PROGRESSIVE MARKETS 01

Closing the funding gap - building a fairer finance system that works for all founders

By Dillon Lancaster
& Ram Puvinathan

Published
September 2026

This paper was first published in September 2026.
The contents and opinions expressed in
this paper are those of the authors only.

Company number, England & Wales: 14406854

Contents

About The Future Governance Forum

The Future Governance Forum (FGF) is a progressive, non-partisan think tank focused on transforming the state to renew the nation. We make politically credible recommendations for reforms that can be delivered nationally and locally, build strong networks to test new ideas, and collaborate and use our relationships with public, private and social sector leaders to innovate.

Our current programmes of work explore:

- **Vital Institutions:** How can we reform existing state institutions and establish new ones so they are fit for purpose and built to last?
- **Better Services:** How can we build public services that are faster, more reliable and built around people's needs?
- **Progressive Markets:** How can we rethink markets and unlock investment to renew the economy, and deliver for people and places?
- **Impactful Devolution:** How can we meaningfully and permanently devolve power in one of the most centralised countries in the world?
- **Rethinking Migration:** How might we deliver a more effective asylum system that sustains greater public confidence, while remaining consistent with the principles of international law and progressive values?

By prioritising these questions we are thinking about new progressive models of governance for the long-term. Our working model is to convene experts and find ways in which we can bring perspectives from very different organisations together to suggest ways in which the 'how' of government could be more effective at every level.

Get in touch:

hello@futuregovernanceforum.co.uk
futuregovernanceforum.co.uk
@FutureGovForum
The Future Governance Forum FGF
@futuregovforum
@futuregovforum.bsky.social

About the authors

Dillon Lancaster

Dillon Lancaster is an economist at The Future Governance Forum, with a particular focus on the Progressive Markets workstream. He previously managed a global strategic bond fund.

Ram Puvinathan

Ram Puvinathan is a public policy researcher and consultant. He works with governments and businesses globally to advise on reform, modernisation and innovation.

Acknowledgements

This report would not have been possible without input from the individuals and organisations who shared their time, expertise and experience as interviewees and engaged with the project throughout. With a special thanks to roundtable participants who include: Alma Angels, Bae HQ, Colorintech, Diversity VC, Identity.vc, Sie Ventures, Tech Nation and Unrest who provided extremely thoughtful contributions to the discussion. We would also like to thank our sponsor HSBC for their insights and support throughout the process of this report.

Executive Summary

A fast-growing, resilient UK economy depends on unlocking the potential of every part of the country and every group in it - as Prime Minister Andy Burnham puts it, of ensuring 'good growth in every postcode'.[1] That means a finance system built for the full breadth of entrepreneurial talent. At present, too many founders building viable, ambitious businesses are being underfinanced, and the cost of that failure in lost jobs, productivity and innovation, compounds with every passing year.

Women, ethnic minority entrepreneurs, disabled business owners, and first-timers without inherited wealth or established networks are key parts of this entrepreneurial finance system. We call them **underinvested founders**. They represent a growing share of the UK's entrepreneurial population currently underserved by the finance market. Currently in the UK, you are eight times more likely to become a founder if you went to a private school versus a state school.[2] These founders are not homogenous. They face different challenges, operate across different sectors and stages, and encounter the finance system in different ways. What all groups share is a common experience of a system that does not yet work for them as well as it should.

The economic case for reaching them is large and well-documented. Research shows that closing the funding gap for underinvested founders would add hundreds of billions of pounds to the UK economy, with investing in female and ethnic minority-led businesses alone estimated to add 13% to the value of the UK equity market.[3] The potential unlocked by closing this gap represents one of the largest untapped opportunities available to the UK economy. And with economic growth stagnant for almost two decades now, and the corresponding impact that has had on living standards, it's an opportunity we cannot afford to miss.

This agenda has received extensive political attention over the last decade. Successive governments have set up taskforces, codes, programmes and strategies, alongside initiatives in the private and third sectors. While that activity has produced progress in places, it has not yet translated into tangible change in outcomes for underinvested founders at scale. For example, female-only businesses received just 2% of venture capital in 2024, down from 2.5% the previous year.[4]

If the Burnham administration is to unlock this opportunity, we need a new approach; one where government, public finance institutions, and private partners are better coordinated around a shared objective, where capital interventions are deployed at the right scale and through the right instruments,

1 Andy Burnham, 'Andy Burnham Speech at the People's History Museum, Manchester', 29 June 2026.

2 Social Mobility Ventures, 'SMV - The State of Social Mobility in UK Founders 2025', 2025.

3 British Business Bank and Department for Business and Trade, 'Investing in Women Code Annual Report 2025', 10 July 2025.

4 British Business Bank, 'Small Business Equity Tracker 2024', 2024.

and where the structural and cultural barriers that prevent underinvested founders from finding and accessing finance are systematically addressed.

This report argues that three building blocks must be in place simultaneously to create a finance system that works for underinvested founders.

1. Strategic direction, accountability and standards

The government and its institutions, especially the British Business Bank (BBB), must orient toward the same purpose, measuring performance against what changes for underinvested founders from where they are today. This means setting consistent standards for how publicly backed capital is deployed to different communities and holding institutions accountable for meeting them.

2. Capital interventions

The most direct way to change who gets capital is to change who deploys it, and through what instruments. To this end, the government can deploy public capital directly itself, while it can also create incentives that pull private capital in the same direction. This means channelling public capital toward fund managers and institutions that demonstrably back underinvested founders and building incentive structures that grow the pool of private investors willing and able to do the same. New initiatives, such as the £400m Investor Pathways Capital fund[5] and increased support for Community Development Finance Institutions (CDFIs), must deliver these outcomes.

3. Discoverability and navigation

A well-functioning finance system proactively reaches the founders who need it; it does not just sit back and wait to be discovered. The government should ensure that underinvested founders can find relevant support, as offered by the new Business Growth Service (BGS), through the channels they already use, at the moments that matter most in their business journey, and through the trusted relationships and intermediaries they already rely on. This requires a more intelligent use of data than the government already holds and a partnership with the finance system organisations that have the widest reach, and greatest degree of trust, among underinvested founder groups.

The ultimate measure of success will be whether mainstream venture capital and lenders have changed how they operate to support the full breadth of the UK's entrepreneurial population. Many of the reforms proposed in our recommendations, such as a more effective Business Growth Service that reaches founders through trusted intermediaries, would benefit the wider SME and startup base as much as underinvested founders specifically. Ultimately, a finance system that works better for the founders it currently misses is a finance system that works better for everyone.

5 British Business Bank, 'Investor Pathways Capital | British Business Bank', British Business Bank website.

Recommendations

Based on interviews with investors, founders, policymakers, and finance system leaders, alongside an assessment of best practices in the UK and internationally, we make nine recommendations, organised across the three building blocks. We do not call for new institutions or extensive new public expenditure. Instead, we focus on making existing capital and institutions work more effectively for all founders, at a time when public finances are constrained.

Strategic direction, accountability and standards

Recommendation 1: The government should direct the British Business Bank (BBB) to adopt a named, measurable outcome target for capital reaching underinvested founders, reported annually as a core component of its market reporting. *This would give investors and policymakers a shared standard to work toward, highlighting which funds and programmes are contributing to improvement, with a senior figure at the BBB accountable for delivery.*

Recommendation 2: The British Business Bank (BBB) should lead the development of a common data standard to track capital reaching underinvested founders. *As Recommendation 1 suggests, data reliability and transparency is vital and the BBB should lead on establishing a comprehensive and consistent methodology for all underinvested founders building on the approaches to data collection as part of the Investing in Women Code (IWC).*

Recommendation 3: The government should resource and recognise founder-facing organisations as a critical part of the finance system. *These business support and community-focused organisations often have deeper trust and relationships with founder groups than government itself; resourcing them with multi-year funding would be one of the most direct, low cost ways to support underinvested founders.*

Capital interventions

Recommendation 4: The government should establish a dedicated angel programme for underinvested founders, funded through Investor Pathways. *Evidence demonstrates that diverse investors back diverse founders, so growing the pool of angels from underinvested backgrounds would offer one of the most cost-effective ways to expand the capital available to them.*

Recommendation 5: Introduce a Youth Enterprise Scheme (YES) to help balance the playing field for entrepreneurship and risk-taking. *With a growing Not in Education, Employment or Training (NEET) problem in the UK, this scheme would incentivise and help young people on Universal Credit to start their own businesses, through a financial subsidy and mentorship.*

Recommendation 6: The government should make Community Development Finance Institutions (CDFIs) a genuine alternative finance provider rather than a lender of last resort. *The different risk appetite and relationship-based lending model allows CDFIs to better reach underinvested founders; greater scale and certain preferential treatment would allow them to do this more competitively and effectively.*

Discoverability and navigation

Recommendation 7: The Business Growth Service should be redesigned to reach underinvested founders through trusted relationships and community networks. *Awareness of the service, the government's front door for business support and finance, remains very low amongst founders.*

Recommendation 8: The government should proactively identify and reach underinvested founders using data it already holds. *Government agencies are rich in data which should be integrated and used to provide personalised information about financial support when companies are established and at certain key points along the business journey.*

Recommendation 9: The lending sector should work in partnership with the government to make a 'Ready for Finance' toolkit. *Lenders and the government should collaborate to ensure best-in-class tools to improve knowledge of the finance system are optimised and available widely for business owners.*

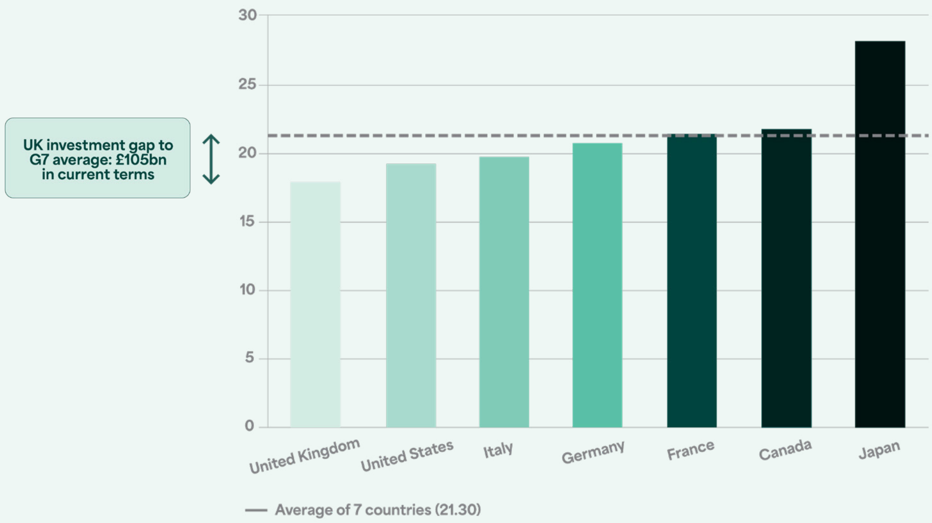
Introduction

Andy Burnham has promised to break the cycle of low growth and low investment that has defined the UK economy for nearly two decades, pledging on taking office to make this moment 'a circuit breaker for Britain'.[6] Delivering on that mandate will require hard choices about where to direct public capital and a willingness to back parts of the economy that have often been overlooked. We argue that *underinvested founders* are a vital source of growth available to the UK economy.

The good growth imperative

The case for change is urgent. GDP per person has grown by only 0.9% per year since 2010, far below the decade before, with productivity growth averaging just 0.6% per year in the 2010s, the second worst in the G7 after Italy.[7] The UK has had the lowest investment as a share of GDP in the G7 in 24 of the last 30 years.[8] The consequences are visible across the economy, with citizens facing stagnant wages, widening inequality, and public services under sustained pressure. At the same time, a succession of external and geopolitical shocks, from the COVID pandemic and the war in Ukraine to renewed trade tensions and instability in the Middle East, has reinforced the importance of building an economy with stronger domestic foundations.

Figure 1: The UK has been trailing behind G7 peers in levels of investment between 1980 and 2023. This lack of investment is equivalent to a £105bn annual investment deficit to the G7 average in current terms. [9]



6 Andy Burnham, Andy Burnham's first speech as Prime Minister ', Prime Minister's Office, 10 Downing Street, 20 July 2026.

7 Resolution Foundation, 'Life in the slow lane', June 2024.

8 IPPR 'Revealed: Investment in UK is lowest in G7 for third year in a row, new data shows' , 18 June 2024.

9 OECD, 'OECD Economic Surveys: United Kingdom 2024', September 2024.

A belief in a strong state, in partnership working, and in the fundamental importance of increasing investment, is at the heart of the new administration's economic approach and what the Prime Minister calls 'Manchesterism'. The mission is twofold. Growth is vital if the UK is to finally raise living standards through higher wages and better jobs. Resilience means building an economy with strong local and long-term foundations; one that can absorb and adapt to shocks and global instability.

The new Prime Minister's early interventions show he understands the political urgency of delivering improvements to living standards and of creating more homegrown jobs. Creating a finance system that works for the full breadth of the UK's entrepreneurial population is essential to delivering both.

Startups and SMEs both play an integral part in the UK economy

For the government's economic story to be a success it will have to ensure startups and small and medium-sized enterprises (SMEs) have the conditions in place that they need to thrive.[10]

The UK's 5.5m SMEs represent 99% of all businesses, employ 60% of the private sector workforce, and generate over £2.8tn in annual turnover.[11] They are embedded in local communities and supply chains across every region of the country, and a supportive environment for their growth is foundational to any credible plan for national renewal and resilience - for the 'good growth' that the Prime Minister wants to see.

High-growth startups are a distinct and disproportionately important part of this picture. These businesses commercialise technological breakthroughs that are key to long-term competitiveness. The spillover effects of startup activity in terms of knowledge diffusion and productivity gains ripple across the wider economy in ways that go well beyond the direct contribution of the companies themselves.

Both populations are essential to the government's good growth ambitions and both contain a large number of founders who are not being well served by the finance system as it currently operates.

Startups and traditional SMEs have different financing needs and encounter different parts of the finance system. Startups typically seek capital from equity or venture markets, while the wider SME population relies primarily on debt finance. In Chapter 1 we examine how each financing system works and where it is falling short.

Who are 'underinvested founders'?

Women, ethnic minority entrepreneurs, disabled business owners, and first-timers without inherited wealth or established networks are a growing part of the UK's entrepreneurial population. Throughout this report we refer to these groups collectively as underinvested founders. They are not a homogeneous group. They operate across different sectors, at different stages and in different

10 'SMEs are defined as businesses with fewer than 250 employees and £50m in revenue.'

11 Annalise Murray, 'Business Statistics' , House of Commons Library Research, 2025.

parts of the country, and they encounter the finance system in different ways. It is also important to recognise that many founders belong to more than one of these groups, and that the barriers they face can multiply as a result.

Figure 2: Poor outcomes for underinvested founders

2%

Amount of venture capital money that is invested in all-female founding teams

2x

More likely that ethnic minority founders see access to finance as a key obstacle to running their business

84%

Disabled entrepreneurs that say they do NOT have equal access to opportunities and resources

8x

More likely to become a founder in the UK if you went to a private school vs a state school

The economic opportunity

There is a strong national economic case for closing the finance gap for underinvested founders. Research by the government and leading experts points to hundreds of billions of pounds of unrealised value waiting to be unlocked, in new jobs, breakthrough innovations, thriving regional economies, and tax revenues that can fund world-class public services. The graphic below sets out the scale of that opportunity. It demonstrates that at present the UK is leaving important economic value on the table by failing to back a meaningful part of its entrepreneurial population, and addressing this is in the national economic interest.

Figure 3: These figures are drawn from separate studies using different methods and time periods. We have deliberately not sought to combine them into a single figure, since the groups they describe overlap and doing so would risk double-counting.

Value to economy	Description	Source
£310bn	Additional economic value if women started and scaled businesses at the same rate as men	Rose Review (2019), inflation-adjusted by the Women's Enterprise Council, 2025
£75bn	Potential contribution of ethnic minority businesses to the UK economy	Centre for Research in Ethnic Minority Entrepreneurship (CREME)
£230bn	Untapped economic opportunity from disabled entrepreneurs	Lilac Review, Small Business Britain

Chapter 1: The state of the market

The finance market

This chapter examines how startups and SMEs are financed in the UK, who is managing to secure capital and who is not, and what is structurally producing those outcomes. The challenges we set out frame the conditions for change that we propose in Chapter 3.

We must first acknowledge that for many underinvested founders, challenges begin before they ever reach a lender or investor. Women, for example, carry a disproportionate share of unpaid caring responsibilities that constrain time and risk appetite. Nearly half of working-age women do 45 hours of unpaid care weekly, and the UK has childcare costs significantly above the OECD average.[12] When deciding whether to start a business, founders from lower socioeconomic backgrounds face personal financial risk with a limited safety net. The New Enterprise Allowance (NEA) - a government scheme that provided weekly payments and a business mentor to unemployed people who wanted to start their own business - sought to solve this, but was discontinued in 2022. The scheme's failure was widely attributed to support that was too limited to make starting a business a realistic option. Across all communities, there is a lack of visible role models for aspiring entrepreneurs who reflect their own background and experience. In one report, 72% of disabled founders report lacking role models or mentors.[13] These barriers are outside the scope of most of this report's recommendations, but they are the context in which everything that follows operates.

The New Enterprise Allowance (NEA) - financial subsidy and mentorship to help a wider pool of entrepreneurs without a safety net

The New Enterprise Allowance (NEA) was introduced in 2011, based on the Enterprise Allowance Scheme in the 1980s. The NEA provided mentorship and financial support for six months with participants receiving £65 a week for the first 13 weeks and £33 a week for the following 13 weeks; this money replaced Job Seeker's Allowance or was a top up to Universal Credit and so provided support to those unemployed while they attempt to establish a business. As a result of the NEA, 157,000 businesses were set up from a total of 276,000 participants over 11 years and while applications understandably fell during the pandemic, it was widely seen as a successful scheme until it was abruptly halted in 2022.[14]

12 The Guardian, 'Almost half of working-age women in UK do 45 hours of unpaid care a week - study | Gender', 31 March 2022; The Independent, 'UK among top five most expensive countries for childcare as nursery fees set to rise again', 2024.

13 Small Business Britain, 'The Lilac Review', 2025.

14 House of Commons Work and Pensions Committee, 'Plan for Jobs and employment support' , Eighth Report of Session 2022-23, HC 600, 19 July 2023.

1.1 Financing our innovation economy

High-growth startups are the UK's primary engine of technological innovation and productivity growth. They commercialise breakthroughs in artificial intelligence, clean energy, life sciences, advanced manufacturing and digital technologies. These are all included in the eight priority sectors, known as the IS-8, that the government's Modern Industrial Strategy identifies as central to long-term competitiveness.[15] This strategy was launched in 2025 by Jonathan Reynolds, who has recently returned to office as the Secretary of State for a newly expanded Department for Business, Innovation, Science and Trade (DBIST). These companies punch above their weight by creating a disproportionate number of high-quality jobs and anchoring the innovation clusters that drive regional as well as national growth - crucial to the success of the new government, which has placed devolution and tackling regional inequality at the heart of its political programme.[16]

By many measures, the UK's startups are already world-leading. British startups rank third globally for Venture Capital (VC) investment, and the UK is home to over 200 unicorns (companies valued over $1bn), with 18 of them added in 2026 alone.[17] UK startups raised c.£12.7bn in venture capital in the first half of 2026 alone, up 102% on 2025.[18] The UK's wider innovation economy, including all VC-backed companies founded since 1990, is now worth c.£1.2trn, having grown 6.7 times over the past decade. Nearly half of that value sits in companies founded since 2010, evidence that startup growth is ongoing.[19]

The startup funding journey

Early-stage startups are typically pre-revenue or pre-profit, with an ambition to scale quickly. This means that they cannot service debt in the traditional sense as the assets that would underwrite a guarantee often do not exist and there are no guaranteed cash flows against which to repay a loan. These startups therefore seek equity finance, a type of capital that accepts risk in exchange for a share of future returns.

Equity or venture financing follows a broadly sequential logic, though in practice the stages are fluid and overlap. At the earliest stage, *pre-seed* and *seed*, founders draw on personal savings, friends and family, venture funds and angel investors. The latter are high-net-worth individuals who provide relatively small amounts of capital alongside mentorship and networks. This stage is usually where a founder gets their first real external validation, and where the relationships that unlock later funding rounds get built. Angel investment often happens informally through personal networks.

15 Department for Business and Trade, 'The UK's Modern Industrial Strategy', 2025.

16 Andy Burnham, 'Andy Burnham's first speech as Prime Minister: 20 July 2026', Prime Minister's Office, 10 Downing Street, 20 July 2026.

17 Dealroom.co and HSBC Innovation Banking, 'UK Innovation Update H1 2026 | Dealroom.co', 2026.

18 Ibid

19 Ibid

As a startup demonstrates traction, it seeks funding from VC funds. These funds raise institutional capital from limited partners - governments, endowments, family offices, sovereign wealth funds - and deploy it into portfolios of high-growth companies in exchange for equity stakes. Investment rounds are designated *Seed, Series A, B, and C* and so on, increasing in size and reflecting a company's increasing maturity and validation. The economics of VC are driven by the expectation that a small number of portfolio companies will deliver outsized returns that compensate for the majority of investments that might fail. The financing journey also varies significantly by sector. Deep tech and life sciences businesses, for instance, require longer development timelines and higher capital spending before reaching commercial readiness.

1.12 Government funding underpins the venture market

Public funding plays a crucial role in stimulating the UK startup and venture market in four ways:

1. Providing upstream funding for innovators

For founders at the earliest stage, particularly in deep tech and life sciences where the commercial timeline is long and technical risk is high, public grant and loan funding is critical in getting innovative businesses off the ground. Private investors will often look for early validation and proof of concept before committing capital, making public funding an important complement to private investment.

At the national level, Innovate UK, part of UK Research and Innovation (UKRI), exists to bridge the gap between breakthrough science and commercialisation. With an annual budget of approximately £900mn, it provides grants and loans at various stages of a company's development and across multiple technology areas. Its new Velocity programme seeks to connect deal flow directly to BBB initiatives, creating a more joined-up pipeline from early-stage innovation to government investment vehicles.

However, Innovate UK has acknowledged that its funding does not yet reach underinvested founders equitably. In 2023, 67% of its funding went to men, with female-led applications receiving £452.6m over three years compared to £1.24bn for male-led applications.[20] The Women in Innovation Awards, designed specifically to address this gap, attracted 1,452 applications in 2024, but Innovate UK initially awarded only half of the promised 50 grants, leaving over £2m of committed funding unallocated despite some applicants scoring over 90%.[21] This prompted a public campaign for urgent reform and drew widespread criticism from founders and investors. Innovate UK subsequently reversed the decision and committed to awarding all 50 grants, but the episode illustrated the gap that can exist between institutional intent and delivery.

Regional and local government bodies also play an important role. Mayoral Combined Authorities (now known as 'strategic authorities' after the passing of the English Devolution and Community Empowerment Act), devolved

20 Women and Equalities Committee, 'Female entrepreneurship', House of Commons, 2025.

21 Sifted, 'Innovate UK reverses female founder funding decision following uproar from UK start-up community', 2024.

governments and councils fund incubators, accelerators, and early-stage support programmes that help founders reach the point where national programmes and private capital become accessible. Universities are central to this system, particularly outside London, where they anchor innovation clusters and create pathways from research to commercial venture through technology transfer offices and spinout programmes.

2. Direct investment in startups

A small number of government vehicles make direct equity investments in startups in strategically significant sectors. The National Security Strategic Investment Fund invests in deep tech with national security applications, such as quantum computing and advanced materials. The recently announced £500m Sovereign AI Fund represents a further direct public commitment to strategically critical technology. The National Wealth Fund, launched in 2024, provides patient capital for clean energy and industrial transition, with a particular focus on unlocking private investment in areas where market failures would otherwise prevent it.

3. As a fund of funds for the UK venture market via the British Business Bank

The BBB is the most important public actor in the UK startup financing system. It has played a positive role in the sector, seeding the majority of the UK venture capital market over the past 15 years, with over 140 UK VC funds having received BBB investment.[22] These investments play a key role in crowding in further capital from institutional players and international funds.

The BBB operates primarily as a fund of funds, deploying public capital through private fund managers. Its principal equity vehicle is the Enterprise Capital Fund. It has recently launched the Investor Pathways Capital programme, a £400m initiative targeting diverse fund managers. Later in the report, we argue that this should be the centrepiece of the government's approach to supporting underinvested founders.

BBB Investor Pathways Capital - Creating a more diverse and well capitalised investor pool

The BBB Investor Pathways Capital initiative, launched in 2026, represents the most significant public capital commitment to diversifying the investor pool in the UK venture market. The programme commits £400m to backing diverse and emerging fund managers, operating across three pillars:

22 Sifted, 'British Business Bank commits £500m to invest in diverse and emerging fund managers', 2025.

1. Direct investment in diverse fund managers through the Enterprise Capital Funds programme;

2. Investment in micro-funds of around £10m to £15m as a first step on the venture capital ladder for new investors; and

3. Backing partners to invest smaller amounts in talented individuals to build track records and provide training, giving those without personal wealth or connections the opportunity to become investors.

At least 50% of the capital is targeted at female fund managers, with the remainder directed toward managers from other underinvested groups.

In June 2026, the BBB announced the first commitments under the Microfunds segment, investing up to £90m as a cornerstone investor in ten new microfunds, selected from 151 applications. All ten are led by first-time institutional managers, with fund sizes ranging from £10m to £20m, focused on pre-seed and seed-stage investing. 57% of General Partners are women and 43% are from ethnic minority backgrounds, and seven of the ten funds are led by solo General Partners. The programme aims to help these managers establish institutional track records and crowd in private capital behind them.

4. Providing tax reliefs for investors

The Seed Enterprise Investment Scheme (SEIS) and the Enterprise Investment Scheme (EIS) are the primary tax instruments through which the government encourages private investment into early-stage businesses. SEIS offers 50% income tax relief on investments up to £200,000 in the earliest-stage companies. EIS offers 30% relief on investments up to £1m, alongside capital gains exemptions. While awareness of these schemes is low, together they are a key driver of angel investment activity in the UK.

In our 2024 report, 'Rebuilding the Nation 04: A Mountain to Scale', we recommended the government address a gap in the scheme at the point companies begin to scale, by raising the EIS annual investment cap to £10m and the lifetime cap to £20m.[23] The Autumn 2025 Budget delivered this, with the EIS annual limit rising from £5m to £10m for standard companies, with the lifetime limit increasing to £24m.[24]

23 The Future Governance Forum, 'Rebuilding the Nation 04: A Mountain to Scale', 2024.

24 HM Treasury, 'Budget 2025', 2025.

1.13 Underinvested founders remain locked out of funding

A venture funding gap persists for underinvested founders

While underinvested founders are starting businesses in growing numbers, the capital flowing to them has not kept pace. In 2023 alone, all-male teams raised £6.5bn, more than three times the total all-female teams raised over the entire preceding decade.[25]

The picture is similarly stark for ethnically diverse founders. Between 2013 and 2023, ethnically diverse founders secured funding in just 11% of VC rounds and captured 9% of total investment value, despite making up 18% of the UK population and approximately 40% of London's population.[26] For Black founders specifically, the figures are 1.6% VC rounds and 0.9% of total investment value. These challenges are also more evident at growth stages, where ethnically diverse businesses secure only 10% of capital at Series A, B and C, the stages at which companies scale.[27]

Despite accounting for a meaningful share of the small business population, disabled founders are 400 times less likely to secure investment than their non-disabled counterparts.[28]

Moreover, one of the best predictors of funding success is still socio-economic background in the UK. While the working class constitutes 45% of the UK, it makes up only 18% of founders.[29] There is a huge drop off within these backgrounds early in the process, with 50% of state school founders dropping off pre-seed, a rate which is dramatically higher than for those from private school backgrounds. This disparity is also seen further up the funding stream with only 20% of VC investors having gone to a non-selective state school.[30]

Geographic concentration of venture capital remains a challenge

While technology has made it easier to seek funding from right across the country, capital and investment remain highly concentrated in London.

In 2024, London-based companies attracted 48% of all private capital.[31] Of startups founded in 2023 and 2024 that raised at least £100,000, London-based firms captured 72% of all investment secured.[32] The vast majority of venture funds are based in London. Recent data suggests this concentration has deepened with London accounting for $14bn of the UK's $17bn in total VC investment in H1 2026.[33]

25 British Business Bank, 'Small Business Equity Tracker 2024', 2024.

26 Startup Coalition, 'The Diversity Deficit', 2025.

27 Ibid

28 Small Business Britain, 'The Lilac Review', 2025.

29 Social Mobility Ventures, 'SMV - The State of Social Mobility in UK Founders 2025', 2025.

30 Ibid

31 British Business Bank, 'Nations and Regions Tracker: Small Business Finance Markets 2025', 2025.

32 Startup Coalition, 'Unleashing Regional Startup Investment', 2024.

33 Dealroom.co and HSBC Innovation Banking, 'UK Innovation Update H1 2026| Dealroom.co', 2026.

This concentration reflects where capital and networks already sit, and is at odds with the Prime Minister's ambition to deliver good growth 'in every postcode'. There are fast-growing hubs outside London, but they are largely still within South East England (Cambridge and Oxford) and even where further afield (Edinburgh) are disproportionately places with strong research institutions and existing investor infrastructure.

New capital programmes are working to address this problem. The BBB's Nations and Regions Fund has facilitated £20.7bn in investment, with 84% of BBB activity taking place outside London.[34] The BBB also funds a Regional Angels Programme, offering co-investment in underserved regions.

The English Devolution Act can be a relevant lever here, giving regional governments more capacity to strengthen the institutions - universities, strategic authorities, and local investor networks - that create the conditions for capital to find good businesses in the first place. The Act was passed under the Starmer administration, but could now act as a springboard for an even greater focus on devolution. Burnham has already pledged a 'No.10 in the North', an extended Downing Street operation based in Manchester.[35]

The angel market shows that diverse investors back diverse founders

One area of progress has been within the angel market. In 2025, for the first time, female angel investors made more deals to all-female founding teams than male angel investors.[36] Additionally, angel groups where women make up more than 15% of investors direct 55% of their total investment into all-female teams, compared to 11% for groups where women make up less than 15% of investors.[37] The evidence suggests diverse investors back diverse founders. This progress has happened organically with investors backing founders they know and understand, drawing on their own networks and experience. Some of those we spoke to for this project noted that where investors had been explicitly required to back only founders from particular groups, they sometimes found it harder to raise their next fund.

There is still a long way to go. While all-female teams received 42% of angel deals in 2025, they received only 15% of total angel investment value. This 'volume-to-value' gap remains a challenge to be solved.

The progress in female angel investing reflects years of deliberate system building that is only just beginning to emerge for other underinvested groups. Dedicated angel networks and syndicates focused on social mobility and ethnic minority groups are growing, through organisations such as Common Ventures and British Asian Entrepreneurs.[38]

34 British Business Bank, 'Nations and Regions Tracker 2025', 2025.

35 Andy Burnham, 'Andy Burnham Speech at the People's History Museum, Manchester', 29 June 2026.

36 British Business Bank and Department for Business and Trade, 'Investing in Women Code Annual Report 2025', 10 July 2025.

37 Ibid

38 Common Ventures; British Asian Entrepreneurs. Common Ventures ; Bae

1.2 A rising tide of SMEs

The wider SME population - 5.5m businesses representing 99% of all UK companies, 60% of private sector employment, and over £2.8tn in annual turnover - has fundamentally different financing needs from high-growth startups.

Unlike startups, most SMEs are not seeking to grow quickly towards an exit or Initial Public Offering (IPO) - the point at which founders and early investors realise the value of their holdings in a company by selling the business or listing it on a stock exchange. They seek finance to manage their cash flow, invest in existing or new assets, expand their workforce, or fund incremental growth. Debt is the primary financing instrument for most of these companies, taking the form of loans that must be repaid with interest over an agreed term.

The debt market is not the only financing route for SMEs. Some will seek equity investment, while others use asset finance, invoice finance or trade credit. The picture is more varied than a simple debt-versus-equity binary suggests, and the size and sectoral focus of a company will define funding choices. But for the majority of the SME population, and particularly for the underinvested founders this report is concerned with, debt finance is the primary and often the only realistic option.

1.21 There is a diverse and evolving lending pool

Banks and lenders

The SME lending market is served by a range of institutions with different models and areas of focus. A founder's creditworthiness is typically assessed on the basis of its trading history, cash flow, assets that can serve as collateral, and in many cases personal guarantees. This approach reflects the legitimate risk management requirements of lending institutions and works well for established businesses with predictable revenues and tangible assets. However, for newer businesses and founders who lack personal wealth, it can be harder to demonstrate creditworthiness through these conventional measures.

High street banks have historically been the backbone of SME lending in the UK, and remain important lenders today, having invested substantially in digital tools and support services for customers. In recent years, 'challenger banks' have grown quickly and now provide 60% of gross SME lending by volume.[39] Digital-first models have provided businesses with faster decisions and greater reach, but it has also changed the nature of the lender-borrower relationship. It is an ongoing challenge to replicate the relationship-based support that characterised traditional branch banking in a digital-first environment, and one that government and the private sector are actively working to address.

39 Department for Business and Trade, 'Small business access to finance' , 2025.

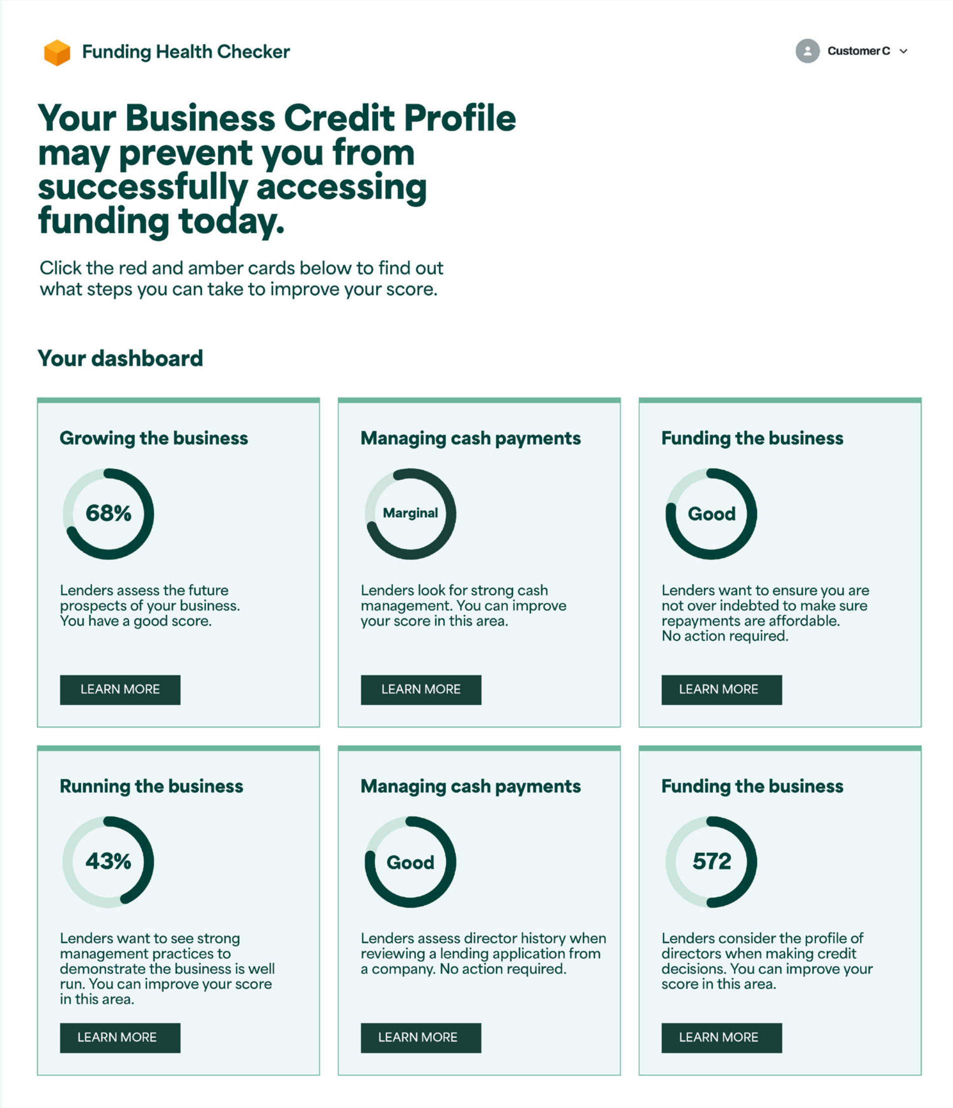
The Small Business Coach and Funding Health Checker - A digital-first support service

The Centre for Finance, Innovation and Technology (CFIT), which brings together major banks, trade bodies, and government stakeholders, has produced studies showing that for every business that applies for funding currently in the UK, there is another one which is in need of funding but does not apply.

The coalition has developed and trialled, in collaboration with lenders and private partners, two applications with the aim of supporting businesses from launch all the way through the funding process. One of these tools - the Small Business Coach - seeks to support businesses, including with AI-driven coaching, before a credit need has materialised. A second, the Funding Health Checker, provides personalised feedback to business owners, pinpointing areas that the business can address to improve their chances of obtaining finance.

The results have been extremely encouraging with two thirds of users of the Funding Health Checker having discovered identifiable and addressable issues. From the pool of participants, 98% said they would take the recommended actions and this helped increase the confidence of users from 53% to 77% when applying for finance.

Figure 4: Example of the user interface of the Funding Health Checker with easy to understand scoring metrics and interactive features offering advice.



National and local government

The government plays a direct role in SME debt finance through several instruments. The BBB operates the Growth Guarantee Scheme (GGS), a £3.25bn facility for banks and specialist lenders which provides a 70% government guarantee on loans of up to £2m. The GGS has recently been extended in scope after being judged as a large success, with every £1 spent on the scheme unlocking £10 of further lending.[40] Additionally, the Start Up Loans programme offers unsecured personal loans of up to £25,000 to early-stage businesses alongside mentoring and support. This programme has been important for some underinvested founders, with 21% of loans having gone to founders from Black, Asian or other ethnically diverse backgrounds, significantly above their share of wider lending.[41]

40 HM Treasury, 'Chancellor to unlock billions in finance for small businesses', 2026.

41 Startup Coalition, 'The Diversity Deficit', 2025.

The Business Growth Service - A front door that too few founders can find

The Business Growth Service (BGS), launched by the Department for Business and Trade in 2025, is intended to provide a single, accessible point of entry to government-backed finance and support schemes. The BGS is a welcome initiative; a consolidated source of growth support information can be valuable to current and future founders. It can help demystify a complex support and funding landscape, while helping to signpost relevant funding calls, community organisations, and support programmes that founders would not otherwise find. The government reports strong early usage, with the service recording over 750,000 users in its first year.[42] But our research found that awareness of the BGS remains very low, even among those most engaged in the founder support system. Its current design does not reflect how time-poor founders seek support. For example, it is not easily discoverable through the search platforms and Large Language Models (LLMs) that founders increasingly use as their first port of call for finance information, nor does it have a 'human' or 'relationship-based' offering that reflects traditional finance. These limitations are not specific to underinvested founders; they affect the broader founder population and risk limiting the BGS's effectiveness as a public investment.

Community Development Finance Institutions

New funding mechanisms are also emerging, such as Community Development Finance Institutions (CDFIs), which occupy a small but increasingly important part of the lending landscape. CDFIs are specialist lenders focused on underserved markets, blending financial support with advisory and relationship-based lending.

CDFIs are funded through a combination of bank lending, government schemes, and individual/impact investors. The latter are encouraged to invest in CDFIs by the Community Investment Tax Relief (CITR) which gives investors a 25% tax relief spread over five years. On the lending side, many CDFIs benefit from the GGS. The cost of funding from a CDFI is higher compared to banks due to the lack of cheap retail deposits. Nonetheless, they are still much cheaper than alternatives such as credit cards or payday loans.

In 2025 the sector lent £389m, an amount that has grown considerably over the last decade. Of the businesses that it lent to, 88% had previously been declined by mainstream lenders, 43% were in the UK's most disadvantaged areas, 21% were ethnic minority-led businesses, and 37% were women-led businesses. This lending created over 7,000 new jobs in the UK economy in 2025 alone.[43]

42 Department for Business and Trade, 'The UK's Modern Industrial Strategy: year one', 2026.

43 Responsible Finance, 'Impact Report', 2026.

Earlier this year a taskforce was established between the sector, major banks, and policymakers with the goal of expanding the reach of CDFIs.[44] The goal is to increase the amount of loans made by CDFIs by £1bn over the next five years. While this would be a very welcome development it would still leave the UK CDFI market considerably smaller than more mature, international comparators, such as the US where the annual lending by CDFIs is over $65bn. While the wider US lending market is approximately ten times larger than that of the UK's, it still demonstrates the potential to further expand this avenue of lending.

TrueStart - A CDFI success story

Founded in 2015 by Helena and Simon Hills, TrueStart creates specialty coffee with a more consistent caffeine profile, targeting consumers seeking healthier and more reliable energy. However, the company was unable to access the finance it needed to grow through traditional banking channels. Instead, it secured £158,000 funding from SWIG Finance, a CDFI based in South West England that lends well above the market average to women-led businesses. Since the funding, TrueStart has been stocked by Ocado, Morrisons, Asda, and Costco - leading to turnover increasing from £1m to £7m and TrueStart's workforce doubling in size. JamJar Investments, run by the founders of Innocent Smoothies, invested in TrueStart earlier this year.[45]

1.22 SMEs are turning away from debt

Appetite for external finance across the SME population has fallen in recent years. The proportion of SMEs using external finance fell from 50% to 43% between 2023 and 2024, confidence in securing loan approval has declined from 56% in 2019 to 34% in 2024, while BBB research shows that SMEs are increasingly borrowing for working capital over investment.[46] These trends reflect complex macroeconomic conditions which have affected the cost of credit and shifted business confidence.

This experience is particularly stark for underinvested founders. Ethnic minority SMEs are twice as likely to be declined for business lending as their white counterparts, a gap that has persisted consistently across multiple years of data.[47] The BBB notes that Black entrepreneurs are particularly affected, with lending levels that have remained stubbornly low.[48] Women apply for significantly less on average than men (£104,000 vs £198,000). Notably, once women do apply, their approval rates are broadly similar to men's.[49]

44 The Times, 'Taskforce seeks to unlock £1bn in small business lending', 2025.

45 SWIG Finance, 'SWIG Impact Report 2025/26', 2026.

46 British Business Bank, 'Small Business Finance Markets 2025/26', 2026.

47 Business in the Community, 'Ethnically diverse SME leaders twice as likely to be turned down for business funding', 2023.

48 British Business Bank, 'Small Business Finance Markets 2025/26', 2026.

49 British Business Bank and Department for Business and Trade, 'Investing in Women Code Annual Report 2023 to 2024', 2024.

Bank referral scheme

The Bank Referral Scheme (BRS) was launched in 2016 following the Small Business, Enterprise and Employment Act 2015, with the objective of getting viable businesses access to finance after a rejection. If a business was declined for a loan from their first lending option, the bank would offer a referral to alternative lenders which could then potentially offer a loan.

However, while the intention of the scheme was to ensure that viable businesses were not shut out of the external finance market it unfortunately has not been a large success. Less than 3% of applicants have taken up the offer of referral and then only 6% of those referred end up successful. This leaves 94% of business owners facing a repeated decline.

The extremely low take-up of the offer of referral highlights room for improvement with the scheme. Moreover, while a healthy funding system will involve rejections, the current rate of repeated decline suggests that more can be done to improve financial readiness after an initial rejection. It is perhaps not a surprise therefore that in a recent government call for evidence on the BRS approximately two thirds of respondents advocated for a fundamental shift away from the current design.

Chapter 2: A decade of activity

For over a decade, successive governments have recognised the challenges facing underinvested founders and sought to improve outcomes for them. There have been numerous reviews, taskforces, codes, investment programmes, and regulatory inquiries spanning multiple departments and institutions. This chapter examines what has been tried and why it has not been enough.

2.1 What has been achieved

Figure 5 : The graphic below maps the principal interventions of the past decade across three categories: government reviews and policy, taskforces, and reviews and codes

A Reviews

- **Rose Review** — Made the case for closing the gender gap in entrepreneurship, catalysing the Investing in Women Code. 2019
- **CREME: Time to Change** — Set out ethnic minority businesses' growth potential of up to £100bn, with recommendations on trust and data. 2022
- **Lilac Review** — Quantified a £230bn opportunity from disabled entrepreneurs and proposed a Disability Trading Framework. 2025
- **WEC Female Entrepreneurship Inquiry** — Cross-party inquiry calling for mandatory reporting on gender and investment outcomes. 2025
- **DBT Access to Finance Call for Evidence** — 96 responses, feeding into the Small Business Plan and development of the Business Growth Service 2025-26
- **Milburn Review** — Interim report on the UK's NEET crisis, including comparisons with other European countries. 2026

B Taskforces

- **Invest in Women Taskforce** — Chaired by DBT; launched the £250m+ Women Backing Women fund. 2024-
- **Women-Led HGE Taskforce** — Focused on women-led high-growth businesses scale, with a particular focus on areas outside London. 2024
- **Women in Tech Taskforce** — DSIT-led taskforce examining why female-founded tech firms attract less venture capital. 2025-
- **CDFI Taskforce** — Sector, banks and policymakers working to grow CDFI lending by £1bn over five years. 2025-

C Codes & policy

- **Investing in Women Code** — Grown to 337 signatories; 2025 was the first year female angels backed more all-female teams than male angels did. 2019-
- **Disability Finance Code** — Voluntary standard from HSBC, Barclays, Lloyds and NatWest on access for disabled founders. 2024-
- **BBB Investor Pathways** — £400m fund of funds backing diverse fund managers, with at least 50% directed to women. 2025-
- **Small Business Plan** — The UK's first dedicated small business strategy in a decade, launching Investor Pathways and an Open Finance Roadmap. 2025

Government

The Rose Review in 2019 established the economic case for closing the gender gap in entrepreneurship and catalysed the Investing in Women Code and the broader women's finance agenda.[50] Since then, successive reviews have extended the evidence base for other underinvested groups. The Lilac Review documented the £230bn opportunity from disabled entrepreneurs, and the Centre for Research in Ethnic Minority Entrepreneurship report set out the £100bn potential of ethnic minority businesses.[51]

50 Alison Rose, 'The Rose Review of Female Entrepreneurship', HM Treasury, 2019.

51 Small Business Britain, 'The Lilac Review', 2025; Monder Ram and Eva Kašperová, 'Time to change report', Centre for Research in Ethnic Minority Entrepreneurship, Aston University, 2022.

At the same time, new public funding mechanisms are being set up to increase capital flows to underinvested founders. As set out in Chapter 1, these include BBB Investor Pathways Capital - a £400m fund of funds targeting diverse and emerging fund managers, which we argue is the single most important lever available for diversifying who makes funding decisions in the UK VC market - and CDFI capitalisation targets aimed at expanding debt finance in underserved markets. Additionally, the BBB's Community ENABLE Funding programme, which channels government-backed wholesale finance through CDFIs to reach underserved smaller businesses, represents an important if relatively modest set of investments in the UK's debt markets.[52]

The wider financial system

Alongside the government, a rich and growing network of organisations has mobilised around this agenda. Notably, the Investing in Women Code has grown from 12 founding signatories to 290, seeking to align investors around a shared commitment to data collection and improved investment practice, while the Disability Finance Code has seen HSBC, Lloyds, NatWest, and Barclays sign up to a voluntary standard on access for disabled founders.

Non-profit and founder-focused community organisations have built some of the most effective infrastructure for reaching underinvested founders in the UK. Organisations including Common Ventures, British Asian Entrepreneurs, Tech Nation, and Colorintech have developed deep relationships within underinvested founder communities, providing services ranging from accelerators and incubators, to investor introductions and peer networks. Foundervine alone supported 975 Black-led businesses in 2024, unlocking £2m in funding and 88 investor relationships. Angel networks focused on underinvested founders have grown alongside these groups, with organisations including Alma Angels, Angel Academe, and Araya actively expanding the pool of investors backing underinvested founders and building the pipeline of new angels from underinvested backgrounds.

Common Ventures - 'Talent is everywhere, but opportunities are not'

Common Ventures (previously Social Mobility Ventures) is an organisation set up in 2024 to tackle the underrepresentation of founders from state-school backgrounds in startups. The motto that 'talent is everywhere, but opportunities are not' has led to the creation of the Common People community of more than 1,500 state-educated founders, investors, and operators, and created Common Path, a programme that equips state-educated graduates with practical startup skills before matching them with high-growth technology companies. Earlier this year, it established a Common Ventures Fund as part of the Investor Pathways Capital initiative with the British Business Bank acting as the cornerstone investor.[53]

52 British Business Bank, 'Community Enable Funding Programme', 2026.

53 Social Mobility Ventures, 'SMV - The State of Social Mobility in UK Founders 2025', 2025.

2.2 What is missing

Strategic direction, accountability and shared goals

The first challenge is the absence of a shared goal and a named institution accountable for improving outcomes for underinvested founders. Government engagement on access to finance spans multiple departments, agencies and initiatives. No single actor is currently responsible for whether the system as a whole is reaching underinvested founders, and this blunts progress.

Underlying this context is the absence of outcome data. There is no centralised and coordinated measurement of who is receiving capital across different groups, which makes it challenging to know which interventions are working and where gaps remain. While the Investing in Women Code has been an impactful step forward, it remains a voluntary initiative. Voluntary frameworks tend to attract the institutions already most disposed to act. Many of our interviewees called for any future data collection initiatives to have a mandatory element to be truly effective.

Capital instruments designed to reach underinvested founders

In Chapter 1, we outlined a finance system with extensive capital and a growing range of funding instruments. The challenge is distribution, that is to say, ensuring that capital flows through instruments designed to reach the full breadth of viable founders, instead of concentrating among those businesses who already have access to the right networks.

In the equity market, diversity-focused funds and accelerators have created new entry points for some founders. For larger and more traditional funds, this process of change has been slower, and the largest pools of capital continue to flow through investment practices and networks that have not yet fully adapted to the needs of underinvested founders. The BBB Investor Pathways Capital programme is more promising, by directing public capital to diversify the composition of fund managers. Its success will depend on how well lessons are shared across the funds it backs, and whether the support around diverse fund managers is sufficient to help them build strong track records and attract private capital for follow-on funds.

In the debt market, some of the design challenges identified in Chapter 1 still need to be addressed. The Bank Referral Scheme achieves a successful outcome for fewer than one in ten of the declined founders it is designed to serve. CDFIs have demonstrated that a relationship-based lending model can reach the founders mainstream lenders miss, but are currently only capitalised at a fraction of the scale needed to make a material difference.

The funding landscape is difficult to navigate

One unintended consequence of a growing finance landscape is that it has become harder to navigate. The increase in funding providers and support programmes has created a landscape where founders face an overwhelming amount of information and can struggle to identify what is most relevant to them. AI tools, which founders increasingly use as a first port of call for information, do not have the contextual judgement needed to match a founder to relevant opportunities.

Chapter 3: Building a high-performing finance system

We argue that three building blocks must be in place to create a finance system that works for underinvested founders and the government has both the levers and the responsibility to deliver them.

1. Strategic direction, accountability and standards

The government and its institutions, especially the BBB, must orient toward the same purpose, measuring performance against what changes for underinvested founders from where they are today. This means setting consistent standards for how publicly backed capital is deployed to different communities and holding institutions accountable for meeting them.

2. Capital interventions

The most direct way to change who gets capital is to change who deploys it, and through what instruments. To this end the government can deploy public capital directly itself, while it can also create incentives that pull private capital in the same direction. This means channeling public capital toward fund managers and institutions that demonstrably back underinvested founders and building incentive structures that grow the pool of private investors willing and able to do the same.

3. Discoverability and navigation

A well-functioning finance system proactively reaches the founders who need it. The government should ensure that underinvested founders can find relevant support through the channels they already use, at the moments that matter most in their business journey, and through the trusted relationships and intermediaries they already rely on. This requires both a more intelligent use of data that the government already holds and a partnership with the community organisations that have the widest reach, and greatest degree of trust, among underinvested founder groups.

Effective partnerships with the private sector and wider finance system, including banks and venture funds, will be key to delivering this agenda.

Strategic direction, accountability and standards

Recommendation 1: Government should direct the BBB to adopt a named, measurable outcome target for capital reaching underinvested founders, reported annually as a core component of its market reporting

The BBB has been key to the progress that we have outlined in this report and is well placed to lead the next stage of this agenda. Its Five Year Strategic Plan commits to building ‘a more successful and inclusive funding system in the UK -

one in which promising companies, wherever they are based and whoever leads them, can access the capital they need'.[54] Delivering that objective requires a clear and measurable target around which investors and policymakers can orient their activity.

To that end, the government should direct the BBB to set a named, measurable target for the share of capital it facilitates reaching underinvested founders across equity and debt markets, expressed as a single combined figure. To avoid double-counting and to focus accountability on outcomes not group-level quotas, progress should be measured at the aggregate level with granular breakdown across gender, ethnicity, and disability provided through the data framework proposed in Recommendation 2.

Progress should be reported annually at fund and programme level as a standard component of BBB's existing market reporting, highlighting which vehicles are contributing to improvement and which are not.

There should be a named Senior Responsible Owner at executive level within BBB who is publicly designated as accountable for delivery against this target. Similarly, the Financial Conduct Authority's ongoing SME regulation review provides a vehicle for extending equivalent transparency requirements to the wider lending market, building on the voluntary frameworks that leading institutions have already adopted.[55]

Recommendation 2: The BBB should lead the development of a common data standard to track capital reaching underinvested founders

The target proposed in Recommendation 1 can only be delivered if the underlying data exists to measure progress against it. While collection of gender data in equity markets has advanced significantly through the Investing in Women Code, collection on ethnicity and disability across both equity and debt finance remains limited. Establishing consistent methodology is technically and politically complex, but vital.

Considerable groundwork has already been done across the finance system, including through Diversity VC's data standards for the venture capital market and the approach to data collection as part of the Investing in Women Code (IWC). The BBB should draw on this existing work as a starting point, while recognising that new frameworks may be required where existing approaches are insufficient in scope.

The BBB should convene relevant sector and finance system bodies to agree common definitions and methodology for collecting data on other underinvested groups within a defined timeframe, with community organisations representing working-class, ethnic minority and disabled founders, playing a formal role in that process.

We recommend a voluntary approach in the first instance, recognising the large requirements that mandatory reporting would involve for institutions and the

54 British Business Bank, 'Five-year Strategic Plan', 24 November 2025.

55 Financial Conduct Authority, 'Understanding how our regulation can help SMEs access finance', 2026.

importance of maintaining the buy-in that has made the IWC model effective. The government should set a clear trigger point at which voluntary collection, if insufficient in coverage or quality, would be replaced by a mandatory requirement.[56]

Investing in Women Code - What gets measured gets moved, but still work to be done

The Investing in Women Code is a UK Government-backed voluntary commitment launched in 2019, developed following the Rose Review of Female Entrepreneurship. It aims to improve female access to finance by encouraging banks, VC firms, angel investors, and other funders to collect data and understand barriers in their current funding processes to improve outcomes. From an original 12 institutions signed up in 2019, there are now over 300 signatories. Within six years the scheme has created a comprehensive dataset, improved institutional behaviour for those signed up, where signatories consistently outperform the wider market in backing female founders, and built momentum for wider female funding initiatives. However while widely considered a success, the Code has clearly not yet eliminated the gender finance gap. Looking forward, many are closely following the Investing in Women Code to see how its impact can be further enhanced and how its successes can be translated to other areas.[56]

Recommendation 3: Resource and recognise founder-facing organisations as a critical part of the finance system

Despite the existence and considerable success of various finance system organisations, as discussed in Chapter 2, many operate on limited funding or as part-time initiatives, constraining their ability to deliver consistently and at scale.

The government should resist the temptation to duplicate what these organisations already do well, especially as in many cases such organisations will enjoy considerably higher levels of trust among founders than government itself, and focus instead on funding and connecting them. The government should provide multi-year core funding to relevant organisations dedicated to supporting underinvested founders, enabling them to scale their offerings as a sustainable service. This funding should draw on existing departmental budgets within the BBB and the new DBIST, which would enable a high-value, low-cost intervention relative to the outcomes these organisations demonstrably achieve. The government should also connect these organisations into existing initiatives, including the Investor Pathways Capital fund and the BGS as set out in Recommendation 7, ensuring that founders supported by community organisations have a clear pathway into the funding system.

56 British Business Bank and Department for Business and Trade, 'Investing in Women Code Annual Report 2026', 8 July 2026.

Capital interventions

Recommendation 4: Government should establish a dedicated angel programme for underinvested founders, funded through Investor Pathways Capital

The take-up of SEIS and EIS among potential angels from underinvested backgrounds remains significantly below the levels the schemes were designed to achieve, and closing the awareness and adoption gap represents one of the most cost-effective ways to expand the pool of capital available to underinvested founders.

The government should establish a dedicated angel programme for underinvested founders as a named strand within the Investor Pathways Capital budget, operating as a vehicle where the BBB co-invests alongside angel lead investors from underinvested backgrounds or with a demonstrated track record of backing underinvested founders. The programme should be open across gender, ethnicity, disability and socioeconomic background, with the co-investment structure designed to address the volume-to-value gap that remains the defining challenge in the angel market.

It should further explore a reinvestment relief within EIS, where investors who back a qualifying founder in an initial round would become eligible for enhanced relief on a follow-on investment in the same company, on the same terms. This would target one of the more persistent weaknesses in the current system where capital reaches underinvested founders at first check, but dries up at the follow-on stage.

A wraparound training and awareness programme should sit alongside the co-investment vehicle, building the pipeline of new investors entering the market. HM Revenue and Customs (HMRC) should support this through proactive outreach to individuals who qualify for SEIS and EIS relief but are not currently claiming it, with targeted communication to all eligible investors, including outside London where awareness is demonstrably lowest.

Regional Angels Programme - Capital for the capital-providers - closing the gap before it reaches founders

The Regional Angels Programme was launched in 2019 to close the gap in early-stage finance outside London. It has committed £285m through 23 delivery partners, supporting 775 businesses in 2024/25 alone.[57] Two recent commitments show the model at work. In January 2026, the BBB announced an up to £10m co-investment partnership with Ascension Ventures, one of the UK's most active pre-seed and seed investors. And in July 2026, it extended its relationship with SFC Capital with a fourth tranche of £10m, taking its total partnership to £35m. SFC has funded 260+ businesses so far, more than half of them outside London.[58]

57 British Business Bank, 'Regional Angels Programme', 2026.

58 British Business Bank, 'Press release - 13 July, 2026 | British Business Bank', 13 July 2026.

Recommendation 5: Introduce a Youth Enterprise Scheme (YES) to help balance the playing field for entrepreneurship and risk-taking

Almost one million young people in the UK are not in education, employment or training (NEET). A decade ago, the UK's NEET rate was close to the EU average; by 2025 it was among the highest in Europe, with only Romania recording a worse rate, and the Netherlands' NEET rate now sits at just 4.1% against the UK's 12.8%.[59] For many young people, entrepreneurship could offer an alternative route into work, but starting a business requires taking on large financial risk.

A targeted Youth Enterprise Scheme (YES) would give under-25s starting a business a Universal Credit top-up of £100 a week for three months, reduced to £50 a week for a further three months. This would be combined with in-person coaching and mentorship to bridge the skills and confidence gap facing young people leaving education. Digital tools could also complement such efforts with online guidance via a website or app similar to CFIT's Small Business Coach application.

To ensure continued support, YES should offer an integrated referral service for successful businesses to further schemes such as Start Up Loans and Innovate UK programmes.

YES is best understood as a more generous successor to the NEA. The proposed top-up is broadly what the NEA would be worth today had its value kept pace with inflation since its 2011 launch, which it did not. And where the NEA relied on financial support alone, YES pairs that support with training and referral pathways into other government initiatives.

If successful, YES could inspire a culture shift of a generation towards entrepreneurialism and offer a genuine path for entrepreneurs from all backgrounds who otherwise may not have had the opportunity.

Germany's Start Up Grant - A model with a track record

The Start Up Grant (Gründungszuschuss) in Germany was introduced in 2006. It offers unemployed residents with a viable business plan a €300 per month top up of their unemployment benefit for six months and €300 per month for a further nine months if they remain self-employed. The grant offers greater financial assistance compared to similar historic schemes in the UK. The scheme has seen four in five participants continue to be self-employed and thus removed from unemployment benefits after 3.5 years. Over half of the remaining participants were employed in another capacity over that same time period. This performance has led the German Government to continually praise and publicly back the scheme as a key labour market tool.[60]

59 Alan Milburn, 'Young people and work: interim report', Department for Work and Pensions, 2026.

60 Marco Caliendo and Stefan Tübbicke, 'Der Gründungszuschuss für Arbeitslose nach der Reform 2011: Ein Erfolg wie seine Vorgänger', IAB-Kurzbericht 28/2021, Institut für Arbeitsmarkt- und Berufsforschung, 2021.

Recommendation 6: Make CDFIs a genuine alternative finance provider rather than a lender of last resort

CDFIs offer a model for reaching underinvested founders. Yet, they are currently perceived as an alternative to the punishingly high interest rates of payday lenders instead of a credible first option lender within the borrowing system. For their impact to go much further, that perception must change, and doing so requires both greater public awareness and stronger partnerships with mainstream lenders.

Increasing capitalisation and scaling CDFI operations would be the most direct route to achieving greater uptake. The government, as part of the ongoing CDFI Taskforce, should commit to expanding the Community Investment Tax Relief beyond 25% to provide upfront tax relief, making it a more attractive proposition to individual investors.

At the same time, the government should explore preferential capital treatment for pension funds and insurers investing in CDFIs, in order to increase institutional investment at a greater scale.

On the lending side, expanding GGS coverage for CDFIs would allow them to lend further. The government guarantee of 70% of the loan would reduce expected losses for CDFIs, meaning they would need to hold less capital. This would also make CDFI funding less risky and thus more attractive to institutional investors.

Discoverability and navigation

Recommendation 7: The BGS should be redesigned to reach underinvested founders through trusted relationships and community networks

Founder experiences of the BGS so far point to two core challenges. Firstly, many users do not discover the channel and secondly, it lacks the human, relationship-based offering that founders trust when navigating finance decisions.

The government should therefore commission community organisations and chambers of commerce with established reach into founder and SME communities as paid delivery partners, as set out in Recommendation 3, leveraging their trusted relationships to promote and explain what the BGS offers.

On discoverability, DBIST should also establish an ongoing relationship with major LLM providers and search platforms to ensure that information about the BGS is accurate, up to date and discoverable in the places where founders actually search. This is a fast-moving area and the government should expect its approach to need updating well before the next full BGS review.

Artificial Intelligence - Transforming the future of funding

Artificial intelligence is reshaping the conditions in which businesses are started and grown. The cost of building a product and acquiring customers has fallen massively as AI tools have become more capable and more accessible. For founders who previously faced barriers to entry, such as lack of professional networks or specialist knowledge, AI is beginning to level a playing field that has historically been tilted against them. The implications for the scale and diversity of the UK's future founder population are large.

At the same time, AI is changing how founders find and process information. Interviewees for this report mentioned increasingly turning to LLMs when seeking finance, expecting quick and personalised recommendations. This shift has happened faster than the government's information infrastructure has adapted to it. Finance schemes that are not accurately represented in AI training data and retrieval systems are unlikely to be recommended.

These trends together create both an opportunity and a responsibility for the government. The support and finance system that the government is building today needs to be designed for a world in which AI is a primary interface between founders and information, in which the cost of starting a business continues to fall, and in which the diversity of the founder population is likely to grow.

Recommendation 8: The government should proactively identify and reach underinvested founders using data it already holds

Every year, thousands of new businesses register on Companies House. Commercial financial services providers act on that data immediately, with new directors receiving marketing material within days of incorporation. Fraudsters operate just as quickly, targeting new directors with scam invoices and fake compliance notices. The government, which holds far richer data across HMRC, Companies House and the BBB, makes no equivalent proactive reach to founders who would benefit from knowing what public finance support is available to them.

Relevant government agencies - DBIST, HMRC, the Information Commissioner's Office and the BBB - should collaborate to integrate their existing data to identify founders who qualify for finance support. At the point of company formation, every new director should receive clear, personalised, and trustworthy information about the finance support available to them. As businesses grow and their financing needs evolve, the government should continue to reach out proactively at key moments in the business journey, using the data it already holds to ensure that relevant support is surfaced at the right time.

AI presents a big opportunity to make this outreach increasingly precise over time, matching founders to relevant schemes based on sector, geography and business characteristics.

Recommendation 9: The lending sector should work in partnership with government to make a 'Ready for Finance' toolkit

SMEs need support early in their business journey to build the financial understanding and confidence required to seek and secure external funding. As the BRS has demonstrated, many viable businesses fail or disengage from the finance system because they feel unprepared or unclear on the process. Practical support at an earlier stage and across the funding journey would increase the volume and quality of applications received by investors and lenders. Greater support and knowledge-sharing will also improve transparency within the funding process and increase trust in financial institutions by business owners.

Many schemes exist already including HSBC's Small Business Growth Programme,[61] which is a free open to all programme, and HSBC's Women's Business Growth Initiative.[62] Both of these programmes are designed to support businesses to grow and build resilience through digital training, mentoring, networking and events.

Banks and financial institutions should work in partnership with the government to develop and scale digital-first finance readiness tools that help business owners understand their finance options and prepare strong applications. An integrated 'Ready for Finance' tool, such as one which combines CFIT's Small Business Coach and Funding Health Checker should be integrated into government services, including the BGS.

This would improve levels of financial education and boost confidence in the lending process, levelling the playing field so that viable businesses with founders from all backgrounds receive the correct funding. These tools should be free, light-touch and easily accessible, reflecting the time and financial constraints on founders. Many of these tools exist already and the government should leverage best-in-class third-party solutions where possible.

61 HSBC UK, 'HSBC Small Business Growth Programme - Tools for Success'.

62 HSBC UK, 'Women's Business growth initiative funding'.

Conclusion

Britain has spent the better part of two decades in low growth and weak productivity, resulting in stagnant wages and widening inequality. This report has argued that underinvested founders - women, ethnic minority entrepreneurs, disabled business owners, and first-time founders without inherited wealth or established networks - are a part of the answer to that problem. Closing the finance gap they face would add billions of pounds to the UK economy in jobs and productivity that the country cannot currently afford to leave unrealised.

We have argued that closing that gap requires three things to happen together. First, the government and its institutions, primarily the British Business Bank, need to orient around a named, measurable goal for capital reaching underinvested founders, with clear accountability for delivering it. Second, the government needs to direct capital toward underinvested founders directly, and bring private investors alongside it to do the same, correcting a market failure neither can fix on its own. And third, government business support services need to reach founders through the relationships and channels they actually use.

This approach does not require new institutions or significant new public expenditure, which matters at a time when the public finances are constrained and the case for further spending is difficult to make. Instead, it depends on the government, its institutions, and private partners working to the same purpose, with the same evidence base, more consistently than they have before.

A finance system redesigned in this way would not benefit underinvested founders alone. The barriers this report has described, such as a lack of accountability for outcomes and capital deployed through the wrong instruments, hold back any founder who encounters them. A finance system that finally works for underinvested founders would be a finance system that works better for everyone.

FGF