

The Maple Review Call for Evidence

Responsible Finance Response

About Responsible Finance and our response

Responsible Finance is the trade association for Community Development Finance Institutions (CDFIs).

We have spoken with our members to inform our response to this consultation. Much of the evidence is anecdotal from their frontline work given the low levels of publicly available disaggregated data for microlending. This written response is complimentary to the roundtable we attended with Small Business Britain on 21st January 2026.

Executive summary

Entrepreneurs who are economically disadvantaged encounter persistent barriers in accessing finance to start and scale their businesses including lack of collateral, thin or poor credit files, algorithmic lending exclusions, and few options of affordable business finance.

Community Development Finance Institutions (CDFIs) are not-for-profit lenders that play a critical role in addressing these barriers. There are 50 CDFIs in the UK and they lend to individuals, microentrepreneurs, small businesses and social enterprises. Their role in supporting businesses and economic growth with small business loans averaging £90,000 is well acknowledged by the Government and the British Business Bank.

Six specialist CDFIs¹ – which we focus on in this consultation response – provide mentoring, grants, and no and low interest small loans (from as little as £10 to £5,000) to enable people to launch a business and become self-employed. They often specialise in lending to people who have been unemployed long periods; are migrants or refugees with the right to work; have been or are vulnerable (such as victims of domestic abuse); or are former prisoners. Some of them describe their borrowers as ‘kitchen table entrepreneurs’ – often people with business know-how and ambition, but who may lack the education, training and resources to create formal business plans and financial forecasts.

CDFIs exist to fill gaps and areas of market failure. Through their lending and wraparound support, they ensure microbusinesses – particularly those run by founders facing economic disadvantage – can flourish, by:

¹ Microlending CDFIs: Purple Shoots, Trust Leeds, Skylight Ventures, Assadaqaat Community Finance, Barking and Dagenham Giving, Refuaid.

- Reaching into communities through local presence and trust.
- Providing human-centric underwriting, including supporting entrepreneurs to complete financial forecasts and business plans.
- Supporting entrepreneurial success through community and mentoring.

Through this work, they:

- Enable economic reinsertion and pathways out of poverty, facilitating sustainable economic transition from state-dependency to tax-contributing self-employment.
- Support wealth building in communities through a ripple effect of economic activity that benefits the whole community.
- Create the bank customers of the future by acting as an ‘on ramp’ for microentrepreneurs and small businesses being established.
- Unlock significant fiscal savings for ex-offenders by preventing re-offending.
- Support vulnerable cohorts and social justice, giving people the tools to create an independent, sustainable income.
- Enabling ‘flexi-employment’ for those whose health prevents traditional 9-to-5 employment but who possess significant skills and economic potential.

It is positive that microlending CDFIs see high levels of entrepreneurial spirit in their communities, however the sector cannot meet current levels of demand without targeted policy and funding support that will enable their growth. Microlending CDFIs struggle to raise capital to lend and the funding to cover the high-touch support and mentoring essential for their borrowers’ long-term success.

Our vision is for CDFIs to be an embedded part of the finance ecosystem and a vital part of the UK’s long-term economic infrastructure. With widespread support available to microentrepreneurs in all communities, there will be pathways to support businesses earlier, reducing risk upstream, and clear progression routes from microenterprise through to growth finance, generating significant fiscal and social returns. To enable this, we recommend:

1. Government backing to scale CDFI–bank partnerships

Banks and CDFIs are complementary lenders; 94% of CDFI borrowers have already been declined by a bank, and 100% of microloan customers haven’t been able to access finance elsewhere. By providing finance where banks aren’t able to, they create banks’ customers of the future.

There has been incredible momentum and positive steps taken between mainstream banks and the small business lending CDFI sector in recent years. This support has not yet extended to microlending CDFIs, but includes:

- Providing lending capital to small business lending CDFIs, most recently from Lloyds Bank.
- Providing grants to scale small business lending CDFIs, most recently through JPMorganChase and Lloyds Bank.
- Providing technical support to the CDFI sector.
- Raising awareness of CDFIs, including through a referrals pilot with Lloyds Bank.

These existing initiatives show that these partnerships can be mutually beneficial, and with more Government support they can be built upon.

Scaled-up CDFI–bank partnerships – involving mainstream banks from across the board – would expand access to finance for underserved founders by enabling:

- Philanthropic grant funding for microlending and first loss, to unlock entrepreneurship for people facing economic deprivation.
- Long-term bank investment for CDFIs to on-lend to entrepreneurs unable to access mainstream sources of finance.
- Formal direct referral pathways for declined bank applicants so entrepreneurs know CDFIs exist as an option when they face a bank decline.
- Capacity building grants to strengthen CDFI infrastructure, technology, and staffing.

Government backing would accelerate and institutionalise these partnerships, through the following interventions:

- A. Supporting the development of CDFI-Bank partnerships through the Government-backed CDFI Roadmap – working group launching in February 2026.
- B. Exploring the success of the Community Reinvestment Act (CRA) in the US which has supported lending to microbusinesses through scaling CDFI-bank partnerships, and how a similar Fair Banking Act could enable this in the UK.

2. Promote philanthropic funding for microlending CDFIs

Despite being lean, efficient organisations, microlenders have higher delivery costs due to the extensive support they provide their borrowers and the sometimes higher level of risk they take to support entrepreneurs. Targeted philanthropy – from companies, banks,

and individuals – can provide vital first-loss cover and lending capital, therefore allowing microloans to remain affordable. Currently the sector raises modest amounts of philanthropic funding, but the main barrier is awareness of the sector as an option to put philanthropic funding into.

Higher levels of this type of support would enable CDFIs to reach more disadvantaged entrepreneurs and build wealth in communities.

3. Create a loan guarantee scheme specifically for microloans under £25,000

The current Growth Guarantee Scheme is for loans £25,000 and above, therefore lenders seeking to make loans less than this cannot use it. Without the guarantee, it is harder to raise funding to lend, as it is higher risk, since there is no cover for loan losses. A dedicated microloan guarantee (or first-loss fund) would:

- Enable CDFIs to raise more capital for small loans.
- Reduce the risk of serving borrowers with no collateral or thin credit files.
- Provide greater access to finance for entrepreneurs needing £500 to £5,000 to start or grow their business.

It is worth noting that before the loan Guarantee schemes evolved during the Covid-19 pandemic, the previous Enterprise Finance Guarantee supported loans from £1,000 upwards. Since Covid-19 there has not been a guarantee for loans under £25,000.

The catalytic role of a guarantee is evidenced by CDFIs lending to small businesses using the Growth Guarantee Scheme, which raise between £20-£50 million annually from banks.

4: Encourage referral partnerships for microlending CDFIs

Many microlending CDFIs receive referrals from across the business support network, including the Department for Work and Pensions and Start-Up Loans programme providers. This should be scaled up alongside the growth of the microlending sector, to embed and institutionalise microlending as a vital part of the UK's economic infrastructure.

Our response

1. What are the barriers to entrepreneurship caused by economic deprivation?

In the context of economic deprivation, finance is not just a tool for growth but a gatekeeper to social mobility. From our frontline work, we see a clear cycle where economic deprivation and systemic factors (discussed in question 2) prevent the

creation of business wealth and individuals moving from a dependence on benefits to sustainable, long-term self-employment.

These barriers to entrepreneurship are often not about the quality of the business idea, but rather the circumstances and 'data profile' of the individual, and the availability of appropriate finance. They include:

- **Limited or no savings or collateral:** Without savings or investment, it can be incredibly difficult to start a business. Most mainstream business loans require some form of security. For individuals in deprived postcodes, who often have no property or savings, this creates an immediate barrier.

“Refugee entrepreneurs face severe financial insecurities which derail their financial success. This is a significant barrier among our refugee entrepreneur community: two thirds of our borrowers would struggle to pay a £100 bill.” – Skylight Ventures

- **Algorithm-based lending, including where a person has a thin or poor credit file:** Algorithm-based lenders tend to decline those with 'bumpy' financial histories. A lower credit score due to a single missed bill from three years ago or a period on benefits can trigger an automatic rejection, regardless of the current viability of the business or business idea.
- **Lack of 'friends and family' capital:** Some successful entrepreneurs rely on a family member to contribute financial support and enable them to start or grow their business. In deprived communities, this safety net often does not exist.
- **Founders who only need small loan sizes:** Mainstream banks are often unable to make loans under £25,000 due to high administrative costs, a lack of a Guarantee, and perceived risk. However, for a microentrepreneur, a £500 to £5,000 microloan is often all that is needed to start and grow.
- **The 'Debt' stigma:** Often, 'debt' can have a negative connotation, where people may have a genuine fear of taking on growth debt, rather than finance being seen as an enabling tool. This can impact appetite to take on finance, or to take on larger amounts of finance.
- **Lack of tailored products:** Mainstream financial products and their marketing often aren't tailored to many of the groups served by microlending CDFIs, such as refugees. There is also a lack of access to Sharia-compliant finance, and language and digital literacy may present a barrier.

“Refugee entrepreneurs lack access to suitable, targeted business finance products: 93% of Skylight borrowers have never applied for a business loan before. Mainstream business finance simply isn’t meeting their needs, so since 2021 we’ve been providing the UK’s first interest-free micro loans for refugee entrepreneurs.” – Skylight Ventures

- **Lack of trust:** A lack of trust or discouragement about mainstream financial institutions may exist among some groups. This can be more acute for refugees, who may have a distrust for large institutions based on previous experiences with the asylum system.
- **Lack of awareness about finance options:** Many microentrepreneurs may not know what options are available to them for financing, and may never have heard of a CDFI. CDFIs tend to be under the radar, due to not having big marketing budgets. Most microbusiness borrowers hear about them from word of mouth, or signposting from a partner organisation.
- **Founders who lack formal education or financial skills:** Microbusinesses may be led by first-time, part-time or necessity driven entrepreneurs who lack confidence in navigating finance. They may not have formal business plans or financial forecasts and may lack the skills needed to create these – despite having ambition and business know how.
- **Lack of access to business banking services:** There is no legal right to a business bank account in the UK, unlike personal ‘basic bank accounts’. Many microbusinesses therefore struggle to set one up.

*“Two clients can only get Revolut accounts and so can’t pay us by standing order. We have hundreds of clients who couldn’t get funding from anyone except us and almost none of them had business bank accounts when they borrowed from us.”
– Purple Shoots*

2. **What are the structural barriers in providing access to finance for microenterprises?**

Microbusinesses (typically those with fewer than 10 employees) account for 95% of total enterprises in England and 20% of all turnover. The nearly 60% growth in the business

population since 2000 has been driven largely by microbusinesses with no employees². These businesses can have significant opportunities for growth, but can face difficulty accessing finance.

‘Small businesses often face higher borrowing costs and restricted access to finance due to perceived risks and lower availability of financial data. These barriers reduce investment capacity, slowing business expansion and limiting broader economic benefits.’ – The British Business Bank, Small Business Finance Markets Report 2024/2025

The key barriers that CDFIs report in lending to microbusinesses include:

- **The sub £25,000 gap:** Without a formal loan guarantee scheme, lenders including CDFIs struggle to raise capital to on-lend because they do not have the first-loss cover to mitigate risk. The Government’s Growth Guarantee Scheme is only for loans above £25,000. For a ‘kitchen-table’ start-up, £25,000 is an intimidating amount to borrow. Many only need entry-level loans of up to £5,000 to buy basic equipment to get set up, yet in reality it can be difficult to find small and affordable business loans.

For mainstream, commercial lenders, the costs of making a small loan can make them commercially unattractive. The costs are similar to those of making a large loan, yet yield much less interest income.

Prior to the Covid-19 pandemic, the Enterprise Finance Guarantee operated from 2009. The minimum loan size for this was £1,000, therefore there is a precedent for a loan Guarantee covering much smaller loan sizes.

- **A lack of funding to on-lend:** All CDFIs can struggle to raise finance for on-lending, and to cover the significant support and mentoring required to set their customers up for success. Our experience from enterprise lending CDFIs and Fair4All Finance’s pilots with guarantees³, is that more funding to on-lend can be unlocked when a guarantee is in place to partially de-risk the investment.
- **The Start-Up Loans Programme:** SULCO is a fantastic programme for entrepreneurs. Our members’ observation is that individuals with low or no credit scores are more likely to be declined for a Start Up Loan. This particularly affects entrepreneurs who have experienced domestic and financial abuse, a time in prison, or a recently arrived to the country.

² House of Commons Library: Research Briefing – Business Statistics. 11th November 2024.
<https://commonslibrary.parliament.uk/research-briefings/sn06152/>

³ Responsible Finance: [Why an evidence-backed policy to double affordable credit provision must be part of the Government’s Financial Inclusion Strategy](#)

- **Risk aversion:** Similarly, many lenders in the ecosystem including banks and even at times the Start Up Loans programme, are not able to take risks on a business idea due to their regulation and lending criteria. This can force vulnerable entrepreneurs toward high-cost, short-term credit (e.g., Klarna or payday lenders).
- **Proportionality and regulation:** FCA consumer credit requirements are often viewed by our member CDFIs as being disproportionately high for microlending. The regulation for a £500 microloan for a ‘kitchen table entrepreneur’ is currently similar to those providing high-cost personal credit, despite business lending above £25,000 being unregulated. In addition, given the small margins microlenders operate within, and their small teams, the ongoing reporting requirements of the FCA can create challenges with capacity. This may prevent more microlending CDFIs starting up, or existing ones expanding.

3. Outside of finance, what other barriers to entrepreneurship do CDFIs see through their work?

- **The benefits system:** The current interaction between the Department for Work and Pensions (DWP) and microentrepreneurs creates a perverse incentive that stifles economic growth. Rather than acting as a springboard, the benefit system currently functions as a barrier to entry, forcing premature business failure through rigid reporting and cash-flow depletion. One fundamental flaw lies in the fact that the DWP’s doesn’t distinguish between Business Surplus (reinvestable capital) and Personal Drawings (actual household income). By treating the former as the latter, the system can hamper microenterprises’ ability to survive their first years of trading. CDFIs recommend:
 - Implementing at least a 12-month window where benefits remain static regardless of business performance, to give microbusinesses a stabilisation period in their critical first year.
 - Permanently removing the Minimum Income Floor for all microbusinesses.
 - Stopping automatic reviews of Personal Independence Payment (PIP) triggered solely by the commencement of self-employment.
- **Caring responsibilities:** For many micro-entrepreneurs, particularly women and those in deprived areas, the lack of flexible or affordable childcare/eldercare is a primary barrier.

- **Low confidence and a lack of peer support:** Entrepreneurs can have preconceived ideas that they will be rejected for finance which puts them off applying in the first place. Their lack of confidence can be compounded by isolation, where they don't have the support of a community of entrepreneurs around them. CDFIs identify that 'Self-Reliant Groups' and peer networks are essential for resilience, particularly for those facing disadvantage and more likely to lack networks, such as migrants. Financing is most effective when it is embedded within a community of practice where founders can share resources, local supply chains, and emotional support.

"I can list people on disability benefits who had their benefits paused and reviewed because they started a business causing them terrible problems (one had a paid for carer to enable him to work and for 6 weeks he couldn't pay her). I have had more than one business fail completely because the DWP took so much of his business funds as supposed "income" for him personally that he couldn't survive and had to give up."

"I had an entrepreneur have to give up after 12 months when the "Income floor" is imposed which is an assumption of a certain level of income, whether they have reached that or not, and another one told to give up her business and go back onto full benefits when she protested about the imposition of the minimum income floor."

– Purple Shoots

4. What are CDFIs and how do they break down barriers to entrepreneurship caused by economic deprivation?

CDFIs are mission-led, non-profit social enterprises that provide finance and wraparound support to entrepreneurs who are excluded from mainstream banking who often face economic deprivation.

They provide an 'on-ramp' solution, driving UK economic growth and levelling up, in addition to enabling people to realise dreams, become financially independent and grow in confidence.

*"We help people who are struggling day to day, doing multiple part-time jobs, and are keen to use their talents, skills and ideas to increase their household income; however, they do not know where to go, or where to get support to start their micro, small or medium enterprises/businesses."*⁴– Assadaqaat Community Finance

There are 50 CDFIs in the UK. The majority of these make loans to small businesses excluded from mainstream finance. Their role in supporting businesses with small

⁴ NatWest: [How ACF provides a unique financial model for UK start-ups](#)

business loans averaging £90,000 is well acknowledged through initiatives such as the British Business Bank's Community ENABLE Funding Programme, and through Government recognition such as in its most recent response to its [small business access to finance call for evidence](#):

“Community Development Finance Institutions (CDFIs) were recognised for providing support and lending to businesses that would otherwise find it difficult to access finance. Last year we announced that Community ENABLE Funding, a variant of the ENABLE Funding Scheme, will support up to £150 million of lending over the next 2 years to increase the availability of finance to the social impact sector. Further recognising the importance of relationship lenders that understand the local communities they serve, we have asked Responsible Finance to develop a CDFI Roadmap to establish a pathway over the next 5 to 10 years to growing this important sector for small businesses lending.”

The United States has a large and developed CDFI sector, with more than 1,400 CDFIs managing more than \$222 billion. The CDFI industry is a critical part of the financial infrastructure and a trusted partner to the [public](#) and [private](#) sectors.

In the UK, alongside CDFIs which lend to small businesses, social enterprises and individuals, six specialist CDFIs⁵ provide mentoring, grants, and no and loan interest small loans (from as little as £10 - £5,000) to enable people to become self-employed, launch a business or return to work. They often specialise in lending to those: who have been unemployed or ill; are migrants or refugees with the right to work; have been or are vulnerable (such as a victim of domestic abuse) or are former prisoners – using entrepreneurship as a pathway out of poverty.

CDFIs:

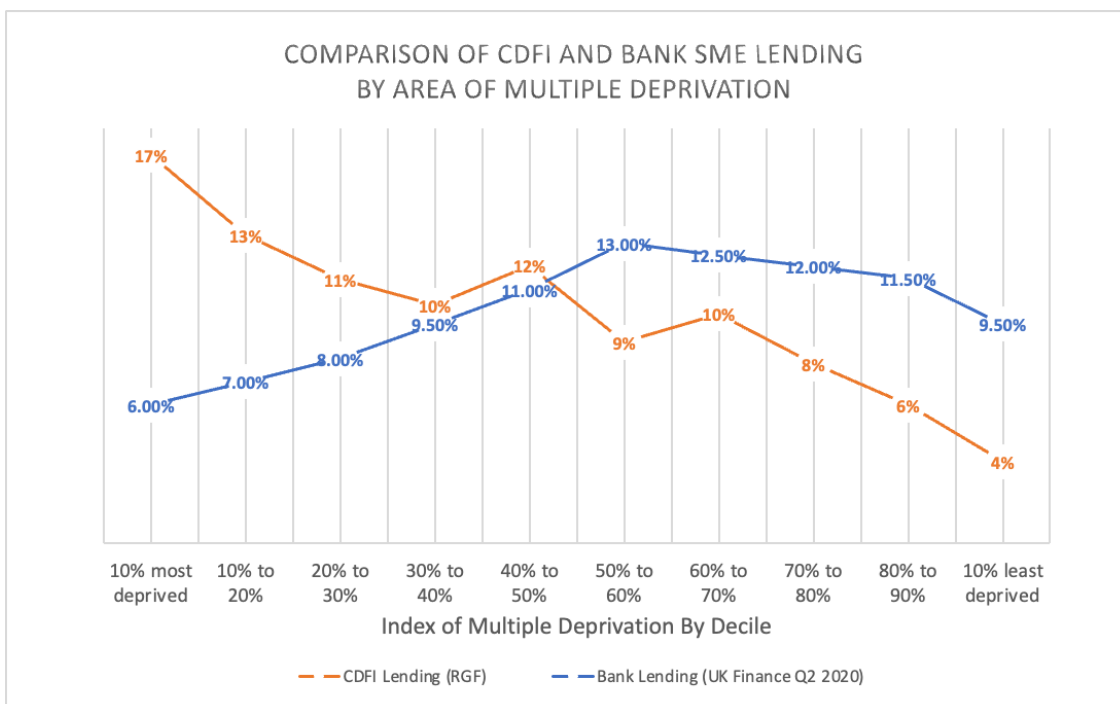
- **Fill financing gaps, lending where other lenders can't:** 94% of CDFIs' lending in 2024 was to businesses who had already been declined by another lender, rising to 100% of microlending CDFIs' loans being to those who wouldn't have been able to secure finance anywhere else.
- **Focus on entrepreneurs facing disadvantage:** In the context of economic deprivation, CDFIs act as a bridge to self-sufficiency. They focus on areas of deprivation, such as the 35% most deprived postcodes, where traditional investment is less concentrated (see chart below). The British Business Bank has highlighted that:

⁵ Microlending CDFIs: Purple Shoots, Trust Leeds, Skylight Ventures, Assadaqaat Community Finance, Barking and Dagenham Giving, Refuaid.

- Geographic disparities persist in access to finance, with entrepreneurs in deprived areas struggling⁶.
- Ethnic minority-led businesses show higher willingness to use finance, but face greater discouragement from applying.

In 2024:

- 38% of CDFI SME and start-up loans, and 44% of microloans, are made to women, despite women-led businesses only making up around 16% - 21% of SMEs⁷. CDFIs were early signatories of the Investing in Women Code, have long been exemplary.
- 20% of CDFI SME and start-up loans are made to Black, Asian or other ethnic minority entrepreneurs which make up around 6% of SMEs⁸.
- 46% of CDFI loans to small businesses, and 66% of CDFI loans made to microbusinesses, were to those based in the UK's 35% most deprived areas.
- 98% of CDFI loans were made to businesses outside of London.



- **Provide human-centric underwriting:** Unlike banks and other online business lenders, CDFIs do not use automated lending decisions. Their offer integrates:

⁶ The British Business Bank: Small Business Finance Markets Report 2025

⁷ Hutton, G., Ward, M. (2021) Business Statistics. Research Briefing. House of Commons Library.

⁸ House of Commons Library (2021) Business Statistics.

- Human-centric underwriting: Identifying soft assets like character and local market knowledge that traditional scoring ignores – meeting entrepreneurs and taking the time to understand their vision.
- Embedded mentorship: CDFIs provide the 1-to-1 support from specialist business advisers needed to help entrepreneurs navigate the practicalities of setting up a business and taking on finance, such as financial forecasting and budgeting. This seeks to reduce the failure rate of early-stage micro-enterprises through pre-and post-loan support.
- Confidence building: Beyond the finance provided, the support and backing from a CDFI can foster the confidence and community required for long-term success.

In 2024 CDFIs provided 12,130 hours of support to small and micro businesses. Some CDFIs also run specialist support programmes and create communities for entrepreneurs (See the ‘Be Your Own Boss’ and ‘Self Reliant Groups’ examples below). CDFIs will often cater their own events with food from their investees’ businesses, such as Board meetings, to support them to thrive.

- **Support entrepreneur wellbeing:** CDFI microloans have wider financial and holistic impacts, alongside the positive impacts on borrowers’ businesses. For Skylight’s refugee entrepreneurs:
 - 100% reported that their self-confidence had improved since taking the loan;
 - 80% reported an increase in personal savings;
 - 60% said that taking a loan directly benefitted their family situation⁹.

“The loan was incredibly helpful for both my business and personal life. It provided the initial capital I needed to start selling my products on eBay and Etsy. It truly changed my life, giving me a sustainable way to earn money.” – Ehsan, a Skylight Ventures customer

⁹ Skylight Ventures Impact Report: 2021 – 2024

Purple Shoots supports Homeland Delicacy

Single-mum Ada is the founder of Homeland Delicacy. A former business analyst, she turned her cooking passion into a career after a family emergency then redundancy. But Ada struggled to raise the finance she needed. A loan from CDFI Purple Shoots meant Ada could equip her kitchen in a food hall in Sheffield.

“I didn’t have any income coming in. I’d been out of work for a year, so I couldn’t get funding. Business Sheffield introduced me to Purple Shoots. They understood my situation and background...It’s enabled me to have a livelihood. We started up, employed people and are looking to expand.”

You can watch Ada’s story on Responsible Finance’s YouTube channel, [here](#).

Trust Leeds: Be Your Own Boss Programme

The '**Be Your Own Boss**' programme, developed and delivered by microlending CDFI Trust Leeds, is a free 12-week programme for individuals in Leeds who are unemployed, under-employed, or on low wages and wish to explore self-employment. It offers:

- **12-week course:** A free, online programme consisting of weekly 2.5-hour workshops.
- **Self-Reliant Group (SRG) model:** Participants learn within a non-judgmental peer support network that continues long after the initial 12 weeks.
- **Practical resources:** Members are provided with workbooks, spreadsheets, and tablets (on loan if required) to help them research, organise, and plan their business ideas.

Key Aims and support:

1. **Business readiness:** Helps participants think through the personal, financial, and operational requirements of starting a business.
2. **Professional mentorship:** Connects members with business coaches and a network of "business friends" to provide expert advice.
3. **Long-term sustainability:** Encourages ongoing peer-to-peer support through the monthly "Be Your Own Boss Business Coffee Club."
4. **Impact:** Focuses on building confidence, self-esteem, and financial literacy to help entrepreneurial individuals overcome financial exclusion and poverty traps.

This programme has been funded by the West Yorkshire Combined Authority.

Self-Reliant Groups to boost confidence and community

Some microlending CDFIs coordinate local people to start up Self-Reliant Groups (SRGs). These are small collectives of 4 to 10 people who come together to collaborate on a shared activity – such as selling handmade gifts or cakes, or providing a service like DIY or gardening. They're aimed at people who don't necessarily want to start their own business, but want to get back to work, boost skills or confidence, find a support network, a new focus, or a creative outlet.

Members make the decision of what to focus on, then turn up and get to work doing as much as they can, for a few hours every week. Slowly, the money builds up. Most groups generate enough to cover their own running costs and pay for new materials. And if anything is left over, members decide how to use it – for example sharing it as a top up income.

Rhondda group *Just Girls Allowed* is a great example, supported by CDFI Purple Shoots

'Members share an interest in handicrafts like embroidery and crochet, so they set out to make small gifts and keepsakes for sale at local events. From this, they've built up a sum of money to become self-funding.'

'And in the process, members have found a whole new lease of life. Some have found the self-belief to take the next step forward – leaving the group, to take up training or get back to work. While others stay for the duration, because the group is its own reward: a place where they've found confidence, friendship and a new sense of purpose.'

5. What are the benefits to unlocking entrepreneurship through access to finance from CDFIs?

- **Facilitating sustainable economic transition:** CDFIs create a runway for self-sufficiency and transform job seekers into job creators. By providing capital to those typically excluded from mainstream credit, CDFIs facilitate a managed transition from benefit dependency to tax-contributing self-employment. This moves the fiscal burden from the Department for Work and Pensions (DWP), creating a permanent net gain for the UK economy.
- **Local wealth building and the social multiplier:** CDFIs help businesses to grow and establish themselves in their communities. As businesses grow, they often use local supply chains and hire local employees to create a ripple effect of

economic activity that benefits the whole community. By working in the UK's most deprived postcodes, every £1 lent by a CDFI often generates a significantly higher social multiplier in the local economy. In 2024, CDFIs from all lending sectors supported the creation of 7,212 jobs across the UK and 4,909 new businesses¹⁰.

- **Market development by creating the bank customers of the future:** By supporting 'pre-bankable' businesses, CDFIs allow enterprises to build a trading history and sustainable operation. This can enable them in future, should they wish, to expand and take on bank finance. There are many examples of past CDFI customers who have scaled to become future bank customers.
- **Significant fiscal savings for ex-offenders:** For every ex-offender successfully supported into self-employment, the Government makes a significant saving as this prevents re-offending.

“Where we fund ex-offenders, the net gain to Government is more than £60k per annum because they don't re-offend.” – Purple Shoots

- **Supporting vulnerable cohorts and social justice:** CDFI finance is a vital tool for social justice, giving people the tools to create an independent, sustainable income. This includes:
 - Those with long-term health conditions: Enabling 'flexi-employment' for those whose health prevents traditional 9-to-5 employment but who possess significant skills and economic potential.
 - Survivors of economic abuse: providing a clean break, to enable them to support their families independently.

6. What does the CDFI sector need to enable it to scale to break down barriers to entrepreneurship?

CDFIs which lend to small businesses currently make 5,825 loans a year totalling £141.6 million. This includes Start-Up Loans Programme Loans – which many CDFIs deliver – loans to small businesses, and loans to microenterprises.

The six specialist microlending CDFIs lend just over £500,000 of this to nearly 200 entrepreneurs, with an average loan size of £2,876. There is significant opportunity and ambition to scale this up at a low cost, with the right interventions.

¹⁰ Responsible Finance: Soaring to New Heights, Where Growth Meets Inclusion

CDFIs which specialise in microloans see overwhelming demand for their support despite not advertising, due to the gaps in provision for entrepreneurs in this sector. Their high touch approach – breaking down barriers to entrepreneurship for those facing high levels of deprivation – leads to a high level of impact for the economy and those individuals’ lives. Access to capital to lend is a serious challenge for CDFIs in this space. As an example, Purple Shoots – one of the most established and longest running microlenders – has to pause lending for four months in 2024 due to a lack of access to funding.

Our vision is for CDFIs to be an embedded part of the finance ecosystem and a vital part of the UK’s long-term economic infrastructure. With widespread support available to microentrepreneurs in all communities, there will be pathways to support businesses earlier, reducing risk upstream, and clear progression routes from microenterprise through to growth finance. To enable this, we recommend:

Recommendation 1: Government backing and incentivising CDFI-Bank partnerships

There is a compelling and urgent case for deepening partnerships between banks and CDFIs to improve access to finance for underserved groups. CDFIs and banks are complementary lenders and can achieve positive outcomes by partnering. CDFIs serve as the ‘last-mile’ providers of finance for underserved customers who are difficult for banks to reach and serve. The vast majority - 94%, increasing to 100% for microlenders - of CDFI lending supports applicants who have been declined or discouraged by banks, indicating minimal overlap and significant opportunity for collaboration.

By leveraging their flexible, relationship-driven approach and deep local knowledge, CDFIs not only meet immediate financial needs but also nurture the bank customers of tomorrow. The key elements of CDFI-bank partnerships, that would ultimately lead to more small and micro businesses being able to thrive, are:

- **Long-term investment for on-lending:** Banks committing to long-term funding for CDFIs to on-lend to small and microbusinesses. This includes exploring investment into Phase 2 of the British Business Bank’s Community ENABLE Funding programme (CEF), alongside direct investment in microlending CDFIs.
- **Philanthropic grant funding:** Specific grant or first-loss funding for microlending CDFIs would enable them to expand their operations and reach more underserved entrepreneurs. This would also include capacity building grants for CDFIs to invest in growth and operational efficiencies, such as digital infrastructure.

- **Direct referral pathways:** Establishing formal systems to refer declined and discouraged applicants directly to CDFIs, ensuring they are not left without options.
- **Technical assistance:** The sharing of data, tools, and infrastructure to increase CDFI operational efficiency and support the scaling of the sector.
- **Raising awareness:** Improving the visibility of the responsible finance sector among mainstream banking staff and the wider business community.

There has been incredible momentum and positive steps taken between mainstream banks and the small business lending CDFI sector in recent years. This support has not yet extended to microlending CDFIs, but includes:

- **Providing lending capital to small business lending CDFIs.** In 2024 Lloyds Bank invested £43 million into three CDFIs through the Community Investment Enterprise Facility (CIEF). This follows a long period of successful investment into the sector from social banks Unity Trust Bank and Triodos Bank.
- **Providing grants to scale small business lending CDFIs and improve professionalisation.** JPMorganChase is providing £4 million to support the operational capacity of CDFIs which lend to small businesses. This will be invested in a wide range of activities including technology upgrades, awareness raising, recruitment and leadership support. Lloyds Bank has also committed capacity building funding to CDFIs.

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

- **Providing technical support to the CDFI sector.** For example, a senior Lloyds Bank executive was appointed to the Board of Responsible Finance last year.
- **Raising awareness of CDFIs, including through referrals:** Responsible Finance and Lloyds Bank are currently running a pilot referral partnership, which offers a proactive, relationship-based alternative to traditional bank declines between Lloyds and small business lending CDFIs. By prioritising a positive outcome for every applicant, the model ensures that a bank rejection is the beginning of a support journey, not the end.

Lloyds has also used its networks to promote CDFIs with Members of Parliament and other stakeholders.

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

More win-win bank and CDFI partnerships could be enabled through:

A. Supporting the development of CDFI-Bank partnerships through the Government-backed CDFI roadmap

The Government has asked Responsible Finance to develop a CDFI Roadmap to establish a pathway over the next five to ten years to growing the sector for small business lending. The working group for the roadmap is set to launch in February 2026.

A key part of the roadmap will be bringing banks to the table to promote partnerships with the sector. Government encouragement of these partnerships, particularly including microlending CDFIs who cannot access the existing loan guarantee schemes, will be essential for making the roadmap a success and scaling up CDFIs to fuel entrepreneurship across the UK.

B. Exploring the success of the Community Reinvestment Act (CRA) in the US in supporting lending to microbusinesses through scaling CDFI-bank partnerships, and how a similar Fair Banking Act could enable this in the UK

There are more than 1,400 CDFIs operating in the US, managing more than \$222 billion. The Community Reinvestment Act (CRA) was a major initiative that shifted the landscape for CDFIs in the United States; today, the CDFI industry is a critical part of the financial infrastructure and a trusted partner to the public and private sectors.

The US government enacted the CRA in 1977 to increase the supply of affordable credit to individuals and businesses. It requires regulators to assess the performance of mainstream banks in meeting the credit and other banking needs of underserved communities. Banks' performances against CRA criteria are publicly disclosed. Failure to comply with the CRA, and/or score adequately against the specified criteria, can negatively impact banks' ability to grow, including through restricting mergers and acquisitions which are of particular interest to banks in the US.

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

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

The first mechanism has undoubtedly been a positive factor in promoting financial inclusion. However, many argue that it is mainstream banks working in partnership with CDFIs in the United States that has been even more transformative¹¹. Mainstream banks' partnering with specialist lenders who are often best placed to provide holistic and affordable services and support to people in their communities has diversified the US financial services sector in a way that reflects the needs of a broader spectrum of society.

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

- Since 2020, the 8 largest US banks have invested more than \$9.2 billion in CDFIs.
- JPMorganChase has been working with CDFIs in the US for 2 decades and has invested \$2 billion¹².
- In 2022 Citibank committed \$50 million over three years.

During the period 1990–2009 CDFIs supported by the CRA lent \$20 billion through CRA mechanisms. By one estimate, this created or preserved nearly 200,000 jobs; around 43,000 microenterprises and SMEs; 580,000 housing units; and 10,000 community facility projects¹³.

“Having managed the CRA team at Citibank, I believe that without the CRA, billions of dollars of credit would not reach low/moderate income households, and small and minority owned businesses. Banks have developed products and credit processes that have now long demonstrated that such portfolios can perform well and be profitable, and achieve much of this by working closely with CDFIs. The very granular customer demographic data that banks provide to ensure that there is equitable access to credit is crucial, and ensures that deposit taking institutions do not just take deposits from certain customer segments, but also lend to them.” -Bob Annibale, Managing Director Citi Community Development & Inclusive Finance (2010-20).¹⁴

In the US, the CRA leads to closer collaboration in other ways of working outside of funding.

Recommendation 2: Promote philanthropic funding for microlending

¹¹ Fair Banking for All (2024) Unlocking Access to Credit: The Impact a Fair Banking Act could have for the UK.

¹² JPMorgan.com

¹³ Appleyard, L., Community Development Finance Institutions (CDFIs): Geographies of Financial Inclusion in the US and UK, (2011) Geoforum 42

¹⁴ Fair Banking for All (2024) Unlocking Access to Credit: The Impact a Fair Banking Act could have for the UK.

Despite being lean, efficient organisations, microlenders have higher delivery costs due to the extensive support they provide their borrowers and the sometimes higher level of risk they take to support entrepreneurs.

Targeted philanthropy can provide vital first-loss cover and lending capital, therefore allowing microloans to remain affordable. Currently the sector raises modest amounts of philanthropic funding, but the main barrier is awareness of the sector as an option to put philanthropic funding into.

We therefore recommend encouraging corporate social responsibility (CSR) capital from the private sector and high-net worth individuals. This could be used for direct lending, or be in the form of an annual grant for first-loss cover, enabling microlending CDFIs to unlock finance for more microentrepreneurs facing disadvantage.

“We have now worked with 7 funding partners (corporate and public sector) to grow Skylight from a pilot to a thriving micro business lender. These partnerships allow us to offer our loans interest-free, making our products accessible and reducing the risk for even the most marginalised entrepreneurs.” – Skylight Ventures

“Our mission thrives on the support of benefactors, encompassing contributions from individuals, corporations, and grant opportunities...”“We aim to transform the ‘beneficiaries of today’ into the ‘benefactors of tomorrow.” – Akmal Hanuk, Founder and CEO of Assadaqaat Community Finance, speaking about philanthropy, and their model of how the microbusinesses they invest in become future donors once financially stable and scaled, to support more new microbusinesses to start.

How philanthropic support can help microlenders to thrive

In early 2025, BCRS Business Loans, a larger CDFI based in the West Midlands, provided a £27,000 grant to Purple Shoots. This was not a standard commercial loan but a strategic philanthropic investment from one CDFI to another. The funding will be used to offer microloans up to £5,000 in the West Midlands and Wales.

Repayments from Purple Shoots’ micro-borrowers will be recycled into new loans, creating a self-sustaining pot of capital for the community. By supporting them, BCRS increased its own social impact.

“I hope other lenders, organisations and individuals will follow our lead and provide financial support to Purple Shoots to support the life changing work they do.” – Stephen Deakin, Chief Executive at BCRS Business Loans

Recommendation 3: Creating a loan guarantee scheme tailored for microloans under £25,000

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

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

It is worth noting that before the loan Guarantee schemes evolved during the Covid-19 pandemic, the previous Enterprise Finance Guarantee supported loans from £1,000 upwards. Since Covid-19 there has not been a guarantee for loans under £25,000.

Without the guarantee, it is harder to raise funding to lend, as it is higher risk, since there is no cover for loan losses. The Growth Guarantee Scheme is instrumental in enabling larger CDFIs to raise capital to on-lend to SMEs and grow their operations, alongside initiatives such as the British Business Bank’s Community ENABLE Funding Programme. A level playing field is now needed for microbusinesses. The catalytic role of a guarantee is evidenced by CDFIs lending to small businesses using the Growth Guarantee Scheme, which raise between £20-£50 million annually from banks.

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

Recommendation 4: Encouraging referral partnerships for microlending CDFIs

Many microlending CDFIs receive referrals from across the business support network, including the Department for Work and Pensions and Start-Up Loans programme providers. More of these should be encouraged, alongside sufficient support and investment for microlenders to service increased demand.

7. Further examples of microbusinesses being supported by CDFIs

Geraldine – a Trust Leeds customer

Back in November 2018, Geraldine became the very first pilot borrower with Trust Leeds. She received a £650 loan to help make her business dream a reality. Today, she’s using her skills to bring comfort, care and healing to others, and her journey has been nothing short of inspirational. Geraldine has always been at the heart of a busy family. Between

travelling to Birmingham to support her mum and siblings, and caring for her five children and twenty-two grandchildren, she has always put others first. But this caring nature eventually took a toll:

“One day I collapsed in town and was rushed to hospital. After two years of tests, they told me I had chronic stress. The doctor said it could be worse than a heart attack as a medical condition.”

Her illness forced Geraldine to think differently about her health and future. A psychologist encouraged her to try art therapy, and it proved to be a turning point:

“The art therapy course at LS14 Trust lasted twelve weeks, and it did me so much good. I could finally see choices and answers, not just a brick wall.”

After completing her course, Geraldine stayed on at LS14 Trust as a volunteer in arts and crafts. She loved being able to give back, while also helping others rebuild their confidence:

“I helped people to be sociable and to do things. It’s unconditional. I feel gratitude, and that’s what I get back.”

Volunteering gave Geraldine the space to improve her reading and writing skills, while also sparking an interest in massage therapy. She began watching videos online to teach herself hand massage techniques, but without qualifications or insurance, she couldn’t offer her skills professionally. The cost of accredited training was a big hurdle. That’s when Geraldine, with the help of Viv at LS14 Trust, was introduced to Trust Leeds. Together with Liza, they worked through her plans, balancing her ambitions with her benefits and universal credit. With a £650 loan from Trust Leeds, Geraldine was able to train in Indian Head Massage, Body Massage and Aromatherapy Massage. The loan also covered her membership with the Association of Beauty Therapists and the insurance she needed to start trading.

“Because I’ve done the course, I’ve got the right standard of proficiency to practice. It gave me the confidence and security to build my business.”

Geraldine paid off her loan in November 2019, and since then her business has continued to grow. She recently secured a commission from a carers’ charity, offering free hand massages to those most in need of support. Her vision is big and bold:

“My ambition is to build my own business, buy a house, and then a minibus so I can take my twenty-two grandkids out. The sky’s the limit.”

Geraldine is a valued member of the Trust Leeds community, creating blends of essential oils to manage stress and offering hand massages at our gatherings. Her story shows how resilience, the right support, and a small but vital loan can turn a challenge into success and a passion into a solid future.

Mahan – a Skylight Ventures customer

Mahan is originally from Iran and was an active participant in the UP Collective business development collaboration between Skylight's partners Caritas Salford and TERN in 2022.

This helped Mahan to launch his company Net Heating Ltd, serving his local community as a registered gas-safe engineer.

Mahan was referred to Skylight by Caritas in 2023. He needed to access business capital to buy a key piece of machinery which would allow him to properly join and press pipe fittings.

Having his own pressing machinery gave Mahan a better opportunity to grow his business without relying on accessing equipment from others in his network. Today, Mahan is being considered for Skylight's new top-up loan facility for existing borrowers. This would unlock additional capital, helping him to continue strengthening and scaling his business.

“Other organisations have much more complicated processes for refugees, but Skylight made it quick and easy for me to start my business, support my family, and open my eyes to future opportunities.” – Mahan

Martin – a Purple Shoots customer

Martin Perkins' life was well on track a few years ago, with a good job which took him all over Europe, The Middle East and Africa. However, an unexpected redundancy brought him back home and he tried to build a new life, running a business doing fencing and landscaping. He struggled with depression and personal issues and in the end could not work for a long period.

As he recovered, he decided to upskill himself and did some City and Guilds qualifications in a range of building skills (plumbing, brick-laying, carpentry etc) and he began to dream again of re-establishing his old business and making it work. When we met him, he was working on a business plan (and also doing an Open University degree in Business Management, whilst trying to survive on benefits). That plan started small, focussing on fencing and landscaping work, but aimed to grow into a larger building company offering a wide range of services including full renovations and making homes green. He needed a small loan to get started but his history meant he had no funds of his own and a low credit score. We ignored those things and looked at the resilience and determination which had got him to this point and offered him the funds he needed.

Green Dragon Building and Landscaping launched and he is now on track again, rebuilding his life and his income.

Martin said: "I can't thank Karen and Purple Shoots enough for believing in me and giving me hope in fulfilling my dreams. Without them, my dream would have remained in my head for sometime, but now I can move forward with my plans and develop what I hope will be a successful and thriving business, offering quality work at reasonable prices. Thank you from the bottom of my heart."