LONDON CHAMBER of COMMERCE AND INDUSTRY

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London Chamber of Commerce and Industry's response to the call for evidence on small business access to finance

May 2025

Introduction

1. The London Chamber of Commerce and Industry (LCCI) is the capital's largest independent business advocacy organisation. We represent the interests of firms of all sizes, from micro-businesses and sole traders through to large, multi-national corporates, across all 33 London local authority areas –reflecting the broad spectrum of London business opinion.

2. As the voice of London business, we seek to promote and enhance the interests of the capital's business community through representations to central government, the Mayor and London Assembly, Parliament and media, as well as international audiences. Through business surveys and commissioned research, LCCI seeks to inform and shape debate on key business issues.

3. LCCI supports the government's growth mission and in anticipation of the publication of the Industrial Strategy and Small Business Strategy (due to be published this year), it backs the government's commitment to provide small and medium-sized enterprises (SME) with the tools that enable them to start, thrive and grow.

4. SMEs make up a significant proportion of LCCI's membership, and business leaders have repeatedly provided feedback around their inability to access finance and the impact this has on their operations. In addition, we hear from our Black, Asian and Women in Business committees, on the challenges facing women and ethnic minority led firms.

Summary of response

5. Our members have highlighted there are multiple issues for SMEs when accessing finance, with testimonies suggesting that more needs to be done to make businesses aware of the various financing options open to them. Businesses also seek an advisory service that can provide practical advice and support on the best financial products available to grow their firm in a sustainable way that minimises the risk of debt.

6. Our key recommendations include keeping more detailed information on the types of businesses that receive finance, removing barriers for ethnic minority led and women led businesses, and creating strategic growth funds that can help to address funding problems.

7. The government and financial institutions need to address the myths around finance options and raise awareness of the lending market to enable SMEs to make informed decisions on how to scale up and grow.

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

8. The LCCI and our members have identified multiple barriers that limit the demand for debt finance:

   Risk aversion and fear of debt

   Many SMEs, especially those led by women or ethnic minorities, are reluctant to take on debt due to fears about repayment, personal risk and unclear loan terms. Negative past experiences or a lack of understanding of finance options often exacerbates this fear.

A common issue raised by businesses is how being denied finance affects them. Members reported losing confidence after being turned down by their banks. Even businesses that haven't applied often assume they'll be rejected, especially smaller firms. This fear of rejection can shape the types of financial products SMEs choose. As a result, some skip banks altogether and go straight to alternative lenders or resort to short-term options like revolving credit or business credit cards that carry fewer penalties.

Lack of financial confidence or literacy

Businesses will approach their bank for finance but can often be unprepared in how to present their business case or are uncertain about the loan amount required. This often presents too great a risk to banks that ultimately reject SMEs on the basis that they do not understand the financial product on offer and may not hold supporting evidence to comply with repayment terms.

A key observation among members is the role financial institutions, including the British Business Bank, can play in providing guidance to SMEs on how to access finance. There is recognition that the British Business Bank's (BBB) finance hub does provide a list of resources available to SMEs and start-ups, but this service could be strengthened by providing a matching service between businesses and finance providers.

However, concerns were raised about the BBB's presence and effectiveness in London and the South East. Members argue that London includes some of the most deprived areas in England, and the BBB should avoid viewing the capital as a single, affluent entity. SMEs make up the vast majority of businesses in London and require just as much support as those in other regions. A strong base of thriving businesses is essential to drive job growth and opportunities for Londoners from all backgrounds.

Perceived complexity and bureaucracy

One of the biggest challenges for SMEs in accessing finance is the application processes that are often time-consuming and administratively burdensome, particularly for microbusinesses and sole traders. By their very nature, SMEs are typically made up of smaller teams, or even sole traders, without dedicated staff for completing finance applications. This limits their growth and forces reliance on personal savings or networks. Lacking expertise in funding applications, SMEs often need costly external help to apply.

The assessment criteria used by banks and financial institutions to vet finance applications were reported as being too vague, with SMEs submitting incorrect materials to secure funding. For example, an SME may look at the assessment criteria for a particular financial product and submit documents more akin to marketing materials, when the financial institution is actually seeking information on how the loan will be repaid. The impact of Covid-19 accelerated the digitalisation of banking services and subsequently there has been a reduced presence on the high street. This shift has seen the rise of online chatbot services, for example, that lack the relevant nuances to effectively support businesses accessing finance products. Our members value face to face interaction to inform their decision-making process and provide guidance on their application.

Cultural and systemic barriers

Women, disabled entrepreneurs, and ethnic minority business owners face cultural expectations and implicit biases that can discourage or hinder them from accessing finance. These challenges are further compounded when protected characteristics intersect. Additionally, there appears to be a gap in the market for innovative firms who are looking to scale up. Some businesses, which may not immediately be profitable, often seek finance to support their growth. However, traditional high street banks tend to exhibit a bias against providing finance to these types of ventures.

Do you believe that financial education or knowledge and availability of information are barriers to demand? If so, to what extent?

9. This is a significant barrier. Lack of awareness about the types of finance available and the criteria for accessing them leads many small businesses to self-exclude from the market. LCCI members also highlight a lack of information on the different types of finance available to SMEs, and for what purpose a business might want to access finance for. SMEs will often estimate the amount of funding they believe they need, only to have their application rejected by banks for requesting what is perceived as an excessive sum.

Addressing the barriers to demand for debt finance through financial education or knowledge requires the combination of various measures.

10. Financial literacy training should be introduced and expanded in a way that enables entrepreneurs to be equipped with knowledge both before starting and while running businesses. Information that helps people to understand the types of finance and how they can be used to build businesses is essential to bust myths and to help people understand what is available. It is also important that financial literacy training is tailored and targeted too for underrepresented groups for whom financial literacy may not be common.

11. Engaging with business organisations and networks, including Chambers of Commerce, should be a key part of promoting awareness-raising initiatives. Additionally, free or subsidised access to trusted business advisors, business start-up and scale up programmes have the potential to be impactful while the impact of digital and online campaigns cannot be underestimated.

Why are some small businesses permanent non-borrowers? Should this be considered a problem?

12. Permanent non-borrowers often reflect the barriers to taking on debt previously highlighted such as risk-averse attitudes, lack of financial confidence and avoidance due to misconceptions or business models that focus on organic growth. For some businesses, this may not be a problem. However, where businesses have the ambition to grow but face barriers to accessing finance, this can be a constraint for their growth and for UK economic productivity. The concern should be with making sure that those who might potentially want to borrow are able to do so through measures such as the introduction of debt finance products with flexible repayment and tailored risk profiles for newer entrepreneurs. To convert skeptics and the misinformed, it is important to frame funding as investment or partnership opportunities rather than debt.

What would help to encourage the volume of small business lending in the UK?

13. Increasing the volume of small business lending in the UK would require efforts aimed at both the demand and supply side. For borrowers, this includes financial literacy and awareness of funding opportunities with targeted signposting for underrepresented groups. For lenders, this might mean better explanation of and reduction of reliance on personal guarantees for low-risk or early-stage loans, offering more flexible lending options and adopting more inclusive investment strategies.

What role do personal guarantees play when seeking debt finance?

14. Personal guarantees can be a significant barrier to borrowing by discouraging application due to concerns over personal financial risk, especially among women, minority and disabled entrepreneurs. Although they can enable lending by giving lenders security, this must be balanced against the potentially exclusionary impact. Businesses are also often unaware of their rights and obligations under personal guarantees.

Should the government implement policy measures to stimulate more competition in provision of finance?

15. Increasing the flow of finance to businesses would require the use of various levers including policy measures that stimulate more competition in the provision of finance. Supporting challenger banks and fintechs, reducing regulatory burdens for new entrants and incentivising inclusive lending practices are some of the measures that can be taken.

How can the CDFI sector be supported more effectively?

16. Community Development Finance Institutions (CDFIs) have the potential to positively impact access to finance for businesses. As a relatively underused vehicle in the UK, the sector can be supported through funding to scale operations, provide tax relief or guarantees to de-risk lending and improve referral mechanisms from banks. There is scope for CDFIs to be an integrated part of the financing ecosystem, providing funding to businesses that can't get the finance they need from other lenders.

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

17. The UK's current lending environment does not fully meet the finance needs of under-served entrepreneurs. Access to finance remains a persistent challenge throughout the business lifecycle - from start-up to scale-up - for women, disabled individuals and ethnic minority entrepreneurs. These groups experience higher rejection rates, lower average funding, and reduced awareness of financial opportunities.

18. Evidence from the London Chamber of Commerce and Industry (LCCI) underscores the scale of the issue, particularly for ethnic minority-led businesses. Many entrepreneurs from these backgrounds avoid seeking finance due to concerns about bias or past negative experiences with financial institutions.

19. This lack of trust, coupled with barriers such as difficulties opening accounts and applying for loans, often forces entrepreneurs to rely on personal savings, limiting their ability to grow and compete. Structural issues such as limited collateral, asymmetric information, and reliance on transactional credit-scoring methods further disadvantage these groups. These factors contribute to underfunding, lower start-up rates, and entrenched inequalities within the UK's entrepreneurial landscape.

Barriers to Finance for Women Entrepreneurs

20. The barriers faced by women in starting and growing successful businesses in the UK are well-evidenced. A recent report from Tide Bank showed that 53% of women in the UK said they found it difficult to start a business, with access to funding cited as the number one barrier.[1] The LCCI's Women in Business group, which seeks to support female founders and entrepreneurs in the capital, highlight the discrimination faced by women in business from

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[1] Supporting women in business, Tide Bank, March 2023, https://www.tide.co/blog/tide-update/we-onboarded-100000-female-members/

financial institutions. While some argue that business fundamentals matter more than gender, most highlight systemic barriers especially at the intersection of gender, ethnicity, and disability. This discrimination has a number of negative impacts on women in business, with founders often not able to secure sustainable investment for their company.

Testimonies from LCCI firms suggested that too many financial institutions do not give the same level of credibility to women as their male counterparts. Several members also reported that women-led businesses consistently receive a disproportionately lower share of funding compared to male-led businesses. Views expressed by members suggested that women would be less likely to even attempt to access finance, which stems from a lack of guidance when applying. Women are often more reluctant to take on debt due to concerns about financial risk, particularly related to caregiving responsibilities. This issue could be addressed through more outreach from financial institutions to communities where finance is negatively perceived.

Intersectionality: Gender, Ethnicity, and Disability

21. The findings of LCCI's *Ethnic Diversity in Business* report suggest the challenges are more acute when gender intersects with other protected characteristics. This is often compounded by cultural expectations, a lack of formal networks, and greater vulnerability to financial insecurity, particularly among those with caregiving roles or disabilities.

22. Historical and structural inequalities mean that many women from ethnic minority backgrounds lack access to both formal and informal business networks, which are crucial for financing and growth. Our members cited examples of perceptions that negatively impact how women from ethnic minorities are treated when seeking funding that stem from stereotypical gender and ethnic bias.

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

23. Given the multifaceted nature of these barriers, our members advocate for a multi-dimensional approach to support women entrepreneurs. Key recommendations include:

Targeted and dedicated funding for underserved businesses
Members called for the establishment of funding programmes specifically targeted at underserved entrepreneurs. These should address the unique challenges they face and be supported by gender and ethnicity-conscious investment strategies. Reference was made by some members to previous US model, where initiatives were put in place to support businesses from minority backgrounds and SMEs. It was felt that this would be a good model for the UK to adopt, particularly as a way to support minority led businesses who are affected disproportionately.

Reframing finance offerings
Members highlighted that traditional finance offerings can feel high-risk or inaccessible. They recommended framing finance as an investment or partnership rather than debt, with clear repayment support, and greater availability of grants or patient capital.

Financial literacy and business planning support
Building capability programmes that include pitch training and mentoring can help women navigate the funding landscape with greater confidence and robust business plans.

Accessible networks
Free networking events and facilitated business introductions are vital. Programmes that build connections for women entrepreneurs, especially those outside traditional finance hubs, are essential.

Lending practices and requirements

Continuous review by banks and financial institutions of their lending practices would be helpful to reduce obstacles that prevent underserved businesses accessing the support they need.

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

24. Banks and other financial institutions can come together with CDFIs to create an ecosystem of financial support for businesses. At a roundtable for banks, financial institutions and businesses convened by LCCI last year, the idea of an ecosystem that supports businesses and enables them to access funding that is bespoke to their business requirements was proposed.
    To achieve this, banks can:
    - Refer declined applicants to CDFIs.
    - Co-invest or provide blended finance.
    - Support CDFI capacity building.

In order to better understand the lending outcomes of different groups, would you be willing to disclose information such as your gender, ethnicity and whether you have a disability to your lender?

25. Underserved groups have historically been reluctant to disclose information about demographic characteristics due to concerns about their misuse against them. At the same time, the collation of this information is necessary for the monitoring and addressing of challenges facing particular groups, and there is growing recognition of this by underserved groups including our members.

26. We support the collection and encourage the disclosure of such information for the purpose of monitoring and addressing challenges. Transparency about usage is key as is the effort to be granular and accurate in the collection of this data.

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?

27. The UK's Investing in Women Code[2], is instructive. The code committed financial institutions to collect and report gender disaggregated data and take further action to improve female entrepreneurs' access to the tools, resources and finance needed to grow successful businesses is instructive. The Disability Finance Code is similarly a welcome initiative for addressing the challenges that disabled entrepreneurs face. This is the kind of ambition that should be set for supporting ethnically diverse entrepreneurs too by taking forward findings from the pilot study.

28. Domestically, Members praised the British Business Bank's Start Up Loans and the Women Founder loans and initiatives resulting from the Rose Review. Organisations like HerBiz (a

[2] Investing in Women Code, https://www.british-business-bank.co.uk/about-us/our-values-and-culture/investing-in-women-code/

six-week coaching programme), UK Black Tech, Babes on Waves, and Hustle and Heels were also noted to provide crucial community-based support for women, especially those from ethnic minority backgrounds. Greater support for these models would promote diversity, resilience, and innovation in UK entrepreneurship.

International Examples - Tackling Barriers to SME Debt Finance

29. Various interventions have been explored in the UK including Start Up Loans UK which has been positively received as well as a growing number of initiatives and networks. Examples from outside the UK can offer ideas for trialling and insights for existing initiatives in the UK.

30. There are strong models within Europe for addressing barriers to SME debt finance, particularly for underserved groups. These international models have stronger non-bank lending ecosystems, more joined-up support, with finance, advice, and mentoring integrated into a single offer and data transparency and regulatory pressure for financial inclusion.

31. France's *Bpifrance*, a state-owned public investment bank provides tailored finance and integrated business support for SMEs and start-ups, while the Netherlands' *Qredits*, a non-profit microfinance lender, focuses on under-served entrepreneurs and combines lending with coaching and mentoring to address both financial and capability gaps.

32. Other jurisdictions have examples of interventions designed to address identified market gaps. Women's Business Centres in the US provide government-backed support tailored to women while Canada's WES includes capital funding and business development programmes.