DRAFT - FOR REVIEW NOT PUBLICATION - V1

How CDFIs are funded

COMMUNITY FINANCE TOOLKIT · BRIEFING #5

A community lender's funding options are set first by what kind of legal entity it is, and then by the sources open to it. This note starts there. In practice almost all CDFI funding is debt, drawn from a small number of routes: retained surplus and grants, wholesale bank lending, social-investment capital, and, for a minority, private investment that carries Community Investment Tax Relief.

Every figure is sourced, with full links at the foot of this note. This is a general explainer, not tax, legal or investment advice.

CDFIs operate with a variety of legal forms

The legal form of a CDFI is important because it determines whether a CDFI can raise finance in the form of debt, equity or both. Across the 29 community lenders in this toolkit's status matrix (Briefing #1), the picture is as follows: 16 are companies limited by guarantee, which have no share capital; 4 are societies whose member shares are capped; and 2 are community interest companies, which are asset-locked. Only 6 are companies limited by shares, and even those are typically owned within a charity or group. So for the large majority, raising external equity is not an option, and the funding question is overwhelmingly a debt question.

Every community lender in the status matrix (Briefing #1), by legal form. Company types from Companies House and the FCA Mutuals register. An asterisk marks an organisation that is also a registered charity.

Legal form	Number	Can it raise external equity?	Organisations
Company limited by guarantee	16	No, it has no share capital	Finance for Enterprise; Business Enterprise Fund; SWIG Finance; First Enterprise; Coventry & Warwickshire Reinvestment Trust; Social Investment Business Foundation*; MSIF; GC Business Finance; Social Investment Scotland*; Robert Owen Community Bank Fund; DSL Business Finance; Let's Do Business Finance; Chamber Acorn Fund (Humber); Co-operative & Community Finance; Key Fund Investments; Purple Shoots Business Lending
Company limited by shares	6	In principle yes, but usually owned within a charity or group, so external equity is not the route	Big Issue Invest; Newable Business Loans; UK Steel Enterprise; Charity Bank; Saltend Community Development; Seedar Finance
Registered or community benefit society	4	Only in a limited way (withdrawable member shares, capped, with a limited return)	BCRS Business Loans; ART Business Loans; Business Finance Cumbria; Ulster Community Investment Trust*
Community interest company (CIC)	2	Not in practice; a CIC is asset-locked, and a share CIC pays only capped dividends	Resonance Enterprise Investment CIC; Kindred LCR
Not yet classified	1	Legal form not confirmed	Energising Education
Total	29		

A company limited by guarantee is defined by the Companies Act 2006 (sections 3 and 5): its members' liability is limited to a nominal guarantee, and it has no share capital, so there is nothing to sell to an outside equity investor. It grows instead by retaining the surplus it makes and by borrowing. A society can issue member shares, but they are capped and pay only a limited return, so they behave more like patient debt than equity. Even the CDFIs that are companies limited by shares are typically owned by a charity or a guarantee-limited parent, so raising outside equity is not usually open to them either.

Three of these lenders are also registered charities (marked with an asterisk above): Social Investment Business Foundation and Social Investment Scotland, each a company limited by guarantee, and Ulster Community Investment Trust, a registered society. This dual status matters for the analysis. A charity is governed by charity law as well as its company or society law; it must apply its assets only to its charitable purposes, under a statutory asset lock, and cannot distribute profits to members or investors. So charitable status removes the equity option entirely and reinforces the debt-only picture, while also giving the lender access to charitable tax reliefs and to grant and donation funding that non-charities cannot claim. The upshot across all forms is that CDFI funding is, in general and often entirely, about debt and debt-like capital, and that is what the rest of this note covers.

Funding alternatives

Underneath the legal form, a CDFI draws on two broad kinds of capital: its own base capital, which it does not have to repay, and borrowed capital from the wholesale routes set out below. All of the wholesale routes are debt.

Base capital comes from three main places. First, some CDFIs carry an endowment or a corporate sponsor rooted in regional disadvantage or post-industrial renewal: UK Steel Enterprise, for instance, was created by the steel industry to regenerate the areas around former steelworks, and several other lenders trace back to a founding sponsor or a legacy fund of this kind. Second, donations and philanthropy: grants from foundations, such as Esmée Fairbairn, and from local authorities. Third, retained earnings: the interest and capital repaid on loans already made. Because a CDFI typically lends over a three-to-five-year horizon, the capital it lends out, net of defaults, recycles back to it over that period and can be lent again, so a stable loan book is itself a renewing source of funds.

On top of that base, four wholesale routes supply borrowed capital, and they differ in where the money ultimately comes from.

Wholesale bank lending is the workhorse, and it is private, commercial capital. Unity Trust Bank, Triodos Bank and Lloyds provide bilateral loans to CDFIs, secured by a charge over the loan book.

Dormant assets, through Better Society Capital (BSC), are public-adjacent capital. Money left unclaimed in dormant bank accounts flows through Reclaim Fund Ltd, which received £173.0m in 2024/25, to BSC, which has committed around £384m to social lending.

The Community Investment Enterprise Facility (CIEF) is a genuine blend. Established by BSC in 2018 and managed by Social Investment Scotland, it pools private co-investment from banks (Lloyds and Triodos) with BSC's dormant-asset capital, and lends the combined fund to CDFIs on a match-funded basis, deploying through vehicles such as Community Investment Facility Limited that take security over the loan book. Its first phase was £72m; a second phase in 2024 added around £62m.

Community ENABLE Funding (CEF) is taxpayer capital today. It is the British Business Bank's newer facility: rather than lending to a CDFI, it buys the CDFI's existing loan receivables for cash, which the lender then re-lends. Around £120m has been issued to seven CDFIs. Unlike CIEF, CEF is not yet a blend; the government's stated ambition is to open a secondary market so that private investors can eventually buy into these loan books, but that is a future phase, not the present position.

Private investment carrying CITR is the one route that brings in private individuals and companies directly, usually through a specialist pooled fund. It is the smallest of the routes by value.

The routes at a glance

This table shows how each route works and where its capital ultimately comes from. The table in the next section sizes the same routes.

How capital reaches a CDFI, its ultimate source, and which routes carry CITR.

Route	Capital source	Who provides it	What the CDFI receives	CITR?
Base capital	Non-repayable	Endowment or corporate sponsor, donations and philanthropy, retained earnings	Capital it does not repay, plus recycling loan repayments	**No**
Wholesale bank lending	Private	Unity Trust Bank, Triodos Bank, Lloyds	A bilateral loan, secured by a charge	**No**
Dormant assets, via BSC	Public-adjacent	Reclaim Fund Ltd, the Oversight Trust, Better Society Capital	Loan or investment capital into social-lending vehicles	**No**
CIEF	Blend (private and dormant assets)	Lloyds, Triodos and BSC, with the participating CDFIs; managed by Social Investment Scotland	A match-funded wholesale loan facility	**No**
CEF	Taxpayer (private ambition)	British Business Bank, through BBFSL	A purchase of the lender's existing loan receivables	**No***
CITR-wrapped private investment	Private	High-net-worth or professional investors, often through a specialist pooled fund	A loan to, or securities in, the CDFI	**Yes**

*CEF itself is not a CITR product, but each loan it funds must independently qualify as a CITR "relevant investment".

The quantum involved

This table sizes the capital flowing into CDFIs by route. The amounts are very different in scale and measure different things, so they should not be added together. Note in particular whether a figure is a multi-year cumulative total (a stock built up over years) or a single-year flow.

Approximate scale of the capital reaching CDFIs by route, with the basis of each figure and its source. Re-verify before external use.

Route or reference point	Amount	Basis	Source
Wholesale bank lending	Not published	No aggregate figure exists; individual facilities only	Companies House charge filings
Better Society Capital, social lending	£384.0m	Multi-year cumulative, committed since inception	Better Society Capital
Dormant assets, via Reclaim Fund Ltd	£173.0m	Single-year flow, received in 2024/25 (upstream of CDFIs)	Reclaim Fund Ltd, 2024/25
Community ENABLE Funding (CEF)	£120.0m	Multi-year cumulative, issued to seven CDFIs	British Business Bank
Community Investment Enterprise Facility (CIEF)	£134.0m	Multi-year cumulative, two phases since 2018 (£72.0m, then £62.0m in 2024)	BSC / Social Investment Scotland
CITR private investment	£180.7m	Multi-year cumulative, eight years to 2023/24	HMRC

Reading the numbers

The CITR statistics in Briefing #3 (about £180.7m over eight years) capture only the private-investor route. They are not a measure of the wholesale capital, from banks, from BSC, through CIEF and through CEF, that funds most CDFI lending. Most of that capital is public, public-adjacent, or ordinary commercial debt, and none of it uses CITR.

Security: charges over the loan book

Because CDFI funding is mostly borrowing, wholesale lenders protect themselves in the ordinary way: by registering a charge at Companies House over the CDFI's assets, in practice its loan book (its book debts) and cash, and sometimes the shares of a special-purpose vehicle set up to hold loans. This is routine secured-lending practice and a normal lender protection, not a sign of any difficulty.

The pattern is visible on the public register. Finance for Enterprise, for example, has 28 charges registered at Companies House, 11 of them outstanding, in favour of its wholesale funders: Unity Trust Bank, Triodos Bank UK and Lloyds Bank, together with the Community Investment Facility vehicles that deploy CIEF. One is a fixed charge over the entire share capital of its lending vehicle, FFE SPV Limited. Read together, these charges are simply the wholesale-debt routes set out above, secured against the loan book they fund.

Reading a CDFI's charges

A long list of registered charges is normal for an active lender. It maps who funds the lender: the recurring names, Unity Trust, Triodos and the CIEF facilities, are the same wholesale routes described in this note, each taking security over the loan book as any secured lender would.

Where this sits in the toolkit

This note maps how a CDFI is funded. "CITR: the rules for community lenders" covers the CITR route in detail, "CITR for investors" explains the private-investor side, and "CITR: the lending statistics" presents the relief and the HMRC data. The Foundation note explains how CITR relates to CDFI, GGS and CEF.

SDWH, What's next for nations, regions and communities? (the published briefing behind the quantum): https://sdwh.co.uk/community-lending-sme-finance

Social Investment Scotland, Community Investment Enterprise Fund (CIEF): https://www.socialinvestmentscotland.com/investment/community-investment-enterprise-fund/

Better Society Capital, Community Investment Enterprise Fund: https://bettersocietycapital.com/portfolio/community-investment-enterprise-fund/; Better Society Capital: https://bettersocietycapital.com/

Reclaim Fund Ltd (dormant assets): https://www.reclaimfund.co.uk/

British Business Bank, Community ENABLE Funding Programme: https://www.british-business-bank.co.uk/finance-options/debt-finance/community-enable-funding-programme

Lloyds Banking Group, What are CDFIs and how do they support SMEs: https://www.lloydsbankinggroup.com/insights/what-are-cdfis-and-how-do-they-support-smes.html

Responsible Finance: https://responsiblefinance.org.uk/

HMRC / DBIST, Aggregate investment for accredited CDFIs under CITR: https://www.gov.uk/government/statistics/community-investment-tax-relief-scheme

Companies House, company types and charges (example: Finance for Enterprise charges): https://find-and-update.company-information.service.gov.uk/company/01925556/charges

FCA Mutuals Public Register (society registrations): https://mutuals.fca.org.uk/

Companies Act 2006, sections 3 and 5 (companies limited by guarantee, no share capital): https://www.legislation.gov.uk/ukpga/2006/46/section/3