My Community

Community Economic Development: Guide to Community Finance

Read this guide if you want to learn:

- What community finance is
- What types of community finance providers are available
- Why community finance is important
- Where to access community finance

What is community finance?

Community finance is defined as *the provision of affordable financial services, including loans and savings and general financial management support, to businesses, civil society organisations, individuals and homeowners unable to secure mainstream finance to deliver economic and social benefit*. Community finance also encompasses the principles of the social finance sector – mobilising private capital to invest in the double bottom line, in order to deliver a social dividend and an economic return.

They provide services to the following markets:

- Businesses and entrepreneurs (especially in disadvantaged communities) unable to secure finance from mainstream commercial institutions such as banks;
- Civil society organisations (CSOs) such as social enterprises, charities, and voluntary organisations that place a strong emphasis on social, environmental and stakeholder as well as financial objectives;
- Individuals unable to access short-term, low value credit and other financial services who must deal with sometimes abrupt fluctuations in income; and
- Homeowners who are unable to access a loan from a commercial lender (or a grant) to carry out essential repairs, adaptations and improvements to their property.

Types of community finance providers

Two type of community finance providers sit at the heart of the sector, delivering affordable and responsible financial services to underserved markets:

1) **Community Development Finance Institutions (CDFIs)** – CDFIs provide loans and support, such as advice, training and mentoring to individuals and enterprises (both social and for-profit) unable to access finance from the mainstream financial services sector, enabling them to contribute to their local economy.

2) **Credit Unions** – Credit unions can only offer services to members. They are all co-operatives – self-help organisations owned and democratically controlled by their members. They distinguish themselves from mainstream banks by distributing any profits to members in dividends rather than to shareholders. This means the money stays in the community.

Why do we need community finance?

Economists tell us that efficient and successful markets have certain key characteristics. These include a large number of buyers and sellers creating diversity and choice; low barriers to entry for new competitors; informed customers who can compare products and services for the value they offer; and government keeping out of the way, letting market forces work their magic.

Yet, our financial markets still do not work well enough, with too much concentration, limited competition, customer confusion when navigating credit options, and a range of government interventions resulting in mixed success. For individuals, the cost of credit is still high and payday lenders are expanding. Things look a little better for small and medium sized enterprises (SMEs) but for social enterprises, finance is still the number one challenge. This is a drag on our economy – entrepreneurs are being held back and there is a dearth of community reinvestment.

Where to access community finance

You can find where to access community finance in your area using *Finding Finance*, a tool developed by the Community Development Finance Association (CDFA).

Just visit www.findingfinance.org.uk and fill in the search boxes.

Jargon Buster

Association of British Credit Unions Ltd (ABCUL): UK trade association for Credit Unions.

The Department for Business, Innovation and Skills (BIS): The government department responsible for small business and enterprise policy.

Community Development Finance Association (CDFA): UK trade association for Community Development Finance Institutions.

Department for Work and Pensions (DWP): UK financial inclusion policy is coordinated by the Department for Work and Pensions.

Social enterprise: Businesses that trade in the market with a social purpose. They use business tools and techniques to achieve social aims and include an incredibly wide range of organisations, for example co-operatives, development trusts, community enterprises, housing associations, social firms, and leisure trusts.