credit. This debt burden can severely hinder their operations and growth, clearly impacting on the economy at a time when the Government is trying to stimulate growth. Many high-cost business lenders have large marketing budgets, reminiscent of the payday lending industry before it was brought under regulation. These lenders often advertise attractive introductory rates—such as “from 1.5% per month” or “6.9% per annum”—that may not reflect the actual rates most borrowers receive.

To avoid the pitfalls seen in consumer lending, we believe a recommended standard should be introduced for the display of small business loan costs. Specifically, lenders should be required to present the potential total cost of a loan in clear monetary terms on their websites. Furthermore, any quoted representative rate should reflect the rate at or below which at least 51% of their customers are expected to borrow, mirroring the FCA’s consumer credit standard. In addition, a more thorough investigation of practices by small business lenders may be beneficial to understand the true scale of the issue instead of relying on anecdotal evidence.

4. Commercial Finance Brokers

Overall feedback from CDFIs on their relationships with commercial finance brokers is positive, however Responsible Finance received mixed views about the wider broker market. There is a lack of consistency in the broker ecosystem in their approach and knowledge of finance options, including CDFIs. Responsible Finance has a positive working relationship with the National Association of Commercial Finance Brokers (NACFB), which proactively seeks to raise awareness of CDFIs amongst its membership.

Overall, many CDFIs report productive relationships with the commercial finance brokers that they work with. These brokers play a key role in helping SMEs access finance, particularly when they exhibit the following good practice:

- Understand the finance landscape and act as informed intermediaries, supporting businesses to access the most suitable finance product – not just the fastest or most profitable for the broker.
- Actively support businesses in compiling application materials, packaging business plans, and navigating the lender’s requirements – often resulting in stronger, more complete applications and quicker decisions.
- View CDFIs as part of a broader finance ecosystem, and not as a lender of last resort. These brokers can position CDFIs positively and open doors to finance options many SMEs wouldn’t otherwise know about.
- Maintain long-term relationships with clients, offering tailored financial solutions and ongoing guidance rather than transactional, one-off deals.
- Bridge knowledge gaps for businesses, especially those unfamiliar with the finance landscape, helping them make informed choices.
- Provide specialist reach into particular underserved communities such as black and ethnic minority led businesses, or women led businesses.

“SMEs who work with brokers will typically see a quicker turnaround as the application is usually stronger with a lot of the information we require available at enquiry stage. However, this is also dependent on the broker they engage with. The brokers who are aware of the benefits of the CDFI sector and see CDFIs as part of the wider finance ecosystem will potentially open an opportunity to the customer that they wouldn’t have considered or been aware of without them.” – CDFI Quote

At the same time, some CDFIs raised concerns about inconsistency in the wider broker market, which in some cases can lead to negative outcomes for small businesses:

- Lack of awareness or understanding of CDFIs, leading brokers to overlook or underutilise this part of the finance market.
- Transactional, commission-driven behaviour, where some brokers steer clients toward the highest fee-paying or easiest-to-secure option, regardless of suitability or cost. This can lead to many broker deals being steered towards high-cost lenders. Ultimately it is the business who pays the higher cost.
- High fees charged by the broker, added to the loan without full transparency. We received an example from one CDFI where a small business had approached them directly as the broker had asked for a £20,000 fee on a £180,000 loan, despite the business being established with strong accounts and assets.
- Limited due diligence or aftercare, with some brokers simply acting as posting boxes to multiple lenders, offering little client support and no follow-up after the loan is secured.
- Pitching businesses to multiple lenders in an un-transparent way, leading to CDFIs building a relationship and doing intensive due diligence only to be undercut by another lender.

Brokers are a very important part of the market and how many businesses seek finance, and it is critical that their approach is fair, consistent and is driven by seeking the best outcome for the small business borrower.

Based on their relationships with brokers, CDFIs have highlighted the following opportunities for improvement to enhance the broker sector’s role in serving the long-term interest of SMEs:

- Improved standards including:
 - Encouraging brokers to be members of the NACFB.
 - Requirements for brokers to hold relevant qualifications, and evidence of whole-of-market access.
 - Limitations on the fees payable by lenders to brokers.
 - Standardised commission disclosure, ensuring SMEs understand true costs.

- Improved relationships with the CDFI sector, continuing to build on the positive work of the NACFB, including:
 - Encouraging brokers without existing knowledge to learn more about the CDFI sector as integral players in the finance market. This should include training to build understanding of CDFIs' lending models and how to work together effectively, rather than seeing them as a lender of last resort. The NACFB is already proactively engaging in this work.
 - More clearly articulate the incentives for brokers to work with CDFIs as part of the wider ecosystem of support.

16. Do you believe there to be any barriers to the adoption of cooperative and mutual models by finance providers? If so, what are they?

How could these barriers be overcome?

What would greater adoption of these alternative models offer to businesses?

We are unsure if there are barriers to the adoption of co-operative and mutual models by finance providers. Several CDFIs are co-operatives themselves, and have not reflected any barriers of the model.

17. Are there alternative approaches in other jurisdictions that could address gaps and difficulties experienced by smaller businesses seeking finance in the UK? If so, please provide specific examples. What are the characteristics of those approaches that make them distinct from the current UK model?

Responsible Finance routinely looks to the United States' CDFI market as inspiration for what the UK CDFI market could look like with the right tools and support to enable it to thrive. There are currently 1,400 certified CDFIs in the US¹, compared to 50 in the UK. In

¹ Opportunity Finance Network

2019 CDFIs in the US were estimated to manage more than \$150bn, compared to around \$1bn managed by UK CDFIs². We would like to highlight three approaches in the US which we believe have been pivotal in addressing gaps experienced by smaller businesses seeking finance, by creating a thriving CDFI sector:

- 1. The Community Reinvestment Act**
- 2. The Community Development Financial Institutions Fund**
- 3. Small Business Administration**

1. The Community Reinvestment Act

The Community Reinvestment Act (CRA) was a major initiative that shifted the landscape for CDFIs in the United States. The US government enacted the CRA in 1977 to increase the supply of affordable credit to individuals and businesses. It continues today, largely with bipartisan support. It requires regulators to assess the performance of mainstream banks in meeting the credit and other banking needs of underserved communities. Banks' performances against CRA criteria are publicly disclosed. Failure to comply with the CRA, and/or score adequately against the specified criteria, can negatively impact banks' ability to grow, including through restricting mergers and acquisitions which are of particular interest to banks in the US.

Underperforming banks, as judged against the CRA's criteria, are encouraged to improve services to disadvantaged communities. They typically do this in two ways:

1. Improving their own service provision and lending to those currently underserved.
2. Providing capital and other assistance to responsible finance organisations such as CDFIs and credit unions, thereby increasing the capacity of these purpose-led lenders to grow lending and support services to underserved communities and businesses.

The first mechanism has undoubtedly been a positive factor in promoting financial inclusion. However, many argue that it is mainstream banks working in partnership with CDFIs in the United States that has been even more transformative³. Mainstream banks' partnering with specialist lenders who are often best placed to provide holistic and affordable services and support to people in their communities has diversified the US financial services sector in a way that reflects the needs of a broader spectrum of society.

² Big Society Capital (2019) Community Investment: Lessons learned from the USA.

³ Fair Banking for All (2024) Unlocking Access to Credit: The Impact a Fair Banking Act could have for the UK.

The CRA has enabled large scale, long-term relationships between banks and CDFIs:

- Since 2020, the 8 largest US banks have invested more than \$9.2 billion in CDFIs.
- JPMorganChase has been working with CDFIs in the US for 2 decades and has invested \$2 billion⁴.
- In 2022 Citibank committed \$50 million over three years.

During the period 1990–2009 CDFIs supported by the CRA lent \$20 billion through CRA mechanisms. By one estimate, this created or preserved nearly 200,000 jobs; around 43,000 microenterprises and SMEs; 580,000 housing units; and 10,000 community facility projects⁵.

*“Having managed the CRA team at Citibank, I believe that without the CRA, billions of dollars of credit would not reach low/moderate income households, and small and minority owned businesses. Banks have developed products and credit processes that have now long demonstrated that such portfolios can perform well and be profitable, and achieve much of this by working closely with CDFIs. The very granular customer demographic data that banks provide to ensure that there is equitable access to credit is crucial, and ensures that deposit taking institutions do not just take deposits from certain customer segments, but also lend to them.” -Bob Annibale, Managing Director Citi Community Development & Inclusive Finance (2010-20).*⁶

In the US, the CRA leads to closer collaboration in other ways of working outside of funding, such as through bank decline referrals.

2. The Community Development Financial Institutions Fund

The Community Development Financial Institutions Fund (CDFI Fund) is administered by the US Department of the Treasury. It provides capital grants, equity and revenue grants for CDFIs’ capacity building and technical assistance. This funding and programmes not only helps CDFIs to increase their reach, but it also helps to catalyse private investment from banks and other corporates into CDFIs – amplifying its impact.

⁴ JPMorgan.com

⁵ Appleyard, L., Community Development Finance Institutions (CDFIs): Geographies of Financial Inclusion in the US and UK, (2011) Geoforum 42

⁶ Fair Banking for All (2024) Unlocking Access to Credit: The Impact a Fair Banking Act could have for the UK.

3. Small Business Administration

In the United States, technical assistance is viewed as essential alongside loan capital to support small businesses to succeed. The Small Business Administration (SBA) and its Community Advantage Program integrate finance with mentorship and training. It supports businesses before and after receiving finance, ensuring that SMEs not only access capital but know how to use it effectively.

In the UK, CDFIs provide informal mentoring and support but funding is limited. Support for technical assistance both for CDFIs and for other business support organisations in the UK has declined in recent years due to stretched local government budgets⁷. This means CDFIs are less able to offer broader support to small businesses without needing to significantly increase their interest rates to cover the costs of high-quality, comprehensive support that is independent from the finance application.

“The SBA in the USA provides technical grant support for CDFIs to provide advice and support to smaller businesses. Accessibility is enhanced by delinking the support from finance (i.e. the cost is covered regardless of outcome).” – CDFI Quote

“In the U.S., Small Business Development Centers (SBDCs) and the SBA Community Advantage Program integrate finance with mentorship and training. They support businesses before and after receiving finance, ensuring that SMEs not only access capital but know how to use it effectively — a model that could benefit the UK.” – CDFI Quote

18. Should the government implement policy measures to stimulate more competition in provision of finance? If so, what could this include?

In our view the Government should seek to promote transparency and fairness amongst small business finance providers, particularly in relation to the anecdotal evidence on high-cost business lending we have highlighted in our response to question 14. This would make finance options easier to understand for small business owners, and encourage finance providers to compete on the price and service they offer.

In addition, enabling mission-driven CDFIs to operate sustainably and grow, as well as encouraging the start-up of new CDFIs, alongside mainstream for-profit institutions, will ensure more businesses have access to the right type of finance and support at the right time.

⁷ Better Society Capital: Community Investment, Lessons Learned from the USA

19. How can the CDFI sector be supported more effectively?

Responsible Finance believes there are a number of measures that could be implemented to create a thriving UK CDFI sector, which can support more underserved and poorly served small businesses to access finance.

- 1. Encourage formal CDFI and bank partnerships** (we have outlined this further in our response to Question 23), including:
 - a. Long-term capital investment for on-lending to small businesses
 - b. Referrals of declined and discouraged applicants directly to CDFIs
 - c. Grant funding for pre- and post-loan mentoring, to better support small businesses and increase their chances of success regardless of whether they go on to receive finance
 - d. Grant funding for CDFI capacity building for digital infrastructure, workforce development and innovation
 - e. Technical assistance including sharing data, tools and infrastructure with CDFIs
 - f. Funding to support new CDFIs to start-up

2. Make the Growth Guarantee Scheme permanent

Loan guarantee schemes are a critical part of making the CDFI model work well and enabling lending to underserved small businesses. Responsible Finance welcomed the introduction of the Growth Guarantee Scheme, which launched in July 2024 with a two-year term and supports access to finance for small businesses to invest and grow.

The Growth Guarantee Scheme succeeded the Recovery Loan Scheme, and previous similar loan guarantee schemes which supported the CDFI sector to lend to underserved small businesses dating back 40 years⁸. They are recognised by Governments across the globe as an important policy tool to mitigate widely accepted market failures in financing for small businesses.

Responsible Finance recommends extending the Growth Guarantee Scheme beyond its current two-year commitment to a minimum 5-year commitment to enable CDFIs to undertake long-term planning for future growth to support more disadvantaged small businesses.

⁸ The Small Firms Loan Guarantee Scheme launched in 1981, it became the Enterprise Finance Guarantee Scheme in 2009 and subsequently the Coronavirus Business Interruption Loan Scheme in 2020

- 3. Amend Community Investment Tax Relief** by raising the £2.5 million limit that a wholesale CDFI can on-lend to a single retail CDFI to the lesser of £25 million or 25%.

Community Investment Tax Relief (CITR) is an extremely targeted and efficient policy intervention to stimulate private investment in disadvantaged communities, enabled by a thriving CDFI sector. Loans made using capital raised through CITR must be to enterprises unable to obtain funding from other sources and those who are:

- located in areas of disadvantage, or;
- owned and operated by, or intended to serve, individuals recognised as disadvantaged on account of their ethnicity, gender, age, religious beliefs, disability or other defining characteristics.

In the 2023 Spring Budget the Government raised the limits on CITR to update it and increase its usability. This has already facilitated a new £62 million funding vehicle, the Community Investment Enterprise Facility (CIEF), which has brought in high-street bank Lloyds as the lead investor.

Despite this, currently the detailed wording of the 2003 CITR regulations mean that a single retail CDFI could only receive the lesser of £2.5 million or 20% of the amount invested in a wholesale CDFI without losing CITR eligibility for investors in the wholesale vehicle. This means that a £100 million wholesale fund would need to invest in at least 30 retail CDFIs. There are currently only c. 20 CITR-accredited CDFIs and 35 CDFIs in total. CDFIs are of varying sizes and the sector is currently scaling. Therefore, whilst the long-term aim is that any wholesale funds raised will deploy investment across the whole CDFI sector, it is helpful to test the viability of new funding models with a smaller group of scalable and investment ready CDFIs to create a proof of concept. For example, the new £62 million CIEF fund invests through a total of three retail CDFIs. In addition, the larger CDFIs who have the capacity to take on large scale investment would have their impact heavily restricted by the £2.5 million limit.

Responsible Finance therefore recommends amending the detailed wording of the 2003 Community Investment Tax Relief (CITR) regulations to enable the original policy intention of a £100 million wholesale funding vehicle to be created. It unlocks the clear intention behind the Government's 2023 increase to the wholesale CDFI fundraising limit.

4. Overhaul HM Treasury’s Bank Referral Scheme to better integrate CDFIs

Feedback from CDFIs has shown that there is huge untapped potential for HM Treasury’s Bank Referral Scheme to support small businesses who are declined or discouraged by their bank. 99% of CDFIs’ customers have already been declined by a bank, yet they receive very few referrals through the Bank Referral Scheme. The most recent review of the scheme found that only 5% of declined SMEs go on to receive finance, and only 5,387 businesses have received finance since its launch in 2016⁹. One of the UK’s largest CDFIs has only made 7 small business loans through the scheme totalling £785,000, the last of which was in December 2021.

Prior to the introduction of the Bank Referral Scheme, most of CDFIs’ referrals came directly from bank relationship managers. This has now been replaced by paid introductions from commercial finance brokers.

Responsible Finance has been told how one of the platforms informed a CDFI that as it could only pay a small commission it would be on a secondary tier. This may mean that bank referrals are prioritised for higher cost lenders who are able to pay a higher fee, which is not in the best interest of small businesses.

Responsible Finance therefore recommends that the Bank Referral Scheme is overhauled so that SMEs are referred to the most appropriate and best value funding option for them.

There should also be a formal referral process for co-operatives to lenders which specialise in lending to co-operatives.

“The Bank Referral Scheme has not achieved its potential. Referrals are inconsistent, and awareness is low among bank staff and SMEs.” – CWRT

- 5. Investigate the gap in small business loans under £25,000** (more in our response to question 14). If a gap in this market is identified, a first-loss guarantee to cover loans under £25,000 to enable CDFIs to serve businesses in need of smaller value loans, without jeopardising their own sustainability, would support the CDFI sector’s growth into this market and allow it to make a comprehensive loan offer for underserved SMEs with high potential.

⁹ HM Treasury: Post-implementation review of the Bank Referral Scheme

6. **Improve national awareness raising through campaigns and initiatives to raise the visibility of CDFIs** amongst SMEs, brokers, accountants, advisers and others in the small business ecosystem – ensuring businesses know about CDFIs as an option if they wish to borrow.
7. **Recognise of CDFIs as strategic partners by Combined Authorities and Local Authorities**

“This level of support would unlock significantly more lending to excluded businesses, improve outcomes in underserved areas, and contribute meaningfully to the UK’s goals around inclusive growth, productivity, and levelling up.” – CDFI Quote

20. To what extent does the UK’s current lending environment meet the finance needs of under-served entrepreneurs?

The UK’s current small business finance market does not adequately meet the needs of under-served entrepreneurs, particularly those who are:

- From disadvantaged or underrepresented backgrounds
- Based in deprived or rural areas
- Lacking security/assets
- Lacking a credit history, or with a poor credit history
- Seeking small-value loans (especially sub-£25,000)

CDFIs regularly see businesses approaching them after being declined by mainstream lenders due to:

- Thin or non-existent credit histories
- Insufficient trading history
- Imperfect financial track record
- Historical issues in their financial accounts
- Projection-led, where lending repayments are based on projections rather than historical performance
- Insufficient turnover
- Lack of assets to offer as security
- Banks’ stricter serviceability requirements
- Being in a “non-preferred” sector, eg. hospitality

- Requests for smaller loan amounts deemed commercially unviable to process

The common characteristics of underserved businesses that CDFIs support includes:

- Sole traders or microbusinesses with fewer than five employees
- Businesses led by women, ethnic minorities, or first-time entrepreneurs
- Businesses based in low-income or economically excluded areas
- Businesses without access to cash or assets from their own personal funds or friends and family
- Businesses with limited financial literacy, who require additional support in order to make them “investment ready”

Often, micro and small businesses in these circumstances can have successful partnerships with CDFIs because they will get to know them and their business, and provide advice and support alongside finance. As evidence of this, Responsible Finance’s research shows that although more than 90% of CDFI borrowers were previously declined, 90% went on to fully repay their loan with the CDFI.

21. What could encourage under-served entrepreneurs to apply for loans to support business growth?

Many under-served entrepreneurs are cautious because they may have low financial confidence, previous negative experiences or a lack of understanding around how finance can support their goals for their business. To encourage them to apply for loans to support their business’ growth, it is important to first reach them, and then build their trust and confidence in the process.

Key actions could include:

- Accessible, relationship-based lending models like those used by CDFIs – where entrepreneurs feel listened to, supported, and not judged solely on rigid criteria.
- Tailored, place-based financial education and mentoring, before and after the loan, to help entrepreneurs understand their numbers, manage risk and feel more confident in taking on external finance. This support should be connected to, but not contingent on, CDFI funding availability.
- Promotion of success stories and relatable case studies that showcase other businesses like theirs using finance effectively – especially in their local area or from their demographic group.

- Culturally relevant outreach and communications using trusted messengers to overcome mistrust of financial institutions.
- Clearer signposting from a range of touchpoints that the business has in the community and online to alternative lenders like CDFIs for those who are turned away by banks – both through decline and discouragement.
- Greater policy support for small value loans with flexible terms which recognise that underserved entrepreneurs may only need modest sums to take their next steps – and that these are often excluded as unviable by mainstream lenders. This could form part of an investigation into the gap in access to finance under £25,000.

22. Are there any other groups under-served in access to finance that should be considered beyond those discussed in this call for evidence?

Based on feedback from our member CDFIs, Responsible Finance believes that microbusinesses and co-operatives are both underserved in access to finance.

Microbusinesses

What are microbusinesses?

Microbusinesses (typically those with fewer than 10 employees) are underserved by the current finance system, despite accounting for 95% of total enterprises in England and 20% of all turnover. The nearly 60% growth in the business population since 2000 has been driven largely by microbusinesses with no employees¹⁰. These businesses can have significant opportunities for growth, and a more supportive ecosystem can be developed for sole traders and microbusiness to help them thrive as well as contribute more to the economy and communities.

“Small businesses have a real opportunity to grow. If they are a start-up then there are plenty of schemes to support that, but the real area for driving ambition will be those that could move from employing say 10 employees to 15 employees.” – CDFI Quote

Why are microbusiness underserved in access to finance?

CDFIs report that microbusinesses are often unable to get finance due to factors such as:

¹⁰ House of Commons Library: Research Briefing – Business Statistics. 11th November 2024.
<https://commonslibrary.parliament.uk/research-briefings/sn06152/>

- Their borrowing needs are small (often under £25,000) therefore they can be commercially unattractive to many mainstream lenders. The costs of making a small loan are similar to those of making a large loan, however small loans yield much less interest income to cover those costs, and they are not able to cover risk using the Growth Guarantee Scheme.
- They may not have a formal business plans, financial forecasts, credit histories, or assets to act as collateral.
- They may operate informally or flexibly, which can make them appear higher risk.
- Many are led by first-time, part-time, or necessity-driven entrepreneurs who lack confidence in navigating finance.
- They often face compounding disadvantages, including being led by people on job seekers allowance, who are ex-offenders, refugees, new migrants and people with disabilities and mental health issues.

How do CDFIs break down these barriers?

Microfunding CDFIs break down these barriers by providing high levels of coaching and support. Microfinance is highly impactful but expensive to administer due to the cost of effective wraparound support, and the higher risk. Therefore, it requires higher levels of financial support. There is high demand in this space for loans but barriers remain for microfunding CDFIs to meet the demand, which include:

- Primarily, microfunding CDFIs struggle to raise capital to on-lend because they do not have first loss cover for lending. The £25,000 threshold for regulated lending means the Growth Guarantee Scheme is only available on loans above this amount.
- A lack of a sustainable funding source to provide high levels of pre- and post- loan mentoring and support.

How can this market be better served?

CDFIs who specialise in microloans see overwhelming demand for their support despite not advertising, due to the gaps in provision for entrepreneurs in this sector. Their high touch approach leads to a high level of impact.

Measures that could be introduced to support microbusinesses to thrive, help reduce people's reliance on benefits and move into meaningful self-employment, contributing to growth in the economy, are:

- A dedicated guarantee scheme or first-loss funding specifically for loans under £25,000, enabling CDFIs to raise capital to lend to microbusinesses while protecting against default losses.

- Grants to fund mentoring, financial coaching, and post-loan support – recognising that wraparound services are essential for microbusiness success.
- Funding for blended finance models (small grants combined with loans).
- Greater awareness of CDFIs in local business support ecosystems, helping to create referral routes, early intervention, and trusted points of access for microbusinesses.

Co-operatives

- Co-operatives, employee-owned and mutual business models are underserved in access to finance and not widely understood by finance providers.
- The demise of regional and local co-operative development agencies has led to low numbers of new co-operative registrations and failure to seize opportunities for democratic businesses to thrive and grow.
- Investment in local co-operative and social enterprise development is key to doubling the size of the co-operative sector and better meeting the needs of under-served groups.

Measures that could improve access to finance for co-operatives could include:

- Exploring a potential extension of the new Community ENABLE Funding programme to CDFIs lending to co-operatives, once the CEF scheme is up and running.
- A Start-Up Loan programme variant that is aimed at co-operatives – therefore not a personal loan product – with support provided by specialist co-operative sector practitioners.

23. What role could banks and other financial institutions play in improving access to finance for under-served groups through CDFIs?

There is a compelling and urgent case for deepening partnerships between banks and CDFIs to improve access to finance for underserved groups. CDFIs and banks are complementary lenders and can achieve positive outcomes by partnering. CDFIs serve as the “last-mile” providers of finance for underserved customers who are difficult for banks to reach and serve. The vast majority - 99% - of CDFI lending supports applicants who have been declined or discouraged by banks, indicating minimal overlap and significant opportunity for collaboration.

By leveraging their flexible, relationship-driven approach and deep local knowledge, CDFIs not only meet immediate financial needs but also nurture the bank customers of

tomorrow. There has been incredible momentum and positive steps taken between mainstream banks and the small business lending CDFI sector in recent years, including:

- **Providing lending capital to CDFIs.** In 2024 Lloyds Bank invested £43 million into three CDFIs through the Community Investment Enterprise Facility (CIEF). Until this, most of CDFIs' senior lending capital has been provided by social banks such as Unity Trust Bank and Triodos Bank.
- **Providing grants to scale CDFIs' lending and improve professionalisation.** JPMorganChase is providing £4 million to support the operational capacity of CDFIs. This will be invested in a wide range of activities including technology upgrades, awareness raising, recruitment and leadership support. Lloyds Bank has also committed capacity building funding to CDFIs.

In the United States, grants provided by financial institutions make up as much as 50% of a CDFIs' revenue. This enables CDFIs to focus on turning a “No” into a “Yes” by supporting borrowers through the application process. Grants help to keep loan rates down and provide in-loan support.

- **Providing technical support to the CDFI sector.** For example, a senior Lloyds Bank executive was appointed to the Board of Responsible Finance last year.
- **Raising awareness of CDFIs:** Lloyds Bank has also worked to raise awareness of CDFIs [internally](#), so its colleagues can better signpost to CDFIs. Lloyds has also used its networks to promote CDFIs with Members of Parliament and other stakeholders.

These partnerships are welcome, but they remain limited in size. Based on our experience to date and looking at the US, **in order to solve the long-standing problems of access to finance, particularly for underserved groups, CDFI-bank partnerships must be scaled up and institutionalised.**

This approach offers a number of benefits to all stakeholders:

- **Greater access to finance for small businesses:** CDFIs specialise in reaching and serving businesses who are creditworthy but not currently fully served by mainstream banks (whether due to thin credit files, low wealth or geographic reasons). CDFIs have the ability to go “the last mile” when partnering with banks.

- **Small businesses and places are resilient and prosperous:** With flexible funding and personalised support from CDFIs, small businesses can grow and thrive. These businesses and entrepreneurs can build resilience, create jobs, and become more prosperous. In the future they could become banks' customers.
- **Policy objectives are met:** Together, banks and CDFIs can better support the Government's policy objectives around increasing inclusive growth and financial inclusion.

The following priorities can form the basis for long-term, institutionalised bank and CDFI partnerships, that will ultimately lead to more small businesses thriving:

1. **Long-term investment from banks for CDFIs to on-lend to small businesses,** such as committing to exploring investing into Phase 2 of the British Business Bank's Community ENABLE Funding programme (CEF).
2. **Referrals of declined and discouraged applicants directly to CDFIs,** so more SMEs can find a low-cost way of accessing appropriate funding.
3. **Capacity building grant funding,** to enable CDFIs to invest in growth and operational efficiencies, such as for digital infrastructure, workforce development and innovation. CDFIs operate on tight margins, so steady capacity building funding would be transformational for the sector.
4. **Technical assistance** including sharing data, tools and infrastructure that could increase CDFI operational efficiency supporting scale.
5. **Grant funding for small business mentoring and support through CDFIs,** to more comprehensively support small businesses to succeed.
6. **Funding and incubator partnerships to support new CDFIs to start-up to fill specialised market gaps.**
7. **Raising awareness of CDFIs among banks' frontline staff, branch networks and SME teams.**

This positive range of partnership opportunities can make a meaningful difference for small businesses and communities accessing finance for their growth and resilience, therefore increasing the UK economy's overall growth. These partnership opportunities

will have the most impact if they are adopted at scale across all CDFIs and banks. The Government can encourage and incentivise these partnerships through:

- 1. Convening banks and seeking a voluntary compact between banks and CDFIs to create structured, consistent and proactive partnerships.**

Or,

- 2. Implementing legislation like the United States' Community Reinvestment Act (CRA) (more on this in question 17), or the Fair Banking Act.**

25. Do you have experience of any initiatives, either government or private sector-led, that have been or could be beneficial for access to finance for entrepreneurs from under-served groups?

CDFIs have highlighted a number of highly effective initiatives that not only improve access to finance for under-served entrepreneurs but also build a progression pathway – from confidence-building and capability development, to accessing capital and scaling viable businesses. These initiatives often complement one another, reinforcing long-term inclusion in enterprise and finance. Unfortunately, due to funding restrictions, many of them were one-off projects or no longer running.

JumpStart Project - CWRT

Designed to support pre-start individuals from disadvantaged backgrounds to become enterprise ready. This programme provided intensive wraparound support and helped participants develop viable business ideas. A number of participants went on to apply for and successfully secure loans from CWRT as a direct result of the programme.

The Financial Fit (TFF) – CWRT

An exclusive programme focused on helping women-led businesses become more financially confident and capable. It had a significant impact, with many participants reporting increased confidence in managing their finances — and several going on to apply for business loans for the first time as a result.

Local Communities Enterprise (LCE) Fund – CWRT

This fund has been pivotal in reaching microbusinesses, which make up 94% of recipients. It has been particularly effective in supporting women-owned businesses, many of whom opted for lower-value loans (from as little as £1,000) to minimise perceived risk.

Additionally, around 35% of funding has gone to individuals and businesses in deprived areas of Warwickshire, ensuring targeted local impact.

Mentoring Ex-Offenders – Chamber Acorn

CDFI Chamber Acorn told us about its most effective and well received scheme over its 20 year history being mentoring ex-offenders. This programme included staff visiting secure units to mentor offenders who had a wide range of skills, but lacked direction and purpose. The overall benefit of the scheme was to encourage lower reoffending rates and give people the option to become self-employed after release, particularly as the chance of ex-offenders gaining employment were limited at that time.

Single Mums Business Network – Purple Shoots

The Single Mums Business Network was a peer-led initiative founded by a former customer who wanted to help other single mothers access finance and move towards financial independence. While the initiative eventually folded due to lack of funding, it demonstrated the effectiveness of community-based approaches and the power of lived experience in breaking down access barriers.

Together, these initiatives demonstrate that with the right support, under-served entrepreneurs can move from aspiration to sustainable enterprise. Dedicated funding for CDFIs from banks for mentoring and business support could enable more of these programmes to support underserved entrepreneurs access the finance they need to grow and thrive.

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- CWRT
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