THE ART OF THE POSSIBLE: UNLOCKING THE POTENTIAL OF COMMUNITY-BASED FINANCE

March 2025

ABOUT THE PROJECT

About the project

Connected Places Catapult commissioned the Impact Investing Institute to undertake a short research project to explore opportunities for expanding community-based finance in the UK.

The project aims to identify new or underutilised mechanisms that enable local public bodies, businesses, and citizens to take a financial stake in the success of their communities, with a particular focus on delivering place-based initiatives and driving innovation. It presents a series of case studies showcasing current practices and opportunities for further development, alongside recommendations for these approaches to evolve and contribute further to thriving local economies.

Although substantial work has been undertaken by the Institute and others to scale up institutional investment from sources such as pension funds, banks and asset managers for place-based impact, comparatively little attention has been paid to expanding community-based finance models.

This report seeks to address this gap by identifying effective, replicable and scalable approaches, and facilitating cross-place learning in community-based finance.

To achieve these objectives, the Institute led a focused research initiative, including desk-based research, interviews with key stakeholders, and a roundtable discussion with organisations driving and pioneering positive change through community-based finance models.

By examining these local financing mechanisms, the project aims to enhance the ability of public bodies, local citizens and organisations to invest in their area's development, and raise awareness of the positive role these organisations play in community development – ultimately contributing to more resilient and prosperous communities.

FOREWORD

Communities across the UK hold untapped potential for driving local economic growth and prosperity.

Although our cities and regions have distinct strengths – from specialised industries and skilled workforces to unique cultural assets – many struggle to access the finance needed to fully realise these advantages.

This challenge is particularly acute given the UK's position as one of the lowest investors among OECD nations, with total overall investment into the UK economy currently at just 17% of GDP compared to an OECD average of 22%. Since the 1990s, the UK has consistently ranked among the bottom 10% of G7 economies for investment levels, with both private and public sector investment lagging behind international peers. This national underinvestment is felt most sharply outside London and the South East, where cities and regions have historically underperformed relative to their potential. For the eight largest cities outside London, closing the productivity gap could unlock £47 billion in economic value – raising living standards and creating new opportunities for the 48 million people living in these cities and their surrounding areas.[1]

Addressing these regional inequalities requires innovative, locally-tailored financial solutions. Institutional investors like Local Government Pension Scheme (LGPS) funds increasingly seek local impact opportunities but their scale requirements often bypass smaller, community-level projects. Meanwhile, local authorities, despite their intimate understanding of local needs, face significant funding and resource constraints.

This creates a compelling opportunity for community-based finance that is raised in and/or deployed by the communities in which it is needed – yet the UK lags significantly behind international examples. The United States, for instance, has built a $100 billion community development finance institution (CDFI) sector that successfully channels local investment into enterprises, housing, and social innovation. The UK has similar mechanisms to mobilise local capital – from citizens and businesses to community finance organisations and philanthropists – however, these remain understated and underutilised. As a result, promising local initiatives often struggle to access finance or achieve meaningful scale.

This report examines how to unlock the full potential of community-based finance in the UK. It presents both practical pathways for strengthening local financial ecosystems and a call to action for transforming how we fund local economic development. By better connecting communities with capital, we can build more resilient local economies and create prosperity that is truly shared across the nation.

Sam Markey, Ecosystem Director for Place Leadership at Connected Places Catapult

1 https://www.gov.uk/government/consultations/invest-2035-the-uks-modern-industrial-strategy/invest-2035-the-uks-modern-industrial-strategy

INTRODUCTON

Unlocking community-based finance for local economic growth

The UK stands at a pivotal moment for transforming how finance can drive local economic development. The government's "Invest 2035" industrial strategy green paper, published in November 2024, sets out an ambitious vision for increasing market dynamism and directing capital toward growth-driving sectors.[2] Combined with renewed commitments to devolution,[3] and reforms to the Local Government Pension Scheme (LGPS),[4] these policy shifts create significant opportunities for regions to develop coherent, long-term strategies for inclusive growth.

This evolving landscape presents a particularly promising moment for place-based impact investing (PBII), where investors collaborate with local authorities and communities to develop investment propositions tailored to specific regional needs. In deploying capital to local impact and innovation opportunities, there is significant untapped potential in the UK's community-based finance ecosystem – both in attracting institutional investment and enabling local stakeholders to invest directly in their communities' future.

What is community-based finance?

Community-based finance encompasses financial arrangements where capital is either sourced directly within the community or channelled through local organisations, with decision-making residing locally.

There are a range of organisations and intermediaries already demonstrating effective ways to mobilise local capital alongside institutional investment. Online investment platforms enable citizens to invest in green infrastructure with as little as £5, while Community Development Finance Institutions (CDFIs) provide crucial support to underserved businesses. Local funds drive strategic investment in social enterprises and community businesses. Together, these pioneers create blueprints for inclusive community-led economic growth that could be replicated across the country.

This report examines the diverse ecosystem of community-based finance in the UK, mapping the key actors, mechanisms, and success stories that demonstrate its potential. We explore how individual citizens, high-net-worth individuals, local authorities, and institutional investors can better mobilise their capital for local impact. Through case studies and analysis, we identify both the barriers preventing these mechanisms from scaling and the opportunities to overcome them.

At a time when communities across the UK are seeking new ways to drive sustainable economic development, community-based finance offers a powerful tool for ensuring growth is both inclusive and locally-led. By understanding and building on existing success stories, while also addressing key challenges, we can create a more diverse and resilient financial ecosystem that better serves local needs and aspirations.

2 https://www.gov.uk/government/consultations/invest-2035-the-uks-modern-industrial-strategy/invest-2035-the-uks-modern-industrial-strategy
3 https://www.gov.uk/government/publications/english-devolution-white-paper-power-and-partnership-foundations-for-growth/english-devolution-white-paper
4 https://www.gov.uk/government/consultations/local-government-pension-scheme-england-and-wales-fit-for-the-future/local-government-pension-scheme-england-and-wales-fit-for-the-future

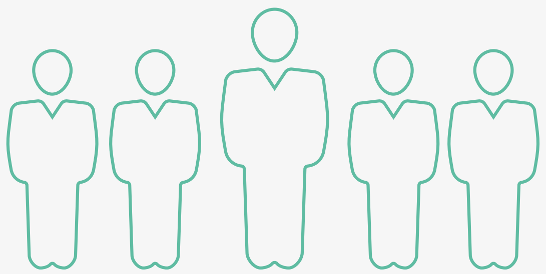
SOURCES OF CAPITAL FOR COMMUNITY-BASED FINANCE

Capital sources for community-based finance range from individual citizens investing as little as £5 to institutional investors like pension funds managing billions in assets. This section introduces the capital pools contributing to community-led finance, examining both their current impact and untapped potential, before exploring a range of mechanisms and successful case studies of local financing in action.

Individuals

Individual citizens: The UK's personal savings accounts hold approximately £1.5 trillion in cash.[5] In fact, ONS data shows that the average community of 100,000 people in the UK holds £4 billion in savings and investments between them.[6] Most of this wealth currently flows into national or international financial products, but a substantial portion could be redirected toward local development. Many savers will want to retain the easy access and low-risk nature of savings accounts or will have different motivations and expectations as to how they might direct this money to local impact. Nonetheless, existing community-based mechanisms offer both investment and donation opportunities that could be replicated nationwide. As City Minister Emma Reynolds noted in February 2025, the UK has "failed to drive an investment culture," with hundreds of billions being held in Cash ISAs rather than being deployed in risk assets to support UK economic growth.[7]

High net worth individuals (HNWIs): The UK's 536,000 HNWIs (defined as having over £1 million in investable assets) increasingly embrace 'giving while living' rather than traditional posthumous charitable giving.[8] This shift enables them to actively engage with and witness the impact of their contributions, whether through investment or philanthropy, significantly influencing local economic development.[9]



5 https://www.fca.org.uk/publication/multi-firm-reviews/cash-savings-market-review-2023.pdf
6 https://www.abundanceinvestment.com/what-we-do/raise-money-with-us
7 https://www.investmentweek.co.uk:8443/news/4409018/city-minister-emma-reynolds-failed-drive-investment-culture-uk
8 https://www.cafonline.org/insights/research/high-value-giving
9 https://www.financialregulationcourses.com/philanthropic-trends-hnwos-advisors-uk

Government

Local government: Local and combined authorities leverage a mix of funding sources – including government grants, council tax, and business rates and borrowing – to support local economic development. The case studies in this report will demonstrate how local leaders of community-based finance mechanisms can put precious local authority funding to good use, often delivering a strong multiplier effect in the process. Increased devolution, with new Strategic Authorities being given further funding and powers to support local economic development, creates an opportunity for this to increase in both scale and sophistication.

Central government: Funding from central government plays a key role in local economic development. Government grants provide approximately 22% of local authority funding.[10] Additional support flows through intermediaries to community-based finance mechanisms, such as the £150 million Community ENABLE Funding programme from the Department for Business and Trade (DBT) to Community Development Finance Institutions (CDFIs).[11]

Public sector procurement

The public sector spends around £400 billion on goods and services annually. This provides a significant opportunity to impact investment in local communities.[12] The Social Value Act already requires public bodies to consider the most economically advantageous tenders and consider community benefits. Recent procurement rule changes are also expanding opportunities for public bodies to maximise benefits for their communities and for SMEs to secure public sector contracts, stimulating local growth and innovation.[13]

10 https://www.instituteforgovernment.org.uk/explainer/local-government-funding-england
11 https://www.british-business-bank.co.uk/news-and-events/news/british-business-bank-announces-community-enable-funding-programme-increase
12 www.ipec.org.uk
13 https://www.gov.uk/government/news/thousands-of-small-businesses-to-benefit-from-new-government-buying-rules-boosting-local-jobs-growth-and-innovation

Institutional investors:

Institutional investors: Can play an important role in community-based finance, particularly in larger-scale local projects. The following examples illustrate how institutional investors support local impact through community-based finance mechanisms, which will be explored further in the next section.

Local Government Pension Scheme (LGPS) Funds: Managing £400 billion in assets on behalf of 6.5 million members (2.1 million are currently paying in)[14] the LGPS is made up of 86 local pension funds in England and Wales. Greater Manchester Pension Fund has invested £858 million through its local investment portfolio, with £1.42 billion committed to local investment overall which supports SMEs, real estate development, and infrastructure projects.[15] A 5% allocation across the LGPS towards local impact would unlock £20 billionn of investment into the UK each year – an ambition that the current government is seeking to accelerate through reforms.

Endowments: The UK's top 300 charitable foundations hold over £84 billion in assets,[16] while university endowments are approximately £16 billion.[17] The bulk of this is invested in mainstream capital markets without consideration of how it might generate environmental or social benefits. The University of Edinburgh demonstrates the powerful role endowments can play in local economic development, having established a strategic allocation of £8 million to contribute to the social and economic prosperity of the city and surrounding area.[18]

14 https://www.lgpsmember.org/about-the-lgps/about-the-lgps/
15 https://www.gmpf.org.uk/getmedia/947fba44-7e63-4af5-a104-c3afb86d8b84/Place-Based-Impact-GMPF-Local-Investment-Portfolio-Oct-2024-(1).pdf
16 https://www.impactinvest.org.uk/our-work/projects/endowments/
17 https://tribeimpactcapital.com/wp-content/uploads/2022/11/Tribe_university-endowments.pdf
18 https://bettersocietycapital.com/investors/university-endowments/university-edinburgh/

Family offices: These vehicles set up to manage family wealth offer unique flexibility for impact investment, uninhibited by typical institutional investor constraints. With an estimated £5.5 trillion transferring between generations over the next 30 years in the UK alone,[19] there is an opportunity for family offices to act at pace to respond to social and environmental issues, including those within their communities.

Banks: Despite reduced local presence, UK banks can continue supporting community finance through wholesale investment. Lloyd's Bank's 2024 investment in the £62 million Community Investment Enterprise Fund (CIEF) demonstrates how traditional banks can support local economic activity through CDFIs.[20]

The convergence of government growth priorities, devolution commitments, and the natural alignment between local investors and place-based outcomes presents a unique opportunity to strengthen the UK's community finance ecosystem. The intrinsic motivation of individuals, philanthropists, and place-based investors to support the success of their local communities highlights the significant potential for scaling community-based finance as a driver of inclusive regional growth.

19 https://www.impactinvest.org.uk/resources/publications/family-offices-a-roadmap-to-impact/
20 https://responsiblefinance.org.uk/2024/03/new-62m-fund-for-small-business-lending-is-backed-by-lloyds-bank-in-milestone-for-cdfi-sector/

PLACE-BASED PIONEERS: THE ORGANISATIONS DELIVERING LOCAL IMPACT

There are a range of models and mechanisms that raise and deploy capital for local impact. These organisations leverage their deep local expertise and community knowledge to channel finance effectively into projects that serve local needs.

These organisations work with diverse funding sources – from grants or donations to institutional investment. They often blend multiple funding streams to create tailored investment solutions. A key strength of these organisations is their ability to mobilise local capital from individuals, local authorities (through taxation), and businesses that are uniquely motivated to invest in their community's future. This locally-sourced funding often proves more flexible and catalytic than traditional forms of institutional investment, such as Local Government Pension Scheme (LGPS) funds, and can fund smaller-scale projects delivering deep local impact.

Through our research, we've discovered organisations pioneering new ways to finance community-led change. Their success stories not only demonstrate what's possible when communities have the right financial tools but also offer practical templates that could be adapted across different sectors and regions. By highlighting these examples, we aim to show how similar approaches could unlock local growth and innovation across the UK.

21 https://www.abundanceinvestment.com/what-we-do/raise-money-with-us

Online impact investment platforms

Crowdfunding platforms enable organisations to raise capital by pooling donations from multiple individuals to fund projects. Using a similar approach, online impact investment platforms enable local authorities or organisations to raise capital from mission-aligned investors through a suite of investment products including bonds and community shares. Investors can choose to fund local projects aligned with their values while benefiting from tax advantages through Innovative Finance Individual Savings Accounts (IFISAs).

There is a significant amount of money that could be invested in this way. As mentioned earlier, data shows that the average group of 100,000 people in the UK holds £4 billion in savings and investments. While this is not distributed evenly across people and places, most of this wealth currently flows out of communities into national or international saving and investment products,[21] and much of it is lying dormant in low-interest savings accounts.

Online impact investment platforms like Abundance and Ethex help individuals invest directly to projects in their area or with businesses whose social impact outcomes resonate with them. These virtual marketplaces remove the intermediary from investment transactions, allowing individuals to directly take a financial interest in their communities by making investment accessible.

CASE STUDY: ABUNDANCE INVESTMENTS

Since 2012 Abundance's online investment platform has raised over £150 million for pioneering green projects including renewable energy, sustainable forestry, and electric vehicle charging. Its Community Municipal Investments (CMIs) or local climate bonds, enable individuals with as little as £5, and larger institutional social investors, to lend money to councils to accelerate the delivery of local green and social projects. These typically include greening and retrofitting public buildings or installing charging infrastructure and restoring natural capital.

A key feature of this model is the standardised legal framework underpinning the platform, making the model very cost effective for councils to use and very efficient for investors to invest quickly across multiple councils and loans. All loans are issued in compliance with the Green Loan Principles.

The platform has successfully democratised community investment while providing councils with a reliable source of financing. The approach also helps build connection and trust between councils and their local community, with some investors opting to donate their capital and interest back to contribute to further projects.

Key features of CMIs

- Fixed six-monthly returns with secondary market trading options
- Tax-efficient structure through IFISAs (up to £20,000 annually)
- Direct investment in local green infrastructure projects
- Competitive fixed-rate financing for local authorities, set to match or beat the rate available from HM Treasury through the Public Works Loan Board.

How could this model further contribute to local growth and innovation?

The CMI model could be adopted by local authorities to achieve other local outcomes beyond developing green infrastructure, especially multi-year projects requiring patient capital. For example, a portfolio of projects seeking positive health outcomes, could form a local 'preventative health bond'. This could be expanded to other parts of the local economy, enabling citizens to play a more active role in local economic development.

To scale this model, three key areas need development: supportive regulatory frameworks to enable investors to participate in the schemes, enhanced council capacity to establish and manage CMIs, and increased awareness amongst citizens of CMIs as an investment product.

Abundance, and similar platforms such as Ethex, demonstrate the growing momentum behind investment-based crowdfunding as a mechanism for community finance.

Local Funds

Local Funds, often established by or in close partnership with local authorities address specific community goals by targeting investments in social enterprises, community businesses and other forms of local enterprise. These funds often prioritise those who face barriers to accessing mainstream capital, offering flexible financing options, including grants, loans, and equity investments tailored to their community

Organised around themes to attract co-investment, Local Funds provide patient capital to tackle local issues and foster community development. By building the capacity of small enterprises to manage investments, they prepare enterprises to access mainstream funding as they grow and establish credit histories.
A key feature of Local Funds is often their participatory decision-making process, which leverages local knowledge to ensure resources reach those most in need.

Additionally, these funds support borrowers beyond financial assistance, helping with repayment planning and skill-building in finance, impact reporting, and capital management, ensuring long-term business sustainability. While Local Funds have similar characteristics, each is uniquely designed to meet specific need and opportunity within a place.

Several Local Funds have championed community-based finance across the UK. Barking & Dagenham Giving and The Camden Community Wealth Fund are community-led social impact investment funds set up with help from local councils that recognised the positive social impact of supporting local citizens' enterprises. By directing investment to businesses that may otherwise have not received funding, these funds help generate economic opportunities as well as promoting diversity and equity in the area.

CASE STUDY: GREATER CAMBRIDGE IMPACT

Greater Cambridge Impact (GCI) is an innovative £10 million, 10-year social impact investment fund addressing regional inequality worsened by the rapid growth of the region's high-innovation economy. Bringing together communities, charities, universities, social enterprises, and other stakeholders, GCI leverages social and financial capital for systemic change. The fund complements local government initiatives to tackle challenges such as homelessness, inequality, the cost of living, energy poverty, and climate change by buying and leasing property, and providing equity and social loans.

Sitting alongside GCI I is the Cambridge Pledge, an initiative that encourages founders, entrepreneurs and institutions in the Greater Cambridge area to commit a portion of their future wealth, matching its fundraising strategy to the region's growth strategy. This will provide first-loss capital (absorbing initial losses before other investors are affected) for 'Fund 2', which will scale what works from the first £10 million of investments. It is hoped this approach will create a pathway to a sustainable, inclusive investment vehicle, unlocking lasting social impact.

How could this model further contribute to local growth and innovation?

Local Funds demonstrate how local investment can drive inclusive economic growth by setting clear impact goals or missions and harnessing a blend of finance towards these objectives. This model could be replicated across other regions, with each fund's mission tailored to local priorities and growth objectives. The approach enables more strategic deployment of capital while maintaining strong community connection, creating a framework for sustained local innovation and development. Increased awareness from local authorities of Local Funds and how they can be applied to different place-based challenges is essential for them to spread and scale across the UK.

Community Development Finance Institutions (CDFIs)

CDFIs are locally-rooted social enterprises. They fund people, businesses and social enterprises that can't get the finance they need from other lenders. CDFIs adopt a relationship-based approach to lending, evaluating borrowers holistically and tailoring financial solutions to meet specific needs. Their funding comes from a mix of government finance (via the British Business Bank), social investors, banks, and individual contributions through platforms like Ethex. In 2023, UK CDFIs collectively lent £287 million to support communities, reflecting their growing impact.[22]

CDFIs like ART Business Loans operate with the mission to 'alleviate poverty through enterprise'. They offer an additional source of capital that enterprises can approach when they cannot borrow from banks or when bank loans do not suffice for their needs.

CASE STUDY: LENDOLOGY

Lendology is a CDFI established to provide affordable finance to homeowners excluded from mainstream lending. It offers home improvement loans for projects such as repairs, energy efficiency upgrades, renewable energy systems, and disability modifications. Borrowers include individuals with poor credit histories, the self-employed, and those reliant on state benefits as their primary income.

Since its founding in 2005, Lendology has lent approximately £25 million, achieving a £2.71 return in community impact for every pound invested by local authorities. By enabling individuals to live in safer and more energy-efficient homes, Lendology significantly improves mental and physical health outcomes while reducing social isolation.

Lendology's lending approach is characterised by flexibility and personalised support. It offers fixed interest rates, no early repayment charges, and options for overpayments or deferred repayments. Throughout the loan process, borrowers receive tailored financial assessments to ensure affordability. If a loan is unsuitable, applicants are referred to local authorities for grant options. Additionally, tools like a benefits calculator help borrowers maximise their financial resources. This proactive and supportive model has resulted in effective risk management, strong borrower engagement, and a 99.98% loan repayment rate, showcasing the success of Lendology's community-focused lending.

How could this model further contribute to local growth and innovation?

Enterprise lending CDFIs in the UK have traditionally served their region, although since the COVID-19 pandemic, some CDFIs have expanded their operations to lend more widely. With new investment and grant funding coming into the sector, there is potential to establish new CDFIs or dedicated CDFI funds focused on specific geographies, demographics, or sectors.

For example, CDFIs focused on specific cities or regions could finance businesses in key sectors aligned with local growth strategies, strengthening regional economies and innovation ecosystems. CDFIs specialising in supporting people from ethnic minority backgrounds or women-led businesses could support more small enterprises facing barriers to entry and growth.

22 https://responsiblefinance.org.uk/wp-content/uploads/2024/05/Responsible-Finance-Mini-Report-2024-4pp.pdf

Credit unions

Credit unions in the UK are member-owned, not-for-profit financial cooperatives established to provide affordable savings and loans to their members. Although the sector has grown in recent decades, UK credit unions still play a modest role in the broader financial services market compared to their counterparts in countries like the US.

The UK has around 240 credit unions with a combined membership of almost £1.5 million and assets of approximately £2.2 billion.[23] While they serve diverse communities, their reach is often limited to those who are financially excluded, offering critical alternatives to high-cost payday loans and promoting financial resilience. However, their operational and geographical scale, digital infrastructure, and capital bases remain relatively constrained, limiting their potential impact.

CASE STUDY: LEEDS CREDIT UNION AND HEADROW MONEY LINE

Leeds Credit Union (LCU) is one of the largest community-based credit union. In the UK with over 35,000 members from Leeds, Wakefield, Craven and Harrogate. Currently, regulations governing credit unions caps the loan interest rate that can be charged at 3% per month (42.6% APR). This means that it can be more difficult to lend to those that are higher risk because the risk cannot be priced appropriately.

In response , LCU helped to launch a partner CDFI called Headrow Money Line (HML). Supported by Leeds City Council's financial inclusion programme, this aims to provide an affordable alternative to high-cost provision for those declined by the credit union.

With a high-cost credit market in Leeds worth an estimated £90 million, this unique partnership enables LCU to refer those loan applicants it would normally be forced to decline to this alternative source of affordable credit (charging between 69% – 99% APR). Customers continue to save and access additional financial services with the credit union but do not have to resort to high-cost subprime credit for their other funding needs. Additionally, an HML loan enables customers to demonstrate their credit worthiness, and ability to repay and build their credit score, thus presenting a route towards lower-cost borrowing from the credit union in the future.[24]

How could this model further contribute to local growth and innovation?

Credit unions in the UK have the potential to play a more active role in local economic development. For example, credit unions might establish or invest in CDFI funds to support local economic growth by expanding access to finance for small businesses and social enterprises. While traditionally focused on personal lending, credit unions could leverage CDFI funds to channel investment into underserved sectors and communities, fostering entrepreneurship and job creation. By partnering with local authorities, impact investors, and other stakeholders, they could attract blended finance, unlocking new funding streams beyond member deposits.

24 https://www.local.gov.uk/publications/improving-access-affordable-credit

Cooperatives

Co-operatives are member-owned organisations or businesses that operate with a democratic ownership structure and a focus on community needs. These models are highly adaptable across sectors, making them ideal for local asset ownership and service provision. By fostering member participation and leveraging local support, co-operatives effectively address local challenges while contributing to community wealth building and financial inclusion, particularly in underserved areas. They offer community members the opportunity to take a financial stake in social improvements and reduce investment risk by distributing it across a broad membership base.

CASE STUDY: COOPERATIVES UK

Co-operatives UK is a national organisation dedicated to supporting and promoting co-operatives across the UK. As a co-operative itself, it provides expert resources to help people establish or join sustainable co-operatives. A flagship initiative, the Community Shares Unit, has advanced the use of community shares as a tool for local investment. Since 2012, this programme has facilitated over £230 million in investments from approximately 170,000 individuals, benefiting sectors such as community energy, health facilities, and sports clubs.

Co-operatives UK offers essential resources, including the Community Shares Handbook to guide share offers and mobilise community investment, training programmes for practitioners, and the Booster Fund, which provides pre-grants and grants for early-stage exploration. This support is particularly targeted at underrepresented communities facing systemic inequality. Additionally, Co-operatives UK delivers comprehensive assistance in areas like financial planning, stakeholder management, legal advice, fundraising strategies, valuations, and business plan development. Through these efforts, the organisation empowers communities to take ownership of local assets and initiatives, showcasing the transformative potential of co-operative models.

How could this model further contribute to local growth and innovation?

Co-operatives could play a more active role in local growth and economic development by expanding their presence in key sectors such as housing and renewable energy. By embedding democratic ownership into essential services, they ensure that wealth generated within a community remains local, rather than being extracted by external investors. Co-operatives can also drive economic resilience by supporting local supply chains, creating stable employment, and reinvesting profits into community priorities. Collaborations with local authorities, credit unions and CDFIs could further strengthen their impact, enabling more targeted investment in underserved areas. With the right support, co-operatives can scale their role in place-based economic regeneration, fostering **inclusive, sustainable growth.**

Place-based giving schemes / community foundations

Local connection is a powerful force for increasing philanthropy. Giving locally makes philanthropy “human-sized” – knowing that an individual contribution is enough to make a tangible difference to people and the local environment.[25]

Place-based giving schemes (PBGS) are collaborative partnerships that bring together local communities, philanthropists, businesses, public sector organisations, and national funders to address specific needs in a defined geographic area. This approach ensures that resources are pooled effectively to benefit the community.

The Growing Place-Based Giving (GPBG) programme, supported by the Charities Aid Foundation (CAF) and the Department for Culture, Media and Sport (DCMS), ran from 2017 to 2022. It helped six areas in England to make giving easier and more compelling, enabling philanthropists and corporate donors to invest in the places they care about.[26]

Community Foundations are another mechanism that encourage local philanthropy. These local charities pool resources from donors to strategically invest in areas of local need, or advise donors on the most pressing issues within their community to direct philanthropic capital towards. They are deeply embedded within the regions that they serve and leverage their long-term relationship with communities to effectively deploy capital towards issues that matter most to communities.

Place-based philanthropy fosters community engagement by ensuring funding decisions reflect local priorities. It has proven to enhance community cohesion, address local challenges, and attract additional resources. For example, the GPBG programme helped strengthen governance structures, diversify income models, and boost community involvement in decision-making.

Funding for these initiatives comes from a variety of sources, including individual donors, corporate contributions, local authorities, and national funders (such as the National Lottery Community Fund). This collaborative approach maximises impact within the community. As Lisa Nandy, Secretary of State for DCMS, has stated when setting out the government’s intention to develop a place-based philanthropy strategy, people are "far more likely" to donate to charities and organisations that support local growth and opportunities.[27]

25 https://www.beaconcollaborative.org.uk/growing-giving/regional-philanthropy/
26 https://www.cafonline.org/docs/default-source/about-us-publications/growing-place-based-giving-end-of-programme-report.pdf
27 https://www.civilsociety.co.uk/news/lisa-nandy-announces-plans-for-place-based-philanthropy-strategy.html#:~:text=Culture%20secretary%20Lisa%20Nandy%20has,financial%20pressures%20on%20the%20sector

CASE STUDY: BARKING & DAGENHAM GIVING

Barking & Dagenham Giving (BD Giving) exemplifies the potential of place-based giving programmes in fostering community-led solutions. The local council championed support for the scheme through an initial investment of £900,000. Now as an independent charity, BD Giving equips residents and organisations in one of London's most economically deprived boroughs to drive positive community change by involving them directly into the process of investing. By mobilising resources and creating platforms for participatory decision-making, BD Giving ensures that funding and investment decisions are informed by the lived experiences and priorities of the local community.

The charity operates on the principle of shared power, using co-design workshops and funding panels composed of local residents to identify and allocate resources to impactful projects. This participatory approach not only ensures transparency but also builds trust and engagement within the community. BD Giving has supported initiatives ranging from grassroots cultural events to capacity-building programmes for local charities, and a community enterprise accelerator programme providing access to blended finance, creating a ripple effect of empowerment and community resilience.

“We’re planting the seeds for something beautiful and fruitful to grow in our borough” – **Irina, Barking resident and community panel member.**

BD Giving's innovative approach highlights how place-based philanthropy can act as a catalyst for social change, ensuring that resources are directed to where they are needed most. By prioritising local voices and leveraging collaborative funding, BD Giving has set a benchmark for replicable and scalable models of community investment. Their approach demonstrates the power of aligning financial resources with community aspirations to address systemic inequalities and foster sustainable growth.

CASE STUDY: DORSET COMMUNITY FOUNDATION

Dorset Community Foundation streamlines place-based giving by connecting donors with recipients. Founded in 2000 as an independent charity, it serves as a giving vehicle for individuals, families, companies, and organisations, managing fund distribution and administration – eliminating the need for donors to establish separate charitable trusts. In 2022-23, the Foundation awarded over £1 million, benefitting 71,000 people across Dorset. With multiple targeted funds addressing specific community needs, the foundation awards grants and bursaries to charities and individuals throughout the region. It frequently collaborates with the local council and other charities to distribute grants through various funding programmes that address pressing local issues, such as supporting people on low incomes with food assistance or providing young people with vocational training bursaries. Donors can either contribute to established funds or create customised funds with personalised guidance from the foundation.

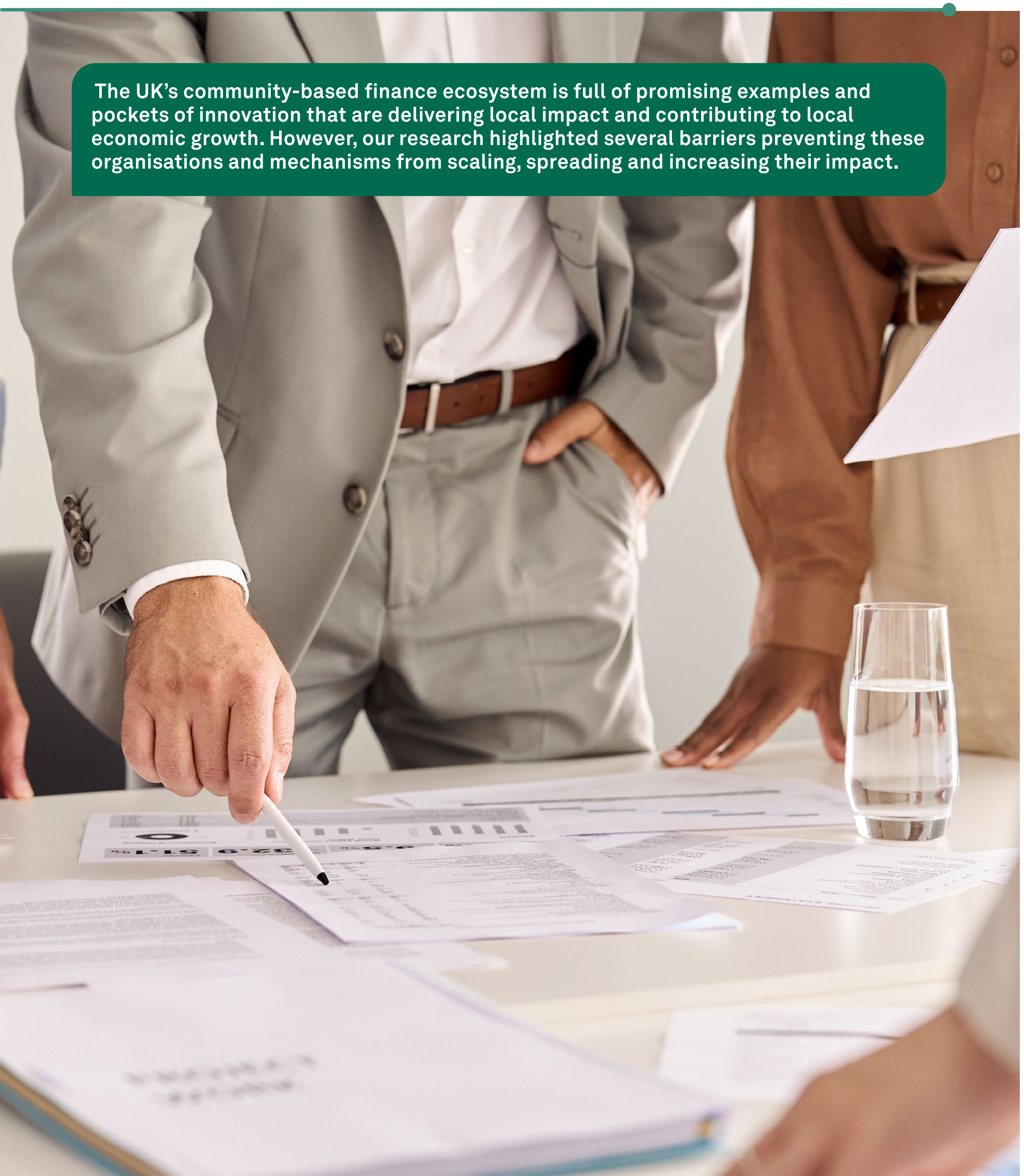
How could this model further contribute to local growth and innovation?

For place-based philanthropy to grow and play a more active role in local economic development, there needs to be a better system supporting it and a more effective way of engaging donors. It is only with a strong and vibrant philanthropy sector – supporting new donors to engage in giving, enabling them to make informed choices and see the impact of their donations, and embedding giving behaviours in our culture – that place-based philanthropy will grow.

It is also essential that place-based giving schemes are not developed as a substitute for funding local public services. The DCMS-sponsored Growing Place-Based Giving programme, detailed earlier, highlights the diverse ways in which philanthropy can support local economic and social outcomes. For example, Bristol City Funds, one beneficiary of the programme which is now closed to investment, provided growth funding to help businesses scale their impact in the Bristol region, investing in sectors such as EdTech, GreenTech, Transport, and Medical Engineering, as well as Community Assets and Affordable Housing. Building on the lessons from the place-based giving scheme, it's important that the government's new strategy focuses on directing funding towards initiatives that drive local growth rather than replacing essential public services.

THE BARRIERS

The UK's community-based finance ecosystem is full of promising examples and pockets of innovation that are delivering local impact and contributing to local economic growth. However, our research highlighted several barriers preventing these organisations and mechanisms from scaling, spreading and increasing their impact.



Lack of awareness

Awareness of community-based finance is a major barrier, particularly in underserved areas, where individuals and organisations often don't know about available mechanisms or how to access them. The CDFI sector is a particularly good example of this. CDFIs are well established and well placed to meet the needs of underserved enterprises, but have often flown under the radar of both potential beneficiaries and investors. There is also confusion and a lack of clarity over the roles of different entities and how they all fit together.

Regulatory barriers

Financial Regulation has a huge influence not only on the way we save, borrow and invest, it has real impacts for the growth, sustainability and equality of prosperity in the UK. The UK's regulatory framework is largely designed for large-scale financing models, often overlooking the specific needs of community-based investments. All investments involve risk, and individual investors need to be adequately protected – but making sure that those who can invest and have the capacity to absorb loss are not excluded from putting their money to work in the real economy is an important potential lever for driving economic growth.

Mismatch of capital types

Investment in local economies encompasses a spectrum of financial tools, including loans, equity, and grants. Matching the right type of capital to a project remains a key challenge. Some projects deliver significant social impact but lack financial profitability, requiring grant funding rather than repayable finance. Similarly, many individuals in need of financial support can only accept non-repayable grants. Although Local Funds and CDFIs do already recognise the need for diverse forms of capital, further expanding the range of financing options is essential for supporting a broader array of community initiatives.

Capacity constraints

Capacity limitations present a significant challenge, particularly for Local Funds and resource-constrained local authorities. Many of these organisations lack the expertise to develop community-based financing mechanisms and investment propositions, manage secured funding effectively, or measure and communicate their impact. Building this capacity and capability in the system is essential to growing the community-based finance ecosystem.

Low risk appetite from local government

Local governments often exhibit a low-risk appetite when it comes to exploring, adopting, and supporting community-based finance mechanisms such as CDFIs and Local Funds. Concerns around financial sustainability, regulatory complexity, and accountability can make councils hesitant to commit resources to alternative finance models, despite their potential to drive inclusive local growth. This cautious approach can limit opportunities for these models to contribute to local growth. To unlock the potential of these mechanisms, greater knowledge-sharing, policy support, and de-risking measures are needed to build confidence and encourage local authorities to engage more actively in community-led finance solutions.

RECOMMENDATIONS

For local government

Local government has a unique position at the heart of a place – holding relationships with citizens, businesses, investors, Voluntary, Community, and Social Enterprise (VCSE) organisations, and anchor institutions. Local government's role should include co-creating and defining a vision for a place.

Drawing on this position, local government can support the growth of community-based finance by:

Setting the vision for a place in which

- impact investment, place-based philanthropy and community-based finance have a clearly defined role in place-making, growth and improving people's lives
- every institutional actor has a role in adding to the capital available

Placing community-based finance at the heart of local government delivery plans

- as part of public service delivery
- in local growth strategies
- through Community Municipal Investments (CMIs) supporting key priorities (including and beyond green investments) – this also strengthens civic engagement and local ownership

Offering funding (investments or grants)

- to support mechanisms including Local Funds and Community Development Financial Institutions (CDFIs), expanding lending coverage across underserved geographies and sectors

Corralling local capital

- launching CMIs to attract local investment
- unlocking place-based philanthropy to support Local Funds, CDFIs etc

For central government / regulators

Government should support the growth of community-based finance as part of its mission to drive local inclusive growth by:

Launching a national matching-fund scheme where central government matches community-raised capital, amplifying local empowerment and incentivising active citizen involvement

Implementing regulatory incentives (such as reduced compliance burdens or simplified accreditation processes) for financial institutions demonstrating significant engagement and co-governance with local communities (in the case of CMIs, current exemptions from financial promotions regulation should be maintained)

For market builders

Market builders should support the growth of community-based finance by:

Establishing a community of practice for community-based finance – facilitating knowledge sharing, best practices, and connections between social innovators and place-leaders

Creating a comprehensive learning hub providing practitioners with accessible materials and resources to support the establishment and evolution of community-based finance initiatives

Equipping local leaders with specialised knowledge and practical skills to unlock community-based investment through targeted training in place-based impact investing and community wealth building approaches

Actively promoting underutilised community-based finance mechanisms such as CDFIs and cooperatives through advocacy and thought leadership, seeking to widen participation and address power imbalances

Developing and widely disseminating a set of standardised community engagement metrics to guide practitioners in authentically measuring and reporting local community involvement and empowerment

Creating peer-to-peer mentorship programmes linking established community finance organisations with emerging local initiatives

In summary, the recommendations outlined for local government, central government, regulators, and market builders provide a clear framework for advancing community-based finance and fostering inclusive, place-based growth. The next steps involve a coordinated effort to implement these strategies, with stakeholders across all levels committing to collaboration, knowledge sharing, and targeted investments. By aligning resources, building capacity, and driving innovation, these actions will create a sustainable, thriving community finance ecosystem that empowers local communities and supports long-term, equitable development throughout the UK.

ABOUT THE ORGANISATIONS

Connected Places Catapult

Connected Places Catapult is the UK's innovation accelerator for cities, transport, and place leadership.

We provide impartial 'innovation as a service' for public bodies, businesses, and infrastructure providers to catalyse step-change improvements in the way people live, work and travel.

We connect businesses and public sector leaders to cutting-edge research to spark innovation and grow new markets. We run technology demonstrators and SME accelerators to scale new solutions that drive growth, spread prosperity, and reduce carbon emissions.

Impact Investing Institute

The Impact Investing Institute is an independent, non-profit organisation working to transform capital markets so they support a fairer, greener, more resilient future.

We see impact investing as an effective way to achieve that transformation and so we work to accelerate the field, 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 allow the impact investing market to thrive.

Authors:

Mark Hall – Senior Programme Manager, Place Based Impact Investing, Impact Investing Institute

Ipsa Agnani – Programme Coordinator, Place Based Impact Investing, Impact Investing Institute

Sam Markey – Ecosystem Director for Place Leadership: Connected Places Catapult

Designed by: Tania Barley, Graphic Designer – Connected Places Catapult

---

Visit Connected Places Catapult website **here**

Follow us at **@CPCatapult**

Follow us on LinkedIn **Connected Places Catapult**

Email us **info@cp.catapult.org.uk**

Visit Impact Investing Institute website **here**

Follow us on LinkedIn **Impact Investing Institute**

Email us **comms@impactinvest.org.uk**