

Responsible finance for micro and small enterprises

Radman Selmic

Enabling financial inclusion through CDFIs and public guarantees

Addressing poverty and financial and social exclusion in the UK.

Community Development Finance Institutions (CDFIs) provide financial services to micro and small enterprises who were declined access to finance by the high street banks. There are at the moment around 70,000 small firms with viable business plans who have been either discouraged to apply for a bank loan or have applied and been declined. An estimated 14% of British population are excluded from financial services.

There are state supported financial guarantees in place, but other countries have more inclusive systems. Germany, for instance, has developed a complex state-owned infrastructure of guarantees, supported by the KfW (state investment bank) as well as specialised guarantee-banks.

While it is broadly accepted that guarantees can encourage lenders to lend even when there's a lack of security from the customer (who pays an additional premium), the question arises whether guarantees could also cover some other cases that limit borrowers' access to credit?

Radman's project investigates the sustainability of financial infrastructures around CDFIs. These include, 'nearly bankable' customers unable to borrow from retail banks, the creation of CDFIs policies, CDFI investors and the British Business Bank. Radman has interviewed a range of micro-entrepreneurs, management staff from CDFIs and policy makers.

Radman is also exploring the effectiveness of the state supported financial guarantees currently offered by the British Business Bank, and comparing UK experience with other countries, most notably Germany.

Please get in touch with Radman at the Centre for more information on his research.

About the author

Radman is a Research Fellow at the Lloyds Banking Group Centre for Responsible Business. He has researched and taught sustainable finance in both micro and macro-economic context - after spending five years as a practitioner in the financial sector. He's currently exploring how sustainability and accessibility of finance for underprivileged communities in the Global North, "peripheral" countries in the economic and monetary unions, and the whole regions in the Global South.



A complex problem

In the Global North and the Global South access to fair finance is crucial for enabling a decent everyday life and sustainable business. More money into micro- and small-enterprises also means more value going back into the community.

The British Business Bank was established in 2012 in the wake of the global financial crisis, to finance small and micro businesses. Existing Enterprise Financial Guarantees provided by the British Business Bank cover borrower's lack of security in relation to credit risks, but still many applications have been declined.

This is a complex problem, with responsibility required from all players: the lender, the borrower and the state.

Radman's research aims to explore whether the UK can improve their financial infrastructure in relation to micro-enterprises by following the example of other markets, such as Germany.

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