impact investing institute

Place-based impact investing:

Emerging impact and insights

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Executive Summary

In 2021, the Impact Investing Institute's (the Institute) joint white paper, titled "Scaling up institutional investment for place-based impact," developed in partnership with The Good Economy and Pensions for Purpose, explored the opportunities for institutional investment to take a place-based approach. Through an analysis of Local Government Pension Scheme (LGPS) investments, the white paper described the principles that are fundamental to place-based impact investing (PBII) and showcased case studies demonstrating how institutional investors were successfully integrating environmental, social, and community outcomes alongside financial returns in investments across the UK.

These investments, tailored to meet local needs and encompassing initiatives such as renewable energy plants and affordable housing projects, demonstrated the art of the possible. Yet the PBII field was nascent, with a significant journey to travel to become an investment approach capable of driving systemic change. The Institute, along with fellow PBII field builders, set out to shift this approach from the margins to the mainstream, scaling PBII amongst institutional investors such as the LGPS and mainstream asset managers.

Over the past few years, the expansion of PBII is apparent on various fronts. Pension funds and other asset owners are increasingly seeking local investment opportunities. This trend is prompting asset managers to seek out investments that yield tangible local benefits alongside financial returns. At the same time, many local authorities are grappling with severe financial challenges, leading them to explore how to build effective partnerships with private investors that foster local economic regeneration.

The Institute has been at the forefront of these developments, offering thought leadership and the critical 'connective tissue' between people and organisations across the ecosystem to foster conducive conditions for the expansion of PBII.

This short report provides a snapshot of the evolving PBII landscape since the publication of the white paper, highlighting:

- The emergence of a PBII market, with increasing awareness and adoption of PBII as an approach and the allocation of capital to place-based impact.
- How government is using public funding to leverage private finance for local impact.
- Our work and the work of others to connect investors to opportunities – including our PBII pilots, Place Coalition, and support for the growth of the community development finance institution (CDFI) sector.
- Some of the barriers that are holding back PBII from reaching greater scale.
- Some of the pathways to scale and spread PBII.

Across these strands, some of the key insights and impacts delivered through our work and by the wider field include:

The supply of capital seeking place-based impact investment is increasing

Local Government Pension Scheme (LGPS) capital invested locally. Over the past few years, there has been a marked increase in LGPS investments in PBII sectors in the UK, catalysing innovative strategies for scale and diversity. Encouragingly, a recent survey indicates that 64% of LGPS funds are planning to increase their commitment to local investments, signalling a significant shift in the sector.

The Institute has been at the forefront of these developments, offering thought leadership and the critical 'connective tissue' between people and organisations across the ecosystem to foster conducive conditions for the expansion of PBII.

There is an increasing demand for impact capital

Local government driving change. Local and combined authorities are becoming increasingly proactive in seeking partnerships with private sector investors – in particular, where new devolved powers and funding enable more flexibility. The Institute's 'place pilots' in Wakefield and Southampton contribute to this growing field by supporting local authorities to build the capabilities to engage more effectively with investors seeking aligned societal outcomes.

Rise of UK focused impact investment funds. The market is experiencing a growth in investment products targeting positive local outcomes, such as Schroders' Real Estate Impact Fund and Octopus' Affordable Housing Fund. LGPS funds are providing significant capital for these types of funds; for example, Gresham House's Sustainable Infrastructure Fund secured £450 million investment from 8 LGPS funds.

The enabling infrastructure to support PBII is being built

Advancing blended finance solutions. Blended finance mechanisms, such as the UK Infrastructure Bank's loan guarantees, are demonstrating the catalytic potential of blended finance. The Institute has led a collaborative design process to develop a model for a blended finance national scale fund for the CDFI sector.

Growing the PBII movement. The Institute's Place Coalition and partnership on the PBII Network (hosted by The Good Economy), together comprising over 50 core members and engaging many more, have emerged as instrumental platforms for collaboration and knowledge exchange. These groups have facilitated dialogue and fostered trust-building efforts, with insights advancing PBII practices.

Guiding investor engagement. The Institute's comprehensive guide on community engagement practices in PBII provides a key resource for investors seeking to be more proactive in ensuring stakeholders play a central role in investment decision-making processes.

About

About the Institute

The Impact Investing Institute is an independent non-profit organisation working to transform capital markets so they support a fairer, greener, more resilient economy. We see impact investing as an effective tool for deploying capital and we want to accelerate the impact investing market, both in the UK and globally. We come up with innovative solutions that help private finance address societal challenges, and we grow the field of impact investing by building expertise across financial markets. We work with investors and their advisors to move more effective capital for the benefit of people and the planet, and we advocate for regulatory and policy environments that support that goal.

Our Funders

The Department for Culture, Media, and Sport (DCMS) are the core funder for the place-based impact investing (PBII) programme.

The programme has also received funding from Wakefield District Council and Southampton Forward to support the delivery of our place pilot projects, and from Lloyds Banking Group to support a data project for the community development finance institution (CDFI) sector.

This PBII programme builds on a joint whitepaper published in 2021, *Scaling up institutional investment for place-based impact*, developed in partnership with The Good Economy and Pensions for Purpose and funded by DCMS, the City of London Corporation, and Big Society Capital.

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Diversion

Introduction

Why do places need additional capital?

The UK is a country of entrenched place-based inequalities, which have persisted for generations, making it one of the most regionally unequal countries within the OECD.[1]

Inequality within and between places is evident across multiple dimensions, including income, housing, and health. For example, the widening of health inequalities over the past decade has led to marked regional differences in life expectancy, particularly among people living in more deprived areas.[2]

Addressing the UK's major challenges, such as delivering affordable housing and transitioning to a net zero future, will require significant levels of investment. The government's 'levelling up' agenda has earmarked £11 billion for revitalising towns and high streets, but deployment is still ongoing [3] and the need for over £1 trillion in investment over the next decade remains.[4] The responsibility for addressing these challenges clearly cannot be borne by the public purse alone.

What role can institutional investors play?

Institutional investors, like pension funds, asset managers, banks, venture capital funds, and insurance companies, have a key role to play. They can bring capital at scale to sectors in much need of investment across the UK, such as affordable housing and renewable energy solutions. However, for private sector investors based within the UK but operating in global capital markets, there needs to be a compelling rationale to pursue these opportunities. Several factors serve as motivation:

- Investing in tangible opportunities within the real economy, such as infrastructure and business expansion, can open new markets and opportunities for growth.
- Assets such as infrastructure have exhibited reliable cash flows and stability over the long-term, making them attractive investment prospects.
- Government incentives, ranging from tax reliefs to guarantees across various sectors, can mitigate the risks associated with entering new markets, thereby enhancing the likelihood of a favourable return on investment.
- Aligning investments with actively engaged communities can help financial performance, through improved asset performance and enhanced risk management practices.[5]

However, the flow of private capital into regions and cities outside London is hampered by several barriers, including:

- A lack of high-quality, investible opportunities that meet commercial investment criteria, and a lack of capacity and capability in local government to develop and present opportunities to private investors.
- Exclusion of institutional investors from the development phases of investment opportunities.
- A lack of connectivity and effective brokering between places and commercial investors.

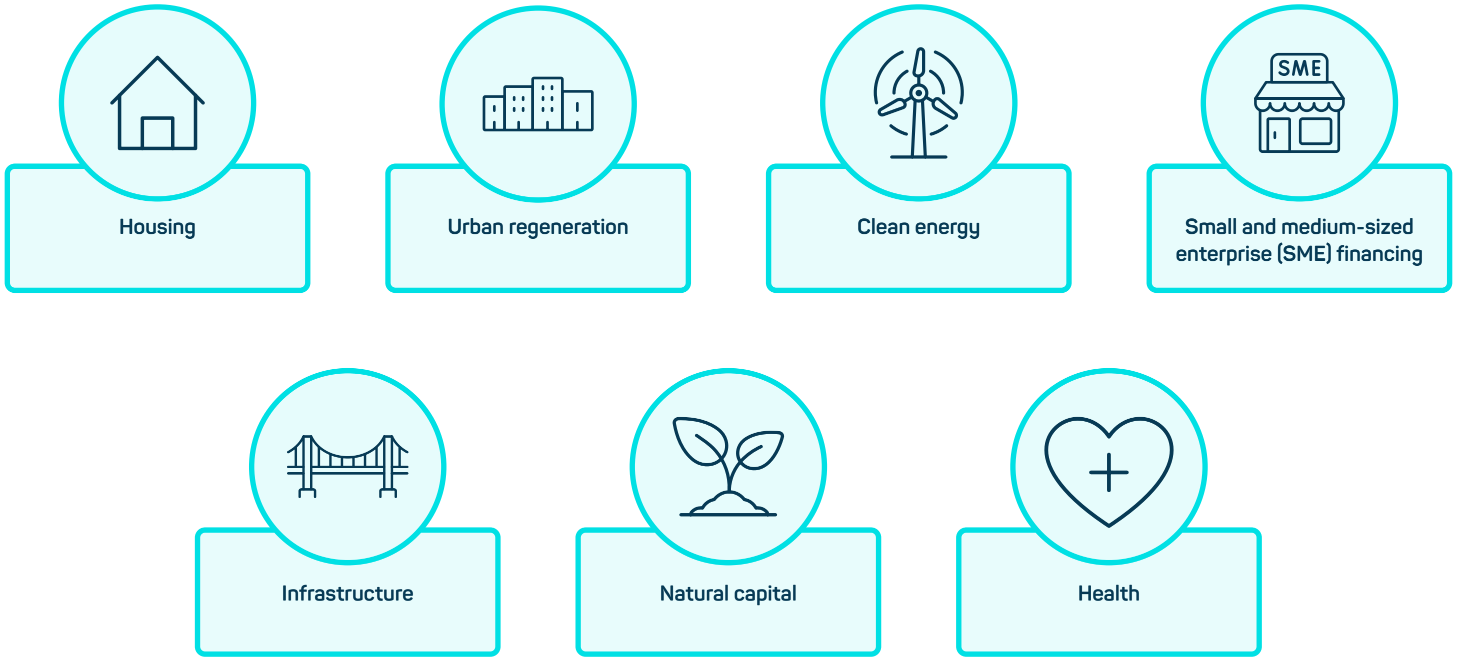
Developing and embedding a new investment approach that addresses these barriers and fundamentally changes investment practice will require new practices and products, innovative policies, and a shift in the relationships and the power dynamics that underpin it all. Ultimately, it is both new mindsets and approaches that will enable capital to flow at the scale needed to support economic regeneration across the UK.

What is place-based impact investing?

Place-based impact investing (PBII) was explored in depth in our joint white paper, titled "Scaling up institutional investment for place-based impact", delivered in partnership with The Good Economy and Pensions for Purpose.[6] PBII brings together public and private capital, capacity, and capabilities to work in unison to drive investments that respond to the unique challenges and opportunities within a given locality.

The case for public and philanthropic investment to deliver place-based impact has long been clear, but the role and rationale for private sector investment to deliver social and environmental value, alongside financial returns, has required further evidence and explanation. This is what the white paper sought to demonstrate through a series of case studies, illuminating the viable pathways for commercial investors to address place-based disparities and foster inclusive, sustainable development across the UK.

Key sectors representing PBII investments include:



The evidence emerging from this report was that private sector investment in the UK real economy could deliver returns within diversified portfolios, while contributing to the UK's economic growth and prosperity – the benefits of which will be felt by both public and private sectors.

Central to the white paper's research was an examination of Local Government Pension Scheme (LGPS) assets as a vehicle for PBII. LGPS funds represent a significant pool of institutional capital (around £326bn in 2020), have strong connections to places, and have decentralised decision-making powers. The report's thesis was that aligning a portion of their investments with PBII could benefit both the LGPS and local communities, cultivating prosperous economies and inclusive growth. This symbiotic relationship could lead to both robust pension fund returns and local economic development.

The findings revealed that only a fraction (£300m) of LGPS assets were allocated to regional or local investments in 2020, with around 1% of LGPS assets (£3.2bn) invested with some degree of exposure to PBII secrots in the UK.Based on analysis of LGPS funds that had already developed more advanced PBII strategies and allocations, we recommended that 5% of LGPS assets could be invested in the UK, unlocking (at the time) £16 billion additional investment each year towards addressing regional disparities. As of 2024, this equates to about £20 billion additional investment each year, as LGPS assets have risen to around £400bn.[7]

The white paper set five key traits of PBII that differentiate it from conventional investment practices: impact intentionality, definition of place, stakeholder engagement, impact management and reporting, and collaboration. Approaching investment in this way enables a better understanding of the specific need and opportunities within a place and facilitates the building of effective partnerships to deliver impactful place-based change.

The essence of PBII is therefore less about the place *where* an investment occurs and more about *how* investments happen, the relationships that develop between the stakeholders involved, and the outcomes they are working towards. This distinction is particularly important given that most institutional investors, other than LGPS funds, are not organised regionally. Indeed, for LGPS funds to reach the 5% target, many will need to invest in commercially viable opportunities that are outside of their specific regions.

The path towards widespread PBII adoption is not a straightforward one. Moving beyond one-off investments necessitates a holistic approach, embedding PBII within multi-sectoral local and national strategies aimed at addressing regional disparities. Through concerted efforts to scale up PBII, facilitated by strategic interventions and collaborative partnerships, we might realise the transformative potential of place-based investments and socially conscious financial stewardship.

This short report provides a snapshot of the evolving PBII landscape since the publication of the white paper, highlighting some of the key insights and impacts delivered through our work and by the wider field. This work has a deepened our understanding of the way in which investments interact to deliver place-based change, with opportunities for blending finance from multiple sources, cross-subsidisation, and market shaping to nurture thriving, resilient communities.

Methodology

We have used the following mixed-methods research approach:

- Literature review of external sources.
- Mapping of PBII investments from LGPS funds, asset managers, and other investors.
- Review and synthesis of key learnings from the events and convenings we have hosted and attended.
- Review and development of PBII case studies.

Increasing awareness and adoption: Building the field and getting capital committed

This section of the report sets out developments in PBII that have emerged over the course of the past few years, driven by new flows of capital and the establishment of a clear market. It sets the scene for the following section, which outlines the insights and impact derived from the practical work we have delivered that has contributed to this.

PBII is emerging as a mainstream investment approach

Interest in PBII is growing amongst a diverse array of stakeholders including asset owners, asset managers, developers, local authorities, policymakers, and others aligned with the mission of PBII. In 2022, the government's Levelling Up White Paper adopted our recommendation for 5% of LGPS assets to be invested locally.[8] In the past few years, our research shows there has been a marked increase in new LGPS investments into real economy opportunities across the UK.[9] This has spurred the development of innovative investment strategies aimed at achieving scale and diversification, expanding the pool of practical examples available for the field to draw upon.

Key insights from the LGPS on local investing trends

There is around £400bn in the UK's Local Government Pension Scheme (LGPS), currently organised into 87 local funds or sub-schemes. A recent survey indicates that LGPS funds are increasingly turning their attention to private markets, sustainability, and local investing, actively shaping their investment strategies to align with sustainability goals and drive local impact while achieving long-term financial returns.[10] Three key themes from this survey were:

A shift towards private markets. There is a clear trend towards increased exposure across asset classes within private markets, with 70% of respondents indicating a rise in private asset allocations. Sustainability strategies, private debt, and renewable energy were the preferred areas for new allocations, with respondents prioritising long-term investment.

A growing interest in local investing. Two-thirds (64%) of surveyed funds expressed their intention to ramp up investment in local opportunities that advance localised benefits. However, the majority of LGPS pools[11] believe that local investments should be a consequence of investment strategy rather than a central government requirement. Concerns about scalable local opportunities meeting return targets persist for more than half of funds (61%).

Increasing spotlight on sustainable investing. Renewable infrastructure emerges as the most attractive net zero asset class, followed by natural capital, indicating a strong interest in contributing to net zero targets. However, a lack of clear definitions and transparency in reported data regarding net zero investments poses significant barriers to sustainable investing. Approximately one-third of respondents still have performance concerns, questioning the trade-off between sustainability and returns.

In the past few years, our research shows there has been a marked increase in new LGPS investments into real economy opportunities across the UK.

There is a growing awareness and interest in PBII from local authorities and places

Local authorities are increasingly looking at ways to bring in private sector investment on the right terms to respond to the challenges and priorities of their places. From Bristol to Blyth, many places across England are working to forge a new path for effective partnerships with private sector investors, while similar pockets of work can also be found in Scotland, Wales, and Northern Ireland. A few notable examples include:

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Local authorities

- **Wakefield.** Through an Institute 'PBII pilot', Wakefield has engaged private sector investors in a range of opportunities across three key areas: urban regeneration, clean energy, and SME finance. The project has led to exploration of a partnership with a major construction company to develop green skills in the region, sparked discussions around a local impact porrtfolio within the LGPS, and led to new flows of capital coming into small businesses through a West Yorkshire-based CDFI.
- **Southampton.** Through another of our PBII pilots, Southampton is exploring how a PBII approach can unlock investment into the city to capitalise key regeneration initiatives while also enhancing the city's creative and cultural sectors, building on their 2025 UK City of Culture bid, for which they were a runner-up.
- **Essex.** The Good Economy's first PBII Lab with the Association of South Essex Local Authorities (ASELA) considered a number of finance-related net zero challenges and how multi-sectoral collaborations could support the delivery of the South Essex 2050 vision, including housing retrofit.[12]

Combined authorities

- **West Midlands.** As part of their 'trailblazer devolution deal', the West Midlands plans to create up to six levelling up zones, backed by a 25-year business rate retention, with an expected total value to the region of at least £500 million. These will target private sector investment and encourage jobs and regeneration in areas agreed between the West Midlands Combined Authority and government.[13]
- **North East.** The region's devolution deal sets out an ambition to create 24,000 extra jobs and leverage £5 billion of private sector investment. The proposed approach includes engaging investors in the development of a regional wealth fund, developing a strategic partnership with the UK Infrastructure Bank (UKIB) to leverage greater private sector investment locally, and an explicit commitment to explore the role of impact investing in meeting the North East's wider ambitions to increase investment in the region.[14]

Place-based investment partnerships

- **Bristol City Leap.** The City Leap Energy Partnership, a public-private partnership geared towards decarbonisation at a city-scale, is a twenty-year joint venture between Bristol City Council, Ameresco, and Vattenfall Heat UK, which will enable the delivery of over £1 billion of investment into Bristol's energy system.[15]
- **Net Zero Neighbourhoods.** This initiative takes a multi-asset approach to neighbourhood decarbonisation, operating across domestic and commercial property retrofit, renewable energy, transport, and waste.[16] Led by the Cities Commission for Climate Change (3Ci), a series of demonstrator projects aim to test the financial model and build market and investor confidence. The hyper-local and cross-sector nature of Net Zero Neighbourhoods presents an excellent test case for PBII.

Funds and products are being developed to facilitate PBII

The delivery of the Institute's PBII work has involved engaging with a diverse array of investors seeking impactful opportunities in local communities. This engagement has revealed a notable rise in place-based, impact-focused investment products and funds. The table below provides some examples of how capital is being channelled, often through asset management firms, to deliver impactful outcomes in places across the UK:

PBII fund	Description
Octopus Affordable Housing Fund	Established to accelerate the delivery of over 5,000 good quality and affordable homes in the UK.
Schroders Real Estate Impact Fund	Prioritises place-based impact that delivers positive social and environmental impact in town centres, workplaces, and homes, by allocating capital to under-served markets and delivering additionality.
Gresham House Sustainable Infrastructure Fund	A £450m fund that aims to accelerate the deployment of asset-based solutions to the environmental and social challenges facing the UK.
Community Investment Enterprise Facility (CIEF)	A £62 million facility to invest in enterprise lending CDFIs, supporting small businesses that are unable to access mainstream bank finance.

PBII impact reporting has advanced and is being adopted by LGPS funds

An industry-endorsed reporting methodology, the PBII reporting framework, has been developed by the Good Economy to provide a common, consistent, and transparent approach to reporting on the impact of private market investments across asset classes. This is an important step forward for the growing PBII market, to ensure accountability in reporting on social and environmental impacts.

Greater Manchester Pension Fund, one of the pioneers of PBII, became the first LGPS fund to publish a PBII Impact report – creating a precedent and template for other LGPS funds and asset owners across the ecosystem to follow.

The Good Economy's report, *An independent assessment of the place-based impact of Greater Manchester Pension Fund's local investment portfolios,*[17] signifies a significant step forward in assessing the local impact of LGPS investments. This evaluation provides valuable insights into how an LGPS fund's investments affect local communities, infrastructure, and economies.

Over recent years, there has been a noticeable shift towards a more comprehensive understanding of the social and environmental consequences of investment decisions. LGPS funds are increasingly looking to measure the impact of their local investments, with South Yorkshire Pension Authority recently following suit in using the PBII reporting framework.

Public finance leveraging private finance

Public finance can help attract private capital by expanding the tools it uses beyond wholly grant or match funding a project. This includes taking a 'blended finance' approach, where public funding is used to make it possible for private capital to participate. For example, grant funding can provide a first loss or concessionary tranche in a fund, or technical assistance to build capacity and capability at a local level. Other public finance mechanisms, such as guarantees and tax reliefs, can also be used in a blended finance approach.

The UK Government has a historic interest in working alongside private capital to achieve common goals. Over the last few years, initiatives exploring the potential for public finance to catalyse private sector investment include:

- **The Green Finance Strategy,**[18] developed by the Department for Energy Security and Net Zero (DESNZ), the Department for Environment, Food and Rural Affairs (DEFRA) and HM Treasury (HMT), aims to mobilise private sector investment into sustainable projects, including those with a strong focus on local and regional impact.
- **The Local Investment in Natural Capital (LINC)** programme, established by DEFRA and led by the Environment Agency, supports four regions in developing the capability to secure private finance for delivery of local priorities for nature.[19] This cohort of combined and local authorities seeks to develop a pipeline of investment-ready natural capital projects and associated finance mechanisms that will generate revenue and returns, and incentivise private sector investment.
- **UK Infrastructure Bank (UKIB)** has initial capital of £12 billion and will be able to issue up to £10 billion in government guarantees to finance infrastructure projects.[20]

These initiatives underscore a concerted push to cultivate synergy between the public and private sectors, aimed at tackling societal and environmental issues and steering private sector investment into key projects across a range of sectors. In considering how government programmes and devolution settlements can be designed in a way that prioritises crowding in private finance, government can create an enabling environment for scaling up institutional investment for meaningful place-based impact across the UK.

What are the challenges preventing the growth of the PBII market, and how might they be addressed?

The developments of the PBII market outlined in this section demonstrate positive progress and clear growth. Further progress would be accelerated via the following developments:

Increasing engagement in PBII amongst institutional investors. Reaching the 5% LGPS target and increasing investments in PBII more broadly will require both a deepening of practice by those already active in PBII and growing the field by raising awareness of PBII with other investors. This needs to be supported by a concerted effort from field builders in continuing to advocate for PBII and supporting the investment community to adopt and extend this approach.

Increasing the number of places adopting a PBII approach. As the market grows and capital is increasingly seeking local impact alongside financial return, the number of places adopting a PBII approach, bringing forward investible propositions, and developing effective partnerships with the private sector will need to increase. Local authorities would benefit from increased awareness of PBII and access to support in adopting this approach, with public funding made available for developing the required capacity and capabilities.

Expanding blended finance vehicles. Blended finance is a key component of PBII, and further work is required to address specific blended finance challenges across a range of PBII sectors and asset classes. A series of blended finance 'innovation labs' could bring together relevant public, private, and philanthropic actors to explore specific blended finance challenges in areas such as renewable energy and affordable housing. This could kick-start the process of developing financing solutions that blend capital from different sources, to respond to some of the UK's most pressing challenges.

Connecting investors to opportunities: forging new paths and possibilities

In this section of the report, we examine the practical ways the Institute has been connecting investors to PBII opportunities, describing how we are working through our PBII pilots, how our approach is evolving, and the impact and insights that have arisen from this work. We also detail our work over the past two years to support the CDFI sector engage investors and develop the infrastructure needed to scale enterprise lending to small businesses excluded from mainstream finance.

Implementing a PBII approach with local authorities and communities

Through our PBII pilots, we aim to bring investors and places together to co-design solutions that respond to the specific challenges and priorities of places. Our approach introduces local authorities and communities to the concept of PBII, forges connections with investors aligned with a place's objectives, and facilitates dialogue and shared learning around specific projects and approaches. At the end of a pilot period, we work on effective transition planning to set each place up for long-term success in extending and embedding a PBII approach.

Wakefield: exploring PBII across the district

A former coal mining area, Wakefield is forging a new path for the town and its residents. With great transport links and natural capital resources, it has become a key logistics hub and has a growing creative industry in West Yorkshire. Despite these developments, 16% of residents reside in neighbourhoods ranked among the top 10% most deprived areas in England,
with 1 in 5 children growing up in low-income families.[21]

In 2022, Wakefield became our first PBII pilot project. With support from the consultancy firm, Metro Dynamics, and working with a steering group of local organisations, we supported Wakefield to identify three priority areas to explore PBII: regeneration, clean energy, and SME growth. Within these areas, we identified relevant investment opportunities to use as the basis for engaging investors. These included a large brownfield site with potential for around 1,000 homes, a site earmarked for a solar farm, and an enterprise zone around Production Park – a purpose-built studio that acts as a creative hub for the region.

Initially, the objective was to surface the projects in an investor prospectus to use as the basis for engagement. As the project was delivered, however, our approach evolved to focus more on investor co-design and relationship building. This approach catalysed a range of partnerships that are now at different stages of development. Opportunities that are being explored include:

- Collaboration with a major construction company and other local stakeholders to develop new employment opportunities to drive green skills in the region.
- Exploration with West Yorkshire Pension Fund of the potential for a local impact portfolio.
- Routes for new investment flows, coming through West Yorkshire-based CDFI, Business Enterprise Fund, to support small businesses unable to access bank finance in Wakefield.

Alongside these live opportunities, Wakefield Council has been able to develop relationships with a range of investors that participate in the Institute's Place Coalition.

Southampton: engaging investors in the city's opportunities

With two universities, a modern football stadium, international port, cultural assets, and close to three million cruise passengers passing through every year, Southampton is a city with great potential. However, it also faces major challenges, with high levels of deprivation and poor health outcomes in many parts of the city.

Through their bid for the UK City of Culture 2025, Southampton developed an ambitious vision for change that galvanised the city. As the only city on the south coast to reach the finals, Southampton are exploring ways to maintain momentum and attract long term impactful investment to deliver this vision and deliver growth and prosperity to the city and region.

This was the catalyst for a first phase of our partnership with Southampton, delivered through an initial workshop in June 2023, which brought investors and local stakeholders together to explore opportunities for investment in Southampton assets that had been central to the bid.

In the next phase of the project, we will support Southampton in further shaping a culture-led regeneration project, by convening sessions with a range of institutional and social investors. We will also engage investors in other opportunities across the city.

The following section distils the key insights surfaced through these projects and our wider work and engagements across the PBII programme.

Emerging insights

The insights garnered from our pilots in Wakefield and Southampton are invaluable, shaping the development of best practices in PBII alongside other projects, such as The Good Economy's PBII Labs[22] and Better Society Capital's work over the past decade as a place-based investor. These initiatives underscore the immense value in bringing together investors and local stakeholders to establish a shared language and facilitate the co-design of investible opportunities. This process ensures that projects not only meet local needs but also align with commercial investor interests – overcoming a major barrier in connecting communities to capital.

PBII takes different forms but there are common success factors

- **Local leadership is key.** PBII projects are often led by local government but can also be initiated by other place-based or social economy organisations. The key success factors are that they build trusted relationships across sectors and are able to be effective brokers and conveners.
- **Build the foundations for success.** There are some clear indicators on what sets a place up for success, including a clear local vision, strong partnerships and engagement, understanding of investment and enterprise, and capacity to absorb capital.

There is a significant gap in the capacity and capabilities required to deliver PBII

- **Local authority capacity.** Local authorities we have worked with recognise the benefits of adopting a PBII approach, but also that it necessitates acquiring new skills and dedicated resources. Finding the capacity to execute these initiatives can be challenging, given the already stretched resources within local authorities. Where local authorities had been successful in bids for government funding (such as the Levelling Up Fund or Towns Fund), this can further limit resource to adopt a longer-term place-based approach, due to the short deployment timescales.
- **Local authority capability.** Local authorities often encounter difficulties in effectively engaging with investors and aligning suitable projects with the right partners. To advance PBII there is a pressing need for tools and skills that help local authorities understand the investment process from the perspective of investors.
- **Investor capability.** PBII requires investors to engage in depth with local authorities and places. Building these relationships and developing an understanding of specific investment propositions takes time and requires new ways of working and an understanding of how local government operates. To develop this capability, investors need to spend time getting to know places with 'boots on the ground'. Case studies that showcase local authorities working effectively with private sector investors can help develop investor understanding of PBII.

Investors and places need to connect earlier and more effectively

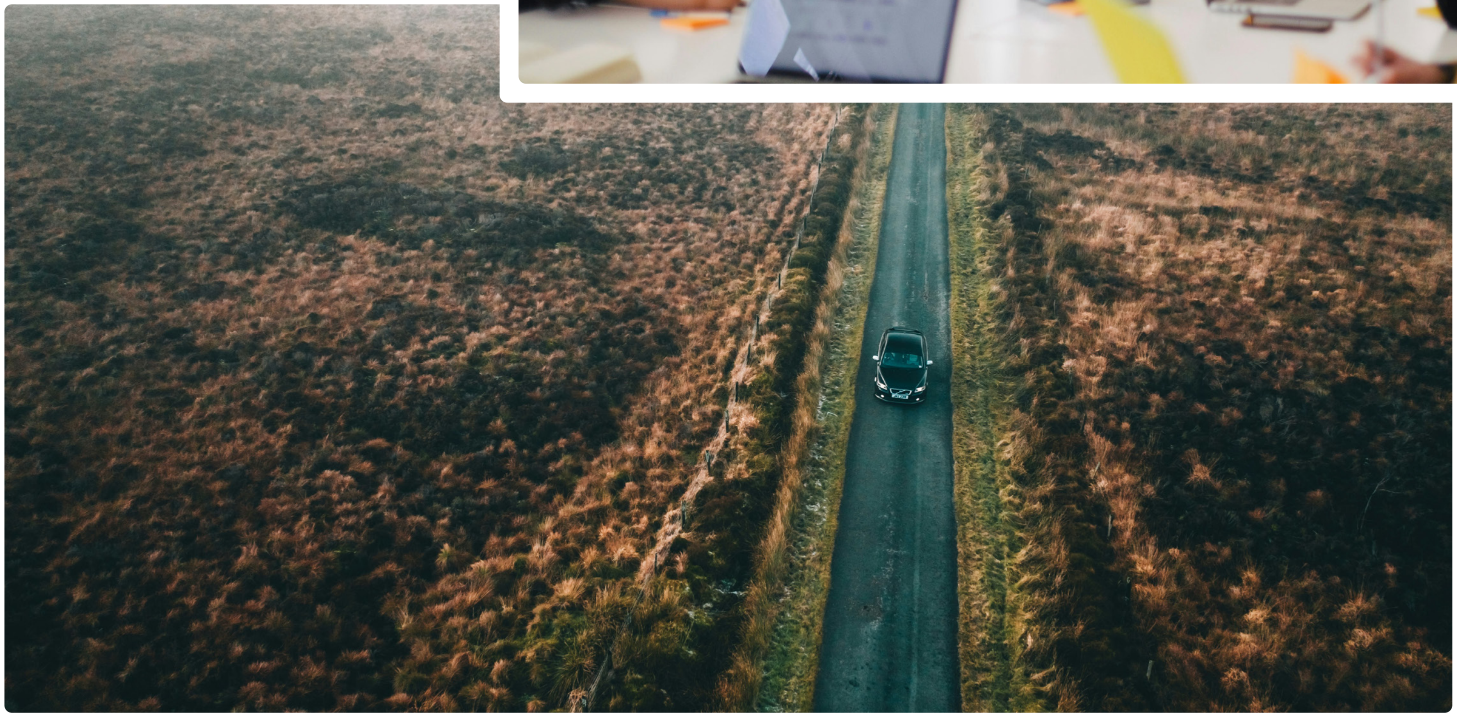
- **Importance of early investor engagement and open dialogue.** There is real value in convening stakeholders to identify priorities and develop a mutual understanding of requirements and motivations. Approaching these interactions with a spirit of openness and receptiveness fosters productive exchanges. In the early stages, bringing in an independent facilitator with knowledge of both capital markets and local government can play a key role in convening, connecting, and translating. Local government stakeholders we have worked with recognise the significant value that the perspective of impact investors brings to projects, particularly through early engagement. There is a willingness to collaborate in problem-solving alongside impact investors, acknowledging their expertise and experience in developing innovative solutions.

> The successful execution of PBII relies on the cultivation of mutual trust and understanding among stakeholders.

- **Cultivating trust and relationships.** The successful execution of PBII relies on the cultivation of mutual trust and understanding among stakeholders – building strong relationships is essential for effective delivery. This is not a quick fix and building relationships takes dedicated time and commitment on both sides, but the end results can be rewarding and lead to long term partnerships.
- **Effectively describing assets and investment opportunities.** Place-based investor prospectuses can provide a useful entry point for investors to understand a place's vision and the investment opportunities within them. However, they are often not presented in a way which is useful for investors to engage with – for example, they can quickly become out of date, lack clarity in where public funding has been secured, and have limited information on key issues such as land ownership. There is also a lack of standardisation in the data points that are used and how information is presented. Investors also struggle to understand the wider context within which projects sit; for example, it can be hard to ascertain if enabling infrastructure will be delivered on regeneration projects when looking at individual investments.

PBII is about more than individual investments

- **Place-based change requires a 'multi-asset' approach.** Achieving meaningful change for places and addressing systemic issues, such as homelessness and health disparities, requires a recognition that investments in individual assets don't happen in a vacuum. Shifting focus from isolated investments towards a broader understanding of place-based transformation and the interconnectedness of investments will yield greater impact. We have seen first-hand how early investor engagement can open conversations around how investments sit within wider plans and the opportunities for cross-subsidisation or blended finance solutions to facilitate place-based change.
- **Connecting the spectrum of capital.** There can be a lack of connection between strategies which build the social economy and those that make large scale infrastructure investments like housing, resulting in dilution of impact and failure to address the full spectrum of issues in place or to channel capital into the areas of greatest need.
- **Prioritising community engagement and participation.** Putting people and communities at the heart of investment decisions can drive better outcomes while also improving financial performance. The Institute has created a guide that supports investors to identify and pursue community engagement opportunities within a PBII approach and lays out clear routes to incorporating community engagement into investment decision-making (see box on page 20).



Engaging communities in PBII

Community engagement can improve both sides of the PBII equation, by driving better outcomes for people and places while improving financial performance. Our 2023 guide, *Fostering Impact: An Investor Guide for Engaging Communities in Place-Based Impact Investing*, funded by DCMS, serves as a foundational resource to facilitate deeper community engagement within PBII initiatives.[23] The guide outlines the main benefits of community engagement, which include:

- **Building trust.** Community engagement fosters trust and legitimacy. When communities are actively engaged and empowered to shape the direction of investments, they are more likely to feel a sense of ownership and agency over the outcomes. This builds trust between investors, local authorities, and residents, laying the groundwork for collaborative partnerships that are essential for long-term success.
- **Deepening understanding of the local context.** Communities are likely to know their local context best. Community engagement can lead to a deeper insight into places, which in turn will help to identify positive impact, risks, and challenges at the local level, and ensure investor priorities align with community goals. Engagement with communities can also help to identify partners and synergies with other initiatives, and to create and sustain a local ecosystem of positive impacts.
- **Improving financial performance.** Community engagement can increase the long-term financial return of investments. Research by the World Bank suggests that the benefits of community engagement ultimately outweigh its costs, for example, by preventing negative long-term consequences.[24] Adopting a place-based approach that includes meaningful community engagement can also create new revenue streams, leading to improved asset performance.
- **Enhancing risk management.** Community engagement is important for investor risk management, particularly in sectors that are associated with long-term impacts, including infrastructure and real estate. Failing to conduct appropriate community engagement can be corrosive to the project and its execution. Insufficient engagement can lead to conflict and backlash from the local community, delivery delays, harm to organisational reputation, or negative direct costs (for example, from litigation or adaptation).

Our evolving approach

The level of understanding of and exposure to PBII, as well as capacity and capability to engage with private investors seeking commercial opportunities, vary among different places. We have developed a flexible and adaptable delivery approach to working with places, which can be tailored to their specific requirements and resources. This includes, but is not limited to, the following steps:

Introduction to PBII: sparking collaboration and vision

Developing a strong fundamental understanding of PBII is a critical first step of the process. When engaging with local authorities and places unfamiliar with the field of impact investing and the type of investors that take a place-based approach, we start by presenting the fundamental principles of PBII and showing the art of the possible through clear case studies where local impact has been delivered alongside financial returns. By involving investors in the introductory sessions, places get to build their understanding of PBII while also forming connections with investors.

Asset mapping and prioritisation: unveiling opportunities

Before engaging investors, we embark on an asset mapping exercise. This process involves identifying and prioritising assets across various sectors, including housing, infrastructure, urban regeneration, clean energy, health, and natural capital. By understanding the suitability of assets for investment, we uncover opportunities to explore further with investors.

Community engagement: coalition building

We support places to build local coalitions to play an active role in shaping and supporting PBII initiatives. This could take the form of a new local steering group or ensuring PBII sits within existing structures that bring together cross-sector stakeholders. As we work with places around specific investment opportunities, we encourage wider community involvement from an early stage.

Investor engagement: unlocking collaboration

Early-stage engagement between places and investors is fundamental to the success of PBII. We facilitate connections with major investors, such as Schroders, Octopus Investments, and Cheyne Capital, fostering meaningful partnerships. For example, Cheyne Capital's ongoing relationship in Wakefield and Southampton exemplifies how we are facilitating long-term collaborations that can drive positive change.

Robust impact measurement: capturing impact

Impact measurement, management, and reporting frameworks must be embedded within PBII projects from the outset. As engagement with investors turns from collaborative discussions to tangible investment opportunities, we encourage the development of a robust theory of change and the establishment of impact frameworks that clearly articulate the outcomes the project seeks to achieve.

Strategies to spur SME growth: fuelling prosperity

Supporting SME growth is a key pillar of our PBII strategy. We work closely with places to assess their SME landscape, identifying gaps and opportunities for investment. Through partnerships with entities like CDFIs and private equity firms, we facilitate connections to investors tailored to the needs of SMEs within a place, promoting economic prosperity and job creation in local communities.

Taking a place-based view: embracing the big picture

Our approach extends beyond individual investments to consider the broader impact on communities. By encouraging stakeholders to adopt a place-based view, we identify market shaping and cross-subsidisation opportunities. For instance, investing in affordable housing in Southampton may not only address housing needs but also generate revenue to fund cultural objectives, fostering holistic and sustainable development.

Transition planning: charting the course

Ultimately, our goal is to empower local authorities and communities to navigate PBII independently. We ensure each project concludes with a comprehensive transition plan, outlining progress, opportunities, and next steps for sustained impact.

Alongside delivering practical work in partnership with places, we surface key learnings and develop resources that local authorities can draw on, making it easier for places to develop a PBII approach.

Unlocking the potential of the community development finance institution (CDFI) sector

Alongside our work to unlock more investment that responds to the specific context and opportunities within places, we also work on sector-wide challenges that are preventing capital from being directed to impact in communities across the UK.

A key element of our SME work is tackling the lack of affordable credit for small businesses which have been turned down by mainstream lenders. This case study outlines the challenge and how we have been working with partners to address it.

What is the problem?

Supporting the growth of small business is critical in shaping the future of the UK's 'left behind' and structurally underserved places. Government figures show that around 700,000 small businesses struggle to access affordable finance on the right terms for them, 200,000 of which have been declined or discouraged from mainstream finance.[25] This is, in part, driven by a generational shift in commercial retail banking, away from traditional relationship-based banking centred around a local branch model. There is a huge untapped opportunity to support the UK's economy by ensuring capital reaches small businesses and social enterprises across the nation – investing in groups that have not historically had access to capital.

What are CDFIs and how can they solve this problem?

CDFIs are non-profit social enterprises, deeply ingrained in local communities, nurturing strong relationships with thousands of small businesses that are overlooked by traditional lenders and providing them with the finance they need to grow. CDFIs foster inclusive economic growth by improving access to capital for underserved entrepreneurs and businesses. They provide long-term, affordable finance for enterprises which have been declined by other lenders, such as the UK's retail banks.

Research from Responsible Finance (the UK's membership body for CDFIs) estimates that between 50,000 and 60,000 small businesses (just over a quarter of those that have been declined or discouraged from mainstream finance) could be viable and creditworthy under the CDFI model, meaning around £1.5bn in unmet finance each year that could be reaching small businesses in communities across the UK.

Despite its significant contributions, the UK CDFI sector has yet to reach its full potential. In contrast, CDFI loan funds in the US lent approximately $11.5 billion to enterprises in 2022, as part of a thriving $100 billion sector. A key obstacle to scaling CDFI lending in the UK has been the lack of substantial investment.

A landmark investment in the UK's CDFI sector

In March 2024, a £62 million investment fund was launched to help small businesses across England & Wales access finance, supporting local jobs and economic activity. The Community Investment Enterprise Fund (CIEF) aims to invest in 750 small businesses, supporting around 10,000 jobs. At least half of those small businesses will be based in the most deprived areas of England & Wales, building on analysis by the British Business Bank showing that around 50% of CDFI lending is to areas in the UK's 35% most deprived regions.[26]

Funded by Lloyds Bank and Better Society Capital (BSC), and with contributions from the three participating CDFIs (BCRS Business Loans, Business Enterprise Fund, and Finance For Enterprise), CIEF will provide these CDFIs with the capital they need to meet demand from small businesses.

Through a £43 million investment in this fund, Lloyds Bank has become the first mainstream lender to make a wholesale investment into the enterprise lending CDFI sector.

The fund, which follows on from a successful first phase of funding, will be managed by Social Investment Scotland (SIS), which has been investing in the social sector since 2001 and is itself a CDFI. The first phase, also managed by SIS, saw the deployment of £66m by four CDFIs in England to meet the needs of more than 900 small businesses operating in disadvantaged areas, supporting both jobs and economic activity. Launched in 2018, CIEF was funded with £30 million from Better Society Capital, with additional funding from Triodos Bank and Unity Trust Bank.

The Institute, along with Responsible Finance and the organisations listed above, played a key role in bringing this second phase of CIEF to fruition.

Supporting the CDFI sector to scale

Collaborative work is underway to build on this success and continue to grow the investment into and impact of the sector. Working with Responsible Finance and other key partners, we are acting as a catalyst to bring mainstream investment to underserved communities in the following ways:

- **Engaging commercial banks in the sector.** Lloyds Bank's investment into CIEF followed an initial partnership with the Institute exploring how mainstream financial institutions can engage in PBII.[27]
- **Modelling a blended finance vehicle.** We have led work engaging CDFIs and investors around the design of a blended finance vehicle aimed at establishing a national fund that can attract commercial investment at scale.
- **Building the sector's capacity to lend.** Delivered by Responsible Finance, our capacity-building program has supported 15 CDFIs in key areas including due diligence, marketing, and technology. Nine CDFIs have been supported to prepare for investment and growth, and all CDFIs now have access to a due diligence guide: a vital resource in the investment raising process.
- **Enhancing data accessibility.** We initiated and supported a project, led by Responsible Finance, to improve the consistency and transparency of data from CDFIs, aiding commercial investors in making informed decisions.
- **Making our expertise available to policy makers.** Engaging across government, we help identify strategic policy changes for the sector, such as the recent extension to the Recovery Loan Scheme and the case for effective tax reliefs.

What are the challenges preventing investors and places engaging effectively on PBII, and how might they be addressed?

The work outlined in this section demonstrates the appetite amongst places and investors to work together and the opportunities that arise when they do. Further progress would be accelerated via the following developments:

- **Making resources available to guide PBII.** Both local authorities and investors would benefit from more direct support, as well as toolkits and resources, for the practical delivery of PBII. For example, access to a platform that provides bespoke services like those provided through the Institute's place pilots, and guidance for local authorities to understand the types of private capital that might be suitable for different projects.
- **Increasing the effectiveness of investor prospectuses.** Local authorities often produce investor prospectuses that are challenging for investors to engage with. A standardised format for investor prospectuses, informed by investors seeking PBII opportunities, would be a valuable addition to facilitate connections and match investors with opportunities.
- **Putting community engagement into practice:** Our community engagement guide for investors provides a helpful resource to inform and guide best practice. Investors would benefit from more practical support to embed community engagement within their funds and investment strategies. A community of practice, aimed at sharing learning and testing new approaches, would provide a helpful forum to spur experimentation and further develop best practice.

What next: pathways to scale and spread PBII

Over the course of 2024/25, the Institute will continue to deliver the PBII programme, funded by DCMS, focussing on the following areas covered in this report:

- **Investor engagement.** We are delivering a series of events and convenings with investors both actively engaged in PBII and those newer or less familiar with the field. These will via through high profile events such as the UK Real Estate Investment and Infrastructure Forum (UKREiiF), leading industry investment conferences, and direct engagements with investors.
- **Place pilots.** We are delivering our second PBII pilot project with Southampton. This will build on an initial workshop in 2023 and draw on the learnings presented in this paper to support Southampton develop their approach for a culture-led regeneration project, alongside building connections with investors and exploring other opportunities in the city.
- **Place Coalition.** Our Place Coalition will continue to support our PBII work and provide a forum for stakeholders to come together across the ecosystem, sharing insights, facilitating connections, and contributing to best practice.

If you are interested in exploring collaboration and partnership on any of these themes, please get in touch with us at **Place@impactinvest.org.uk**

Building on this programme, development of work in the following areas – as highlighted in this report – would help grow the field:

- **Growing the number of places adopting a PBII approach.** To scale and spread PBII, more places will need to be able to bring forward investible propositions and develop effective partnerships. Drawing on the insights and impacts outlined in this report, further local authorities and places will need to be engaged and supported to develop a PBII approach.
- **Developing a community of practice around community engagement within PBII.** Investors would benefit from more practical support to embed community engagement within their funds and investment strategies. A community of practice, aimed at sharing learning and testing new approaches, would provide a helpful forum to spur experimentation and further develop best practice.
- **Blended finance experimentation and innovation.** A series of blended finance 'innovation labs' could bring together government and catalytic funders with investors to work through potential solutions for specific challenges across a range of PBII sectors and asset classes. This work would need to build on and complement the Blended Finance Collective led by Better Society Capital and Access Foundation through a focus on practical delivery.
- **An annual PBII conference.** An annual PBII conference would create an opportunity for those already working in and investing in the field to share learning and deepen their practice, as well as engage the next wave of investors and places in PBII. This would build on work delivered through our Place Coalition and partnership with The Good Economy on the PBII Network.

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Acknowledgements

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Feedback

We welcome feedback on this report and the Impact Investing Institute's place-based impact investing work, please reach out to **place@impactinvest.org.uk**

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