



**Submission to the Office
of the Third Sector
consultation on the
Social Investment
Wholesale Bank**

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1 Introduction

1.1 NCVO is the largest general membership body for voluntary and community organisations (VCOs) in England. Established in 1919, NCVO represents over 7000 organisations, from large ‘household name’ charities to small groups involved in all areas of voluntary and community action at a local level. NCVO champions voluntary action. Our vision is of a society in which people are inspired to make a positive difference within their communities. A vibrant voluntary and community sector (VCS) deserves a strong voice and the best support. NCVO works to provide that voice and support.

1.2 NCVO welcomes the government’s consultation on the Social Investment Wholesale Bank (SIWB). We have been calling for the establishment of such an institution. The sector needs better access to appropriate finance to build financial resilience, allow for innovation, expansion, and replication of success. It also needs access to capital that is delivered through vehicles that are appropriate to its diverse needs. The proposed SIWB can play a key role in facilitating this.

1.3 NCVO broadly supports the government’s proposals. However, to ensure the development of a mature social investment market, and meet the needs of the sector, the SIWB must be:

- established as a wholesale bank, to support and strengthen existing and emerging providers of funds;
- fully independent of both government and retailers and regulated by the Financial Services Authority (FSA);
- able to explicitly prioritise social and environmental returns over profit when seeking and providing investment; and
- sufficiently well capitalised from the outset to allow it to leverage in additional private funds.

1.4 If you require further information or clarification on any of the points raised in this submission please contact Toby Ganley in the Policy Team on 020 7520 2433 or at toby.ganley@ncvo-vol.org.uk

2 The case for the SIWB

2.1 The sector needs better access to appropriate finance to build financial resilience, allow for innovation, expansion, and replication of success. The sector needs access to capital that is delivered through vehicles that are appropriate to its diverse needs. The proposed SIWB can help to facilitate the development of a social investment market, which may be the principle area of growth in coming years. A developed and mature social investment market could provide access to capital that is appropriate to the needs of the sector.

2.2 The social investment market is currently undeveloped and needs to be stimulated if it is to mature. There have been a number of conferences, seminars, round tables, and other events focused on social investment in recent months. From discussions at these events the market for loan finance in our

sector seems to be reasonably mature – a number of retailers offer this type of finance, and they service a healthy demand in the sector¹. Other parts of the market are far less developed, however, and there is a gap that needs to be filled. For example, it is much harder for VCOs to access risk finance in our sector, and their potential social impact is limited by lack of access to this type of investment. A SIWB, that is able to attract sufficient financial returns for it to be sustainable without additional government funding could help to fill this gap by investing in retailers and promoting the development of vehicles that could be used to deliver different types of finance to the sector.

3 Proposed functions

3.1 NCVO sees great potential in the SIWB to be able to stimulate the development of a mature social investment market. For the SIWB to help the market develop it is crucial for it to operate as a wholesale investment bank. It must not compete with existing or emerging retailers. A retail institution, capitalised by the state, would distort and undermine the market, not help it to develop. If, however, it operates at the wholesale level, as an investment bank, any capital that the state contributes to establish the SIWB will encourage competition, and facilitate the growth, development, and expansion of existing and emerging retailers, thereby facilitating the development of the market rather than distorting it.

3.2 NCVO supports most of the proposed functions outlined in the consultation. It will be important for the SIWB to champion social investment to help to develop it as an asset class in order to attract mainstream investment finance into the social investment market, and to capture the imagination of the public. The SIWB should actively endeavour to develop this market to increase and improve the flow of finance into the sector.

3.3 It is crucial that the SIWB leverage in private investment. If the social investment market is to develop it needs to attract new investment, to go beyond existing sources. There is some evidence to suggest that there is interest among private investors to invest for social/environmental returns even if they attract a slightly lower financial return (perhaps initially from trusts/foundations and later from private investment sources as the asset class proves itself).

3.4 However, we have some concerns about the proposed advisory function. For the SIWB to remain at the wholesale level, and not distort competition, it is important that any services it provides, including advisory services, are provided to social investment retailers, not to end users. Feedback from the sector tells us that the best advice that end users of finance receive tends to be from the provider of the finance or an intermediary: they have a vested interest in seeing the financial solution work and are best placed to provide the right advice.

3.5 If the SIWB is to be a sustainable institution and realise its potential it is necessary for it to be sufficiently well capitalised at the outset for it to raise capital by attracting private investment into the market. We suggest it should be funded with an initial cash injection from government of £50 million and a significant

¹ For example, Triodos has reported a 29% increase in loans in the first half of 2009.

amount of the unclaimed assets that become available. It will also need to generate financial returns to become sustainable. To support the development of the SIWB and to help it to become sustainable quickly NCVO proposes that 80% of repayments of loans from the government funded Social Investment Business be directed to the SIWB to provide it with an initial income stream. This will ensure that this money is reinvested for the benefit of the sector and not reclaimed by government. It will also allow the SIWB to establish itself and begin operating with a minimum risk to its initial capital and without ongoing cost to the government, allowing it to be truly independent.

4 Weighing returns

4.1 Traditional commercial investment options do not ask investors if they are willing to sacrifice people and planet for profit. Therefore, social investment options should not be presented as sacrificing profit in return for social and environmental good. We must get past this 'either/or' thinking and move towards 'and/and' thinking. Social investment options should be presented as opportunities to invest in social and environmental good that also attract financial returns. Sometimes these financial returns will be slightly lower than the standard commercial rate of return, sometimes they may not. Regardless, the priority and focus should be about the positive social impact.

4.2 The SIWB should operate at the wholesale level and should invest in any retailer that generates positive social and environmental impact. However, this needs to be strongly prioritised. Because it is possible that some of the retailers the SIWB invests in may be profit generating enterprises, it is particularly important that the SIWB's investment decisions go far beyond the 'negative screening' that is typical of 'ethical investment' – ie it needs to demand positive social and environmental impact rather than simply investing in retailers that do not finance guns, cigarettes, or gambling. Its total portfolio needs to generate sufficient financial returns to remain sustainable, but it should never weigh profit over people and planet.

4.3 Feedback from existing retailers (eg Venturesome) suggests that the default rate for social investment loan finance is lower than expected². By investing in promising retailers the SIWB should be able to generate a sufficient financial return to remain sustainable while facilitating significant social and environmental impact.

5 Structure and governance

5.1 To facilitate the development of a mature social investment market, and avoid distorting the emerging market that currently exists, the SIWB must be fully independent of both government and the retailers that it is designed to invest in. It must have fully accountable governance structures and be regulated by the FSA.

² The level of risk in social investment is poorly understood and lack of data may lead to aversion to exaggerated or imagined levels of risk. For example, Venturesome has made over 100 underwriting investments and in approximately 90% of cases the funds have not been drawn down ('Access to Capital', Venturesome, September 2009).

5.2 Broadly we support the multi-level structure proposed by the Commission on Unclaimed Assets, with a board of directors that is accountable to an independent group of members, which would be comprised of representatives of all stake holders (ie investors, recipients, and end users) who act like shareholders.

5.3 This type of structure will allow the SIWB to operate in a transparent and accountable way, be answerable to those who have a stake in its success, and generate confidence from investors and recipients of funds.

5.4 The SIWB could alternatively be structured as a mutual with all customers and investors having a say in its operation. However, if this option was pursued it would be even more important to enshrine the criteria of positive social and environmental impact over profit, because some of the financial stakeholders would be profit generating enterprises.

6 Reporting

6.1 An appropriately robust and representative structure with independent regulation is perhaps more important than choosing a method for the SIWB to monitor its activities.

6.2 There is a range of rigorous methods that have been designed to measure and report on social impact, which are all appropriate to different contexts or activities. It is possible that different methods might be more appropriate at different times, or for the SIWB's relationship with different investors or recipients. The SIWB should be flexible and adaptable and able to support methods that are appropriate to each situation. However, it is our strong view that governance (including independence, representation, accountability, and transparency) will be more important than the particular methods of evaluation and monitoring that the SIWB uses.

6.3 Both those who invest in the SIWB and the retailers it invests in will be interested in the social return generated by their investment. Therefore, the SIWB, regulated by the FSA, should work with investors and recipients to agree and adopt evaluation frameworks that enable both sides of the investment to assess progress in meaningful ways, so that success can be built on, problems addressed, and key findings communicated to all stakeholders appropriately. The aim should always be to develop a stronger mutual understanding of the social impact and to communicate this appropriately.

Conclusion

The development of an independent and accountable SIWB is long overdue. In the face of recession, it is essential that the government takes action and gives the voluntary sector the financial tools it needs to become more self-sufficient and financially resilient.

NCVO Policy Team
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