Segmenting the impact economy

A framework for directing finance effectively

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Why a shared financing map, and why now?

The impact economy is no longer a niche idea at the edge of public policy and finance. It is already a significant part of the UK economy. As set out in Impact UK, the best recent estimate puts it at around £428bn in gross value added, or 15% of UK GDP, comparable to the manufacturing industry. Policymakers, funders, investors and practitioners are therefore asking: if this is a real and growing part of the economy, how can it be supported to grow well? Momentum is building across policy, finance and practice, creating an opportunity to shape its development before unhelpful assumptions, fragmented language and poorly matched instruments become further embedded. Done well, this can help more capital, partnership, and support reach organisations that create social and environmental value.

The problem is that organisations in the impact economy may share a public purpose but differ radically in how they are funded or financed. A foodbank, community-owned energy company, charity with a trading arm, worker co-operative and certified impact-led business may all create positive social or environmental value, but they do not have access to the same kinds of capital.

The result is a poor match between organisations and the support offered: grants are treated as a route to investment when some organisations will always and appropriately be grant-sustained; financial instruments designed for one kind of organisation are pressed onto another for which they cannot work; and subsidy intended to make a viable enterprise model work is confused with subsidy intended to prove a new market. These are different problems requiring different responses.

This report offers a practical way to make those distinctions. It categorises organisations according to the features that matter most for finance: their legal and structural relationship to profit distribution, and their role in the investment chain. It provides a shared, neutral way to locate any impact organisation based on its financing characteristics, so capital can be designed to fit and be deployed to grow the impact economy. This is also what intentionality-based measurement cannot supply. Such measurement identifies the population and its scale, but does not tell a provider of capital which instrument fits which organisation. Mission commitment alone does not determine an organisation’s need for grants, access to equity, relationship to subsidy or capacity to service repayable capital.

This makes the map useful to several audiences. Policymakers can use it to think more clearly about where public interventions are justified. Funders and investors can use it to match capital to organisations more effectively. Sector leaders and intermediaries can use it as a shared language for discussing what support different organisations need. Once organisations are located on a common map, it becomes easier to see which instruments fit, where infrastructure is missing and where current practice is muddled.

Why this framework matters for public policy

This framework is not just a way of describing the impact economy. It is a practical tool for public policy. Many of the government's current objectives in this space depend on capital reaching the right organisations on terms they can actually use. That is what a shared financing map helps make visible.

Three developments in current government policy show why this matters

First, the relationship between government and civil society has been formally reset. The Civil Society Covenant, published in July 2025, sets out a new principles-based partnership between government and the voluntary and community sector. Much of the activity it speaks to sits in the grant-sustained and participation layers of the impact economy, where the appropriate instrument is revenue subsidy rather than repayable finance. A financing map that distinguishes the grant economy from the investment market helps ensure that partnership ambitions are not routed through instruments that cannot deliver them.

Second, industrial and growth policy now take a more active view of the state's role in shaping markets. The UK's Modern Industrial Strategy 2025, published in June 2025, sets out a ten-year plan focused on eight priority sectors and a more deliberate use of public capital to crowd in private investment. That matters because the rationale for intervention differs across the segments in this framework. The impact case for strategic investment in commercially viable activity is not the same as the case for social-investment infrastructure for mission-locked organisations. A shared framework helps policymakers distinguish between these cases and choose the appropriate route of intervention

Third, a coordinating function for the impact economy is now emerging at the centre of government. The Office for the Impact Economy, launched in November 2025, was created in response to the Social Impact Investment Advisory Group call for more visible leadership and a stronger cross-government strategy. A coordinating hub of this kind can only work well if it has a clear way to read the financing landscape: which organisations need grant, which can use blended finance, and which sit in markets that need to be shaped rather than subsidised. This framework is offered as one way of making those distinctions visible.

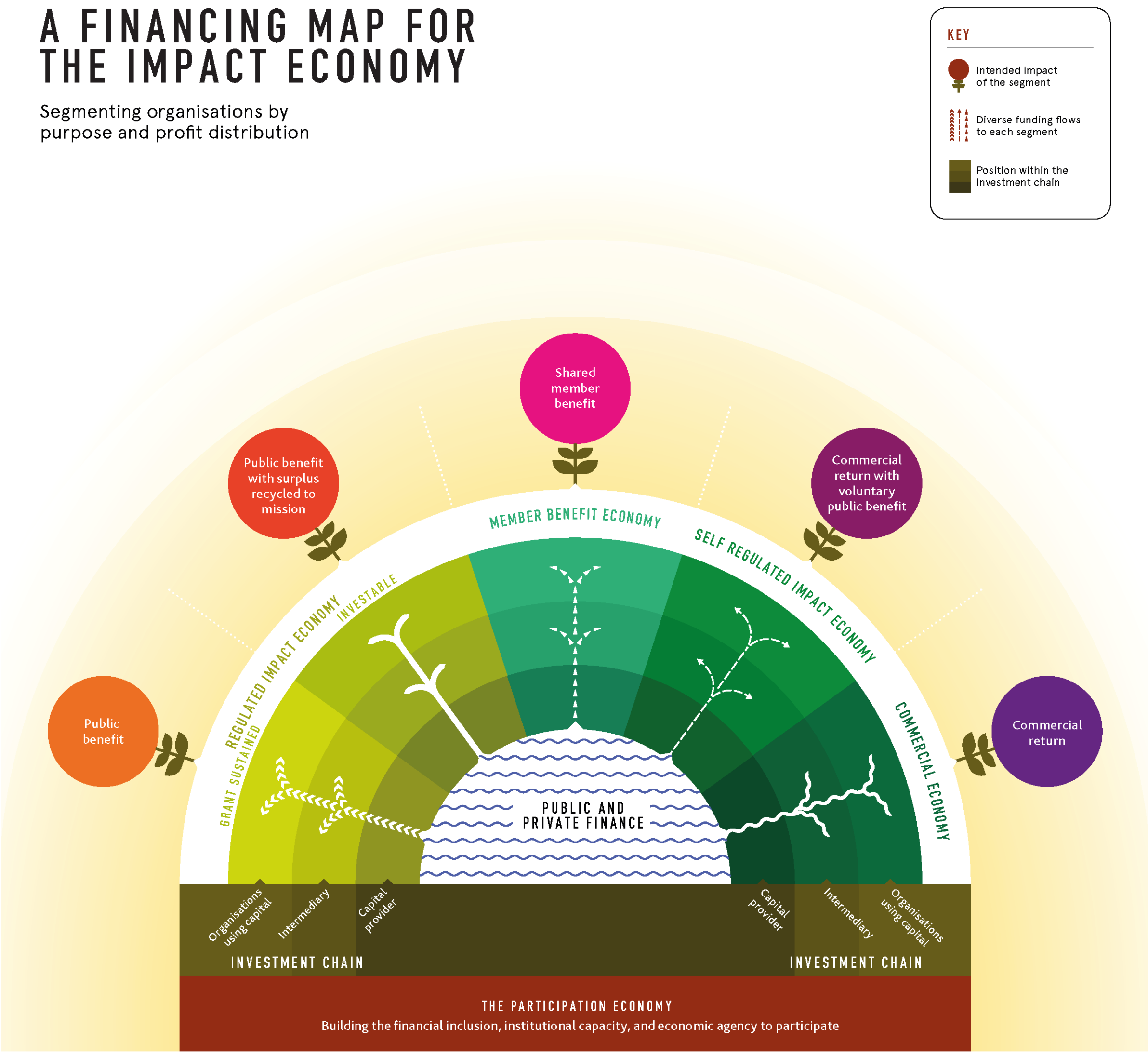
The common thread is simple: **whether the goal is partnership with civil society, strategic market shaping, or better coordination of impact capital, policy works better when capital is matched to organisations by what they can actually use.**

A market segmentation framework

Two analytical dimensions

This framework looks at the impact economy in two ways. The first is by organisation type, defined by the legal constraints that govern profit distribution and whether outside investors can take value out. The second is by place in the investment chain: whether the organisation provides capital (asset owner, funder), intermediates capital (fund manager, lender, wholesaler), or receives capital (borrower, grantee). Together, these two lenses reveal what capital instruments an organisation can access, what infrastructure it needs, and what rationale for public intervention applies. Using these two lenses gives us five capital market segments and the foundational layer beneath them.

Below is a simplified diagram showing the segments as parts of one impact economy. The table on the following pages explains the map in more detail.



Note: Segment sizes are not proportional. Arrows denote different forms of capital, not the scale of funding flows. The diagram should not be interpreted as indicating the relative importance, strength, or value of any segment or relationship.

The segments of the impact economy

The foundational layer: The participation economy

Encompasses those characterised by financial exclusion or the absence of capital relationships: communities and cohorts that lack the economic agency, institutional capacity, and financial inclusion that would enable engagement with any market segment.

Segments 1 and 2: The regulated impact economy

Encompasses organisations whose surplus or profit is recycled wholly or mainly to social or environmental mission and whose external equity extraction is prohibited by structural arrangement. This regulated impact economy divides into two pathways determined by investment capacity.

Segment 1: Grant-sustained

Where no investment transaction is viable, and a grant is the appropriate and permanent form of capital.

Segment 2: Investable

Where income is sufficient to service repayable capital at some level of subsidy.

Segment 3: The member benefit economy

Encompasses organisations with structural ownership arrangements that prevent external investor extraction but distribute surplus or profit to member-owners rather than to public mission: worker co-operatives, employee ownership trusts, consumer cooperatives, mutual societies, and credit unions.

Segment 4: The self-regulated impact economy

Encompasses organisations with voluntary mission commitments but no legal restriction on surplus or profit distribution: B Corps, purposeful businesses, and ESG-aligned

Segment 5: The commercial economy

Encompasses organisations operating for profit with no structural mission constraint that restricts distribution of profit or surplus beyond regulatory compliance.

Each segment can show up in different parts of the investment chain: as a provider of capital, an intermediary, or a recipient. For example, an organisation in Segments 1 and 2 might receive social investment, lend to others, or make investments itself. The segment tells us what kind of organisation it is. Its place in the chain tells us the role it is playing in that particular transaction.

Public finance is not a separate segment. It can play a role across several segments, either by providing capital directly or by helping mobilise private capital. For that reason, it is best understood through the investment-chain lens rather than as a type of organisation in its own right. It is discussed further in Public finance as a cross-cutting chain position.

The investment chain and organisational types

Table 1: The impact economy investment chain by segment and chain position

The foundational layer: The participation economy (structural exclusion)			
Profit distribution	As capital provider	As intermediary	As organisation using capital
Prior to profit distribution: organisations have not yet formed, or communities and cohorts lack the economic agency, institutional capacity, and financial inclusion that would enable meaningful engagement with any market segment. The relevant constraint is not capital access but participation capacity.	Government departments (MHCLG, DCMS, DWP); National Lottery Community Fund; Fair4All Finance (dormant assets); foundations with place-based and financial inclusion mandates.	Fair4All Finance (community lending scale-up); CDFIs; community foundations; anchor institutions; community wealth building intermediaries; community development finance bodies.	Communities and cohorts in conditions of structural financial exclusion; communities experiencing structural deprivation and depleted institutional infrastructure; organisations in formation in places where the preconditions for enterprise and civic agency are absent.
Segments 1 and 2: The regulated impact economy (mission protected by legal form)			
1: Grant-sustained regulated impact economy			
Profit distribution	As capital provider	As intermediary	As organisation using capital
No surplus; grant and donations are primary funding source; trading income insufficient to service repayable capital. (Note: income from public contracts counts as earned income for 1/2 classification purposes.)	Government departments; National Lottery Community Fund; foundations and major donors; UKCF community foundations.	Grant coordinating bodies e.g., ACF, UKCF, CAF, Big Give, New Philanthropy Capital, London Funders, and local infrastructure bodies coordinating grant to sector.	1a pathway organisations; 1b hybrid organisations; 1c grant-sustained service organisations; 1d infrastructure activities; 1e service organisations (trading or membership sustained)

Table 1 (contd): The impact economy investment chain by segment and chain position

The 1/2 boundary is determined by investment capacity, with trading income (including public contract income) as the primary indicator (operationally: trading income generating >50% of expenditure).			
Segment 2: The investable regulated impact economy			
Profit distribution	As capital provider	As intermediary	As organisation using capital
Surplus recycled wholly or mainly to social or environmental mission; external equity extraction prohibited; investment capacity sufficient to service repayable capital at some level of subsidy.	Foundations deploying grant or Programme Related Investments; dormant assets bodies; charitable endowments; PuFIn concessional debt.	Better Society Capital or BSC (investment capital wholesaler); Access (grant subsidy wholesaler); specialist social investment fund managers (Charity Bank, Triodos, Social Investment Business, CDFIs).	Charities, CICs, CBSs, social enterprises with mission lock. Sub-segments: 2a (large, asset-backed, minimal subsidy); 2b (mid-sized trading, blended finance); 2c (small, high-risk, structural subsidy).
Segment 3: The member benefit economy (structural member ownership)			
Profit distribution	As capital provider	As intermediary	As organisation using capital
Surplus distributed to member-owners or held in trust for employee-beneficiaries; no external investor extraction by structural constitution. Financial inclusion-oriented credit unions may additionally meet the Dormant Assets Act test, placing them at the Segments 1 and 2/3 boundary.	Credit unions and building societies providing affordable products to members; mutual insurers.	Unity Trust Bank; Co-operative Bank; specialist EOT lenders (Shawbrook); Co-operatives UK development support; Fair4All Finance (financial inclusion-oriented credit unions and CDFIs).	Worker co-operatives; employee ownership trusts; consumer co-operatives; agricultural co-operatives; credit unions and mutual insurers (as capital recipients for wholesale funding and transformation investment).

Table 1 (contd): The impact economy investment chain by segment and chain position

Segment 4: The self-regulated impact economy (voluntary mission)			
Profit distribution	As capital provider	As intermediary	As organisation using capital
Profit distributable to shareholders; mission commitment through governance or certification only; shareholder primacy governs under Companies Act 2006 when profit and purpose conflict.	Impact-aligned pension funds; impact investment funds; PuFin cornerstone investment with embedded impact terms.	PuFIns (NWF, BBB, GBE); B Corp-specialist and commercial impact fund managers.	B Corps; purposeful businesses; impact-aligned enterprises; family firms; nature finance vehicles; affordable housing developers outside social housing structures; community energy businesses without asset locks.
Segment 5: The commercial economy (unrestricted profit distribution)			
Profit distribution	As capital provider	As intermediary	As organisation using capital
Profit maximisation for shareholders; no structural mission constraint beyond regulatory compliance; commercial entities in Industrial Strategy and strategic priority sectors may receive PuFin concessional investment where national interest rationale applies.	Pension funds; institutional investors; commercial banks providing growth capital; sovereign wealth funds.	Commercial banks; private equity; venture capital; mainstream fund managers; PuFins operating in Industrial Strategy sectors under national interest framework.	PLCs, LTDs, LLPs operating in strategic and Industrial Strategy sectors; impact-aligned commercial businesses without certification or asset lock.

Notes

Organisations in the foundational layer, once formed and operational, typically enter the segmentation as Segment 1 (grant-sustained) organisations. The participation economy is the foundation beneath the capital market segments: the conditions that must exist before any capital market engagement is possible. It is treated in full at the end, in The participation economy.

Chain positions are illustrative rather than exhaustive. Organisations frequently appear in more than one position. The Segments 1 and 2 label spans both the first and second rows: both share the same defining characteristic (surplus recycled wholly or mainly to social or environmental mission; external equity extraction prohibited) and both are in principle eligible for BSC and Access capital under the Dormant Assets Act functional test. The 1/2 distinction reflects a difference in capital instrument, not in mission structure. Segment ordering follows narrative and policy logic rather than a strict profit distribution spectrum: Segment 3 organisations have structural surplus control as strong as Segments 1 and 2, but they are treated separately because their capital market problem, instrumentality rather than viability or credibility, is structurally distinct.

It is worth noting that most organisations in the impact economy, across most of the segments, earn most or all of their income, whether by trading or through public contracts. The framework foregrounds profit-distribution structure precisely because enterprise is assumed across most of the map, and the boundary within the regulated economy between the grant-sustained and the investable turns directly on how much an organisation can earn. The focus on funding and financing structure does not imply that the impact economy runs mainly on grants.

The five segments and their sub-categories can be read as a spectrum moving from organisations that can engage with finance only through grants, through to organisations that compete in commercial markets. While the notion of a spectrum can be a helpful guide, the segments of the framework should not be read as a single ladder that every organisation is expected to climb. The move from Segment 1 to Segment 2 is not a step up. It marks a qualitative change in the kind of finance that makes sense: from grant to repayable finance. Some organisations will always need grant, and that is not a sign that they are less developed. The framework is designed to keep that distinction clear. Presenting 1 as simply the bottom of a continuum risks a pipeline logic, but it is not the case that all regulated impact economy organisations are on a journey toward investment.

How the segments are numbered: the numbers are an index, not a ranking and not a ladder. They run by how an organisation may treat any surplus it makes, and so by how it can relate to repayable capital, from the most constrained to the least constrained.

Segments 1 and 2 are the same kind of organisation. Both belong to the regulated impact economy: their legal form locks their mission, so any surplus is tied to purpose and cannot be taken out by outside investors. What separates them is not type but financing capacity. Segment 1, the grant-sustained, is not structured to take on repayable finance and is properly sustained by grant; Segment 2, the investable, can take repayable finance, usually with some subsidy. Numbering them separately makes the map easier to read, but Segment 1 is not a lesser version of Segment 2, nor a stage on the way to it. For a great many organisations doing essential work, Segment 1 is simply where they belong.

Segments 3, 4 and 5 are different kinds of organisation, and the order reflects how their purpose is secured. In Segment 3, the member benefit economy, ownership keeps the surplus with the members and bars outside investors from extracting it. In Segment 4, the self-regulated economy, the commitment to purpose is real but voluntary, and surplus may be distributed to outside shareholders. In Segment 5, the commercial economy, there is no structural constraint on purpose beyond regulation. The sequence therefore runs from purpose held in place by law, through purpose held by ownership, to purpose held by choice, to no constraint at all.

The regulated impact economy (Segments 1 and 2)

The regulated impact economy includes organisations whose legal structure protects their mission, rather than leaving it to choice. Charities are governed by charity law and must meet a public benefit test. Community Interest Companies have asset-lock provisions preventing distribution of assets to private benefit. Community Benefit Societies are set up to serve the wider community, not just their members. In all of these cases, the rules of the organisation help make sure purpose comes before profit.

For finance, the key point is not the legal form on its own, but what that form allows. Organisations in this segment usually cannot offer normal equity returns to outside investors. That gap is not quite absolute. Revenue-participation and similar quasi-equity structures can reproduce some of the risk and reward of equity: an investor takes a share of revenue or surplus, with the upside often capped and the stake written off if the venture fails, without breaching the mission lock, because no ownership or control passes to an outside investor. So the instruments available are debt and grant, and quasi-equity arrangements that share risk without conceding equity itself.

Segments 1 and 2 are defined by whether an organisation can take on repayable finance. Both pathways have the same mission protection, and the same limits on private profit, so legal form, size and purpose do not decide where an organisation sits. The main question is whether it has enough reliable trading income to repay a loan, even if some subsidy is still needed. For this purpose, income from public contracts counts as earned income, because it is payment for delivery rather than a grant. A useful working rule is to ask whether trading income covers more than half of total spending. This is not a ladder that organisations are expected to climb. Moving from 1 to 2 does not mean an organisation is more advanced. It simply means it has a different relationship to earned income, and therefore to capital. In some cases, this split can exist within one organisation, where one trading activity can support finance while the rest of the work still depends on grant.

Segment 1. The grant-sustained regulated impact economy

The most consequential conflation in current conversations about the impact economy discourse is between the investment market and the grant economy. A significant part of what people loosely call the impact economy is made up of organisations that are, and should remain, funded wholly or mainly by grants. Treating them as if they are simply at the early stage of a journey toward repayable finance gets their economics wrong and leads to the wrong policy responses.

Grant-sustained organisations are not investment-ready organisations that lack technical assistance. They are organisations for whom a positive financial return is structurally impossible given their mission, their service population, and the nature of their work. A peer support group for people with severe mental health conditions, a foodbank, a refugee welcome project or a village hall committee may create huge social value, but they are not set up to generate trading surpluses. That value is created through voluntary effort, public grant and philanthropic giving, not through a market model.

Another important distinction is between capital subsidy and revenue subsidy. They are not the same thing, and they solve different problems. Capital subsidies, such as first-loss cover, guarantees or concessionary terms, help an organisation that can use finance but cannot get it on workable terms. Revenue subsidy, such as core funding or programme grants, helps an organisation to keep delivering work when its earned income does not cover its costs. The grant economy depends on revenue subsidy. Blended finance depends on capital subsidy. The difference is structural: capital subsidy is deployed once, into a transaction that then recycles, whereas revenue subsidy is needed for as long as the organisation operates. If you use capital subsidy where ongoing grant funding is needed, you create impossible repayment obligations or grants dressed up as loans. If you use revenue subsidy where the real issue is access to finance, you risk replacing market development with open-ended support. The 1a to 1d categories below are organised around dependence on grant income because that is what tells us which kind of support makes sense.

It is also important to note that the 1/2 split can apply within one organisation, not just between organisations. Many social investment borrowers are mixed-model organisations. Overall, they may depend mainly on grants, but they also have one trading activity that can support a loan. In those cases, the organisation may use capital subsidy for that financed activity and revenue subsidy for the rest of its work. That is not a flaw in the framework. It reflects how blended finance often works in practice.

Practitioners in the grant economy more often lead with a different distinction: between restricted funding, tied by the donor to a particular purpose, and unrestricted funding, which the organisation can deploy as it judges best. That is a separate axis from the capital-versus-revenue one used here, since it concerns the conditions a funder attaches to the money rather than the type or purpose of the instrument. It is not costless: restriction constrains how resources can be allocated and carries a real compliance and reporting burden, and over-reliance on it is a familiar source of strain in the grant economy. The capital-versus-revenue distinction remains the one that matters most for matching instrument to problem, but restricted versus unrestricted is the lived reality for most grant-funded organisations and is worth naming alongside it.

Sub-segmentation of the grant-sustained regulated impact economy by grant revenue dependency (1a-1e)

Grant-sustained organisations need a different kind of classification from investable ones. The main question is not how close they are to financial viability, but how far they depend on earned income. That has the biggest effect on what kind of grant is needed, how a funder might think about supporting them, and what sort of accountability makes sense.

Table 3: Segment 1 classification: grant-sustained regulated impact economy (1a–1e)

Type	Revenue position	Grant rationale	Philanthropic proposition
1a | Pathway organisations (pre-investable)	Pre-revenue or early trading; earned income not yet proven	Time-limited runway to develop revenue model and reach investability	Pipeline development; risk-bearing innovation capital foundations are suited to provide
1b | Hybrid organisations (partial revenue, structural gap)	Earned revenue covers 20–60% of costs; structural gap is permanent	Ongoing grant sustains services that partial revenue cannot fund; gap is too large for social investment	Sustained community infrastructure; earned revenue component demonstrates organisational discipline
1c | Service organisations (grant-sustained)	No earned revenue model; entirely dependent on grant funding	Grant is the permanent and appropriate form of capital; accountability is through service quality, not financial trajectory	Community resilience and social infrastructure; foundation reach, flexibility, and local knowledge that government programmes cannot replicate
1d | Infrastructure activities (enabling functions)	Defined by function not form; may sit within investable organisations	Systemic benefits that no individual organisation can capture; ecosystem beneficiary not single entity	Ecosystem development; conditions in which other grants and investments succeed

Table 3 (contd): Segment 1 classification: grant-sustained regulated impact economy (1a–1e)

Type	Revenue position	Grant rationale	Philanthropic proposition
1e | Service organisations (trading or membership sustained)	Earned revenue via trading or membership covers majority of costs.	The scale of these organisations prohibits social investment, grant sustains and expands services, subsidises beneficiary costs or supports the organisation through shocks.	Sustained community infrastructure, foundation subsidy increases accessibility and reach

This classification is not a hierarchy of value or ambition. 1c organisations are not failed 1a organisations. They are simply organisations doing work that is appropriately funded by grant. A befriending service for isolated older people does not become more valuable just because it finds a traded income stream. The point of the classification is to match the right kind of funding to the right kind of organisation, not to judge organisations by how close they are to the market.

1a organisations receive time-limited grants to help them build a revenue model and move towards finance. 1b organisations need ongoing core funding, with no assumption that they will become investable. 1d organisations are different again. It is defined by the role an activity plays, not by the type of organisation. It often sits inside organisations that are themselves investable, but it still needs grant because its benefits are shared across the wider system and cannot be captured by a single organisation.

The difference between 1b and 1c matters because the funding gap in 1b organisations is usually far larger than the gap that social investment is designed to solve. Trying to use social investment to cover the grant-funded parts of a 1b organisation would require so much subsidy that the investment case would disappear. Those parts need ongoing core funding, which the social investment system is not designed to provide.

1e organisations are slightly different. They are not grant-sustained as we see across the rest of segment 1 and have trading or earned income which covers the majority of their costs. However, they should not be considered alongside 1a pre-investable organisations as their mission and design means they will always be at a scale that prevents social investment, with grant funding being the right tool to help expand or subsidise their work.

The philanthropic match funding opportunity

The grant economy grows by attracting more grant and using it better, not by trying to turn it into investment. Its two main sources are philanthropy (including private giving) and public grants. One of the clearest opportunities is to bring those two together through match funding, so that each helps draw in more from the other as a route to growing the grant economy. That opportunity is real, but it only works if match funding adds genuinely new money. If government and philanthropy simply replace each other's spending, the total pot does not grow.

Segment 2. The investable regulated impact economy

The investable regulated impact economy is defined by organisations that can take on repayable finance because they have enough trading income, including income from public contracts, to service a loan with some support. Like the rest of Segments 1 and 2, these organisations recycle any surplus back into their mission and do not allow outside investors to extract normal equity returns. That means the main tools available are loans and grants, not equity. This is the part of the market that social investment was designed to serve.

A lot of the finance in this part of the market is blended. In simple terms, that means a loan is combined with some form of support, such as first-loss cover or a guarantee, so that an organisation with a workable model can borrow on terms it can manage. The important point is that this segment is not homogeneous. Organisations within it differ in scale, in default risk, and above all in the level and kind of subsidy their financing requires, from those that can borrow on near-commercial terms to those where the loan plays only a small part. The 2a to 2c categories below are meant to show those differences clearly in terms of financial viability.

Sub-segmentation of the investable regulated impact economy by financial viability (2a/2b/2c)

Within Segment 2, there are three broad groups. They differ in how financially secure they are, how much subsidy they need, and what kind of finance makes sense for them. Treating them all as if they are the same is one of the most common mistakes in policy and market design.

Table 4: Regulated impact economy sub-segments by viability

Sub-segment	Scale	Default risk	Viability gap	Capital instrument	Wholesaler/ route
2a | Large, asset-backed organisations	£2m+	Low: capital loss unlikely	None: near commercial terms accessible	Commercial debt; BSC fund cornerstone	Direct; Segment 2a and 2b combined enable viable blended portfolio at fund level
2b | Mid-sized, trading organisations with viability gap	£400k–£2m	Moderate: some capital loss probable	Moderate: rectifiable with targeted subsidy	Blended finance: grant subsidy and social investment	Access via fund managers; BSC cornerstone; departmental windows
2c | Small, high-risk organisations that are structurally loss-making	£100k–£400k	High: significant capital loss likely	Structural: requires substantial and sustained subsidy	Grant-dominant; repayable element minor	Access via fund managers / CDFIs; portfolio-level cross-subsidy by social investor across diversified fund portfolio; 1a–1e grant framework

The 2a, 2b and 2c categories describe the kind of financing position that organisations often sit in. They are a guide, not a rule, and individual cases may need a different approach. 2a organisations are the strongest borrowers in this segment. They can usually access near-commercial loans without subsidy. Their value to the wider social investment market is that they help make mixed portfolios work: lower-risk loans to 2a organisations can help absorb losses on riskier 2b lending. If policy interventions exclude 2a organisations just because they do not need much subsidy themselves, it can weaken the overall portfolio of social investors and make it harder to support others. This balancing or cross-subsidy effect is much harder to extend to 2c, where losses are usually too high to be covered in the same way.

2b organisations have a workable model, but there is still a gap between what they can afford and what normal finance would require. Social lenders are not simply accepting lower returns than commercial lenders. They are lending to organisations that commercial finance will not back, because the risks are higher and margins are thinner. The gap arises because the borrower population includes organisations serving people in financial difficulty, operating in high-deprivation areas with elevated costs, and delivering services with thin or negative margins. Grant subsidy, functioning as first-loss protection for the fund, enables the social lender to extend credit to this population and still achieve returns adequate to sustain the fund's capital base. Without it, many of these organisations would not be served at all.

2c organisations are the hardest to finance in this segment. Even with well-designed support, the people they serve and the services they provide often make full financial return unrealistic. That means grants usually do most of the work, with any loan playing a smaller part. Support such as first-loss cover can still reduce losses at fund level, but only up to a point. In many cases, investors still don't know enough about how much support is needed for different 2c groups, which is one reason better evidence matters. 2c also sits close to the grant economy. Many organisations here share the same legal forms as 1b or 1c organisations, but the difference is practical: 2c still involves some kind of finance transaction, while the grant economy covers organisations for which that is not viable at all.

At the moment, funds focused on 2c organisations often still lose money overall. Even with grant support, fund managers may not fully cover their costs. In practice, that shortfall is often absorbed elsewhere in a social investor's wider portfolio. The best-evidenced UK blended programme, Access's Growth Fund, deployed grant first-loss cover at around 25 to 29% of fund size and recorded defaults of about 13.5%, with a further 3.6% at risk, against an expected ceiling of 20%. This is evidence that well-managed blended funds at this scale can outperform conservative loss projections when fund managers stay close to borrowers through difficulty. That is a real characteristic of how the current market works, and it needs to be recognised in any future redesign.

Capital infrastructure for the regulated impact economy

This segment is mainly served by what is usually called the social investment market. It has the most developed finance infrastructure in the impact economy. Better Society Capital provides investment capital through specialist social investment funds. Access, the Foundation for Social Investment provides the grant element that helps make blended finance work, drawing together dormant assets, lottery funding and other public or philanthropic money, and deploying it to fund managers. Together, they form the core support system for this part of the market. Access has deployed more than £200m since its establishment, reaching over 2,500 organisations at an average deal size of £95,000. Better Society Capital acts as an investment capital wholesaler, with a capital base of £625m, deploying through fund-level investments in specialist social investment funds.

That infrastructure still has important gaps. Access works only in England, so there is no direct equivalent in Scotland, Wales or Northern Ireland. Both Access and Better Society Capital are also too small for some of the larger challenges now in view, such as community-owned housing, nature finance and large-scale community energy. Access has recently said that demand from fund managers is outstripping the money available. Better Society Capital's 2025 Quadrennial Review also found that fund managers perceive BSC as more return-focused than its catalytic mandate requires. And there is still no shared way to coordinate this infrastructure with government departments to support investment in the regulated impact economy using grant as catalytic capital, which means too many programmes are still being designed from scratch.

Segment 3. The member benefit economy

Segment 3, the member benefit economy, includes worker co-operatives, employee ownership trusts, consumer co-operatives, agricultural co-operatives, mutual societies, building societies and credit unions. What these organisations have in common is simple: they cannot pay profits out to outside investors. That is not a voluntary choice. It follows from how they are owned and governed. An Employee Ownership Trust (EOT) holds shares on behalf of employees, not outside shareholders. A worker co-operative is run for its members and shares any surplus among them. A credit union is a mutual that must return benefit to its members.

That creates a financing challenge that is different from the one in the regulated and self-regulated parts of the impact economy. Each of the three faces a different structural problem: the regulated impact economy's is viability, the self-regulated economy's is credibility, and the member benefit economy's is instrumentality. Instrumentality means that these organisations can often service debt but cannot offer equity to external investors, which places them outside most standard capital market infrastructure. Many of these organisations can trade successfully and repay loans. But because they cannot offer equity to outside investors, they have fewer financing options and often struggle to fit the products and systems used in mainstream finance.

The scale of the member benefit economy

The Co-operative and Mutual Economy Report 2025, produced by Co-operatives UK, says there are more than 10,000 co-operatives and mutuals in the UK, with a record combined income of £179.2bn and more than 1.5 million employees. The same source puts the sector's direct gross value added at around £35bn, rising to over £90bn once wider impacts are counted. That total includes large organisations such as consumer co-operatives, building societies and mutual insurers. For the purposes of this paper, the most relevant groups are worker co-operatives and employee-owned businesses, which are smaller but growing quickly.

Employee-owned businesses are now the fastest-growing part of the UK's democratic economy. Their numbers rose by almost a third (31.5%) in a single year, to 2,337 at year-end 2024, driven mainly by growth in employee ownership trusts, and their combined income reached £24.9bn (most employee-owned businesses do not report turnover, so the true figure is likely higher). Much of that growth was encouraged by the EOT tax relief introduced in 2014, which gave sellers full exemption from capital gains tax. But the Autumn 2025 Budget cut that relief from 100% to 50%, effective from 26 November 2025. That is a major change, and the sector is now assessing how much it will slow future conversions.

Worker co-operatives have levelled off after years of decline. They are a smaller group than EOTs, but they face different financing problems. They are usually smaller; they cannot use the same seller-finance arrangements that often help fund EOT conversions, and they can find it hard to raise growth capital once they are established. The UK's co-operative economy is also still small compared with other European countries. Co-operatives UK estimates that UK co-operative turnover, relative to GDP per person, is seven times lower than in France. The Labour government has said it wants to double the size of the co-operative and mutual economy, but the current financing system is not yet set up to support growth on that scale.

The capital market problem in detail

The financing problem looks different across different types of organisations in this segment. For Employee Ownership Trusts (EOTs), the main issue is paying for the move into employee ownership. At the point of conversion, the trust has to buy a controlling stake in the company. This is usually funded through a mix of seller finance, where the previous owner is paid over time from future profits, and commercial borrowing. The difficulty is that the trust has no assets of its own when the deal is made. Its main asset afterwards is the shares in the company. That limits what it can offer as security to lenders. Normal lending requirements, such as personal guarantees from employee-owners or outside equity investors taking first-loss, do not fit the EOT model. Specialist lenders such as Shawbrook and Unity Trust Bank have developed products for this market, but the market is still thin, and the cut in capital gains tax relief is likely to change how lenders view the risks.

For worker co-operatives, the main issue is raising growth finance once the business is already established. They can raise money from members through withdrawable share capital and, in some cases, from supporters through community share offers. But this is not the same as standard equity, and it comes with its own rules and limits. Once worker co-operatives move beyond the earliest stages, they often find that the finance market does not have familiar products or clear risk models for businesses with this kind of ownership structure.

For credit unions, the capital challenge has more than one part. One is attracting sufficient deposits, since credit unions fund their lending largely from members' savings and the pool they can draw from is limited by the rules about who can join, which constrains growth. Another is access to larger-scale wholesale funding. The third is the need for transformation capital, including grants, to build the systems and capability that growth requires. Fair4All Finance has been the main public body addressing these gaps, using dormant assets to scale community lenders. Its Scale Up Investees, which are predominantly community development finance institutions rather than credit unions, provided 176,000 loans worth £107m in new affordable credit in 2024. Even so, the market for larger-scale funding for community lenders remains much less developed than it is for building societies or mainstream banks.

Key distinction: member benefit vs regulated impact economy

Both worker co-operatives and charities have structural protections against external investor extraction. But charities' protections are for the benefit of the public; co-operatives' protections are for the benefit of member-owners. This distinction matters for capital policy: charities need subsidy because they cannot generate commercial returns serving the public; many co-operatives can generate commercial returns but cannot offer the type of equity instruments that most growth capital infrastructure is designed to provide. This is a different problem, requiring different infrastructure.

Segment 4. The self-regulated impact economy

Segment 4 covers organisations that choose to commit to social or environmental goals but still operate under normal company profit distribution rules. B Corps are the clearest example. They go through a serious certification process run by B Lab, and many use strong assessment frameworks to measure and report their impact. But certification does not change the company's legal structure. Under section 172 of the Companies Act 2006 – as reaffirmed by the Supreme Court in BTI 2014 LLC v Sequana SA [2022], directors still have to act in the interests of the company's shareholders. So if profit and purpose come into conflict, the legal position is still shaped by ordinary company rules.

That does not mean B Corps or other purpose-led businesses should be left out of the impact economy. It means we need to be clear about what their place in it involves. Purposeful businesses and enterprises that undertake to measure, manage and report their impact are a different kind of organisation, requiring a different intervention rationale. Their importance lies partly in their scale and reach. Because they are more connected to mainstream markets than many charities or co-operatives, they can help shift how capital flows through the wider economy.

Why voluntary mission creates a different financing challenge

The main challenge in this segment is not whether these businesses can work commercially. In many cases, they can and have done for centuries, with family firms being a strong example of this. The challenge is whether investors have enough confidence in newer, high-impact markets to back them at scale. Sectors such as nature finance, community-led housing, climate technology and the circular economy do not yet have long track records, standardised measurement approaches, or enough comparable deals to make investors comfortable. The market may exist in principle, but it is not yet proven strongly enough in practice and at scale.

That means the right response is different from the one used for regulated organisations. The appropriate intervention in this segment is not to grant subsidy to close a viability gap but to provide catalytic capital to prove markets are viable. That may include taking the first losses on any defaults, using credible public institutions to signal market confidence, and standardised impact measurement frameworks embedded in investment terms to make impact claims verifiable.

This is why it is helpful to separate this kind of support from the subsidy used in the regulated impact economy. On the surface, the tools can look similar, because both may involve taking losses first. But they are solving different problems. In the regulated impact economy, subsidy helps organisations with proven models borrow on terms they can manage. Here, early-loss capital is used to show that newer markets and business models can work well enough to attract more private investment. They also differ in how much is deployed: in principle, the amount needed to fill the gap can be estimated from observed loss experience, whereas the catalytic amount is a judgement about how much demonstration is needed to crowd in private capital at scale. One is mainly about making finance work for known organisations, the other is about helping build a market that is still taking shape.

Public finance institutions such as the National Wealth Fund, British Business Bank, National Housing Bank and Great British Energy are the main public tools available for this segment. Their role is to back promising business models or projects that also deliver their mandated impact objectives in ways that help bring in more private capital. That is different from much of what Better Society Capital and Access do in the regulated segment. These institutions work at much larger deal sizes (typically from around £10m to £1bn and above), invest in commercially viable businesses, and rely on investment terms and reporting requirements rather than legal mission locks.

Measurement matters in this segment because the mission commitment is voluntary rather than locked in by law. A charity's structure gives funders and investors some built-in assurance about purpose. A purpose-led business or B Corp has to show that commitment through what it does and what it reports. That also means the commitment can change over time. Certification reflects a business at a particular moment and can be dropped without legal penalty. Mission can also weaken gradually without any clear formal signal. For that reason, reporting requirements built into investment terms are not just an administrative detail. They are one of the main ways investors can test impact claims and keep track of whether the original purpose is being maintained.

Segment 5. The commercial economy

This framework gives only brief attention to the commercial economy, but it still matters. It sits around and alongside the impact economy, shaping the wider financing environment. It also matters because the line between the commercial economy and the self-regulated impact economy is one of the places where definitions are most disputed.

Segment 5 covers ordinary commercial businesses: PLCs, standard limited companies and LLPs that can distribute profits freely and are not bound by a mission lock beyond normal regulation. They belong in this framework not because they are mission-led, but because public policy may still choose to invest in them for two reasons: to support transitions, or to protect the national interest.

Transition finance is for businesses that are commercially viable but need to move to higher environmental or social standards. The aim is not simply to subsidise that move. It is to show that better ways of operating can work commercially at scale, so that more private capital follows. Public investment in areas such as green steel, clean technology and net zero infrastructure fit here. The point is to help build markets in sectors where the UK has a strategic interest, not to fill a financing gap for businesses that would otherwise be unable to survive.

National interest investment covers sectors where the UK may choose to invest for capability or security reasons, not mainly for social or environmental impact. This includes areas such as critical supply chains, strategic technology and defence-related infrastructure. In these cases, the public case for investment is about economic resilience and security, so success needs to be judged on those terms.

The commercial economy interventions are the domain of PuFIns and the Industrial Strategy, not of the impact economy's social investment infrastructure. Conflating them, as some broad definitions of the impact economy do when they include all ESG-aligned activity regardless of mission structure, risks both diluting the analytical precision of impact economy frameworks and diverting infrastructure built for social purpose toward commercial ends that do not require it.

Public finance as a cross-cutting chain position

The government uses its funds to procure services and provide grants, but it can also use public funds to invest in or finance organisations. Public finance is not a segment in its own right. It is better understood as a role that can appear across several segments: sometimes providing capital directly and sometimes helping to mobilise private capital.

It shows up in different ways. Dormant-assets bodies provide grants and programme-related investment in the regulated impact economy. Public finance institutions invest in the self-regulated and commercial economies, often at a scale and on terms that sit between fully commercial finance and more concessional support. Government departments can also use grants to help make blended finance work, particularly in the regulated and self-regulated segments.

Across all these roles, public capital is usually trying to do one or more of three things: lower the cost of capital, show that a model can work, and attract more private capital behind it. Treating public finance as a role rather than a segment helps keep the framework clear. The segment tells us what kind of organisation is receiving support. The chain position tells us what public capital is doing in that particular deal.

One problem cuts across all of this. At the moment, the cost and added value of public capital are measured differently from one programme to another. There is no common approach across the system, which makes it harder to compare how public money is being used in different parts of the impact economy.

The participation economy

The five capital market segments set out above all presuppose that an organisation already exists, and that the people and places it serves are in a position to take part in economic life. This final section turns to the layer beneath that assumption. The foundational layer, the participation economy, is where the capacity to take part is built, and it underpins the whole framework.

Despite its placement in this paper, this section sits before the question of finance, not after it. The other segments are about organisations that already exist and the finance or grants they can use. Here, that starting point has not yet been reached, and the people and places concerned are shut out earlier than any other segment describes. Sometimes the barrier is individual: people who are not yet creditworthy or bankable, with little or no income, savings or assets, no credit history, or no access to even a basic bank account, locked out of everyday banking, affordable credit and financial products most people take for granted. Sometimes it is collective: communities facing several barriers at once, such as discrimination, geographic isolation or a lack of local institutions; and places where the foundations for economic participation have been worn away or not yet established in areas of new development, leaving too little support for people to organise, start something new or sustain local institutions of their own. In none of these cases is what's missing simply a different financial product. What is missing is the footing to take part at all, whether that is a person's place in the financial system or a community's capacity to form and govern its own organisations.

What this calls for, then, is an affordable-credit lender, credit union or community development finance institution reaching households the mainstream will not serve, helping people build the savings, credit standing and confidence to use finance safely. A community organising programme that builds the relationships and local leadership a neighbourhood needs before any enterprise can form. A community foundation or anchor institution channelling patient, place-based resources into the most depleted areas. Resources flow into all of it, through volunteering, grant and inclusion lending, but all of this support builds the ground rather than financing what later stands on it, and none of it expects a financial return in the ordinary sense.

Two things follow: first, the foundational layer is justified in its own right, not merely as a temporary milestone. A person helped towards financial inclusion, or a community helped to organise, is not being supported on the condition that they later become bankable or form a financeable organisation; the work is worthwhile whether or not that ever happens. Second, its absence is felt throughout the rest of the framework: without it, grant funding cannot reach many of the people and communities that most need it, and the routes into democratic ownership in Segment 3, whether through community businesses, co-operatives or community land trusts, never open. The foundational layer is the ground on which the rest of the impact economy stands.

Conclusion

Taken as a whole, this framework offers a clearer way to understand the impact economy. It shows that organisations with similar ambitions can stand in very different relationships to capital, and that those differences matter. Each segment has its own capital logic, shaped by how profit is distributed, what kinds of return are possible, and what sort of support is needed to grow well.

That matters because better decisions start with a better map. If the impact economy is to grow in a way that is more coherent, more effective and more inclusive, its financing architecture needs to reflect the reality of the organisations within it.

This framework is intended as a tool for the sector to examine, test and improve, not as a finished product to adopt without question. Its companion analysis takes the next step by setting out where the financing architecture does not yet reach each segment and what would close the distance. These are offered as hypotheses for the sector to test, not conclusions to adopt. The framework's value lies in helping policymakers, funders, investors and sector leaders ask better questions: where capital is missing, where infrastructure is too thin, where categories need refining, and where existing approaches are still muddled. Used well, it can support a more grounded and more honest conversation about what different parts of the impact economy need and help build the right support around the organisations best placed to create social and environmental value.

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NPC

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